

# INEQUALITY OF THE MIDDLE CLASS: TRANSNATIONAL EVIDENCE

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## Abstract

Inequality is an inevitable and widespread phenomenon in the modern world. Increasing global inequality between regions, sub-regions, national states and within, determines the need to study the peculiarities of manifestation and monitoring of this phenomenon. The middle class eloquently reflects the social stratification with particularity. Therefore, this article offers arguments in order to identify the middle class inequality. Transnational records are relevant in this respect. By using recent data only, the author comes up with reasonable arguments.

**Keywords:** *middle class, global middle class, "new" middle class, middle class growth, inequality, transnational evidences.*

## 1. INTRODUCTION

The beginning of the 21<sup>st</sup> century focuses on the study of inequalities, the distribution of revenues and wealth. The biggest discrepancy in the growth of inequalities took place in the last decades and this led to an interest of the academic environment in solving this problem. The discussion regarding the gaining and the property of personal wealth became a highly interesting topic for journalists and a constant academic preoccupation among economists, sociologists and political scientists.

The dimension of a country's middle class reflects the degree of inequality. The middle class can connote, besides wealth and revenues, factors such as occupation, education, security, political values, mood, lifestyle, morality etc. Transnational analysis highlights a large range of regional, sub-regional and national particularities in estimating the middle class.

## 2. DEFINING THE MIDDLE CLASS

A middle class can be defined as representing a layer of people having a similar position in

terms of social status. Within the society people are treated differently due to their membership to different social classes. The members of a social class view themselves as being equal, while they consider themselves as being socially superior in comparison to some people or socially inferior in comparison to other people.

Social classes stem from the consequences of labor division. Each social class defines the social and economic position in the community, including the wealth and revenue, occupation, education, self-identification, hereditary prestige, group membership and the recognition by others.

The concept of "middle class" was first used by James Bradshaw in 1745 (*Scheme to prevent running Irish Wools to France*), in order to describe the growing number of merchants, situated between the peasantry and nobility. Another phrase, used in early modern Europe, was "middle type" (HUNT, 1996).

The modern use of the term "middle class" is due to the 1913 report of the General Register of United Kingdom, in which the statistician T.H.C. Stevenson identified the middle class as being the one that can be found between the higher and the working class. The following categories were included as members of the middle class: professional, managers and senior civil servants. The main defining characteristic of middle class belonging was the possession of a significant human capital.

In Weber's socio-economic terms, the middle class represents a large group of people, who are socio-economically positioned between the working and the upper class. In his approach to social classes, Max Weber, includes more possible social classes (professional groups such as lawyers or doctors) than just the capitalists and workers and he does not consider that the

property or lack of property over the means of production represents the major building source of classes in capitalism (GIDDENS & HELD, 1982).

The Marxist theory defines social classes according to their relationship with the means of production, positioning the middle class below the bourgeoisie and above proletarianism. Karl Marx views social classes as real social forces, capable of changing the society. The concept of bourgeoisie defines the capitalist class, the owners of the social means of production and the employers of paid labourforce, whereas the concept of proletarian defines the working class, without proper means of production, who sell their labourforce in order to survive. Karl Marx's class theory refers to the capital-labour dynamic, the capitalist production way of the 1840-1860s (a period in which he wrote his early work "The communist manifesto" and later "Capital") and the way in which social dynamic would lead to a revolution (BOTTOMORE, 1983).

A modern definition of social classes can result from the relationship between class and manual labour. The inferior middle class is usually comprised of white-collar workers, lower level managers and owners of small businesses, who often represent approximately one third of the working population of a country. The income of this class is usually higher than that of the working class, but lower than that of the higher middle class (doctors, engineers, lawyers and owners of middle businesses) and of the higher class (BUSINESS DICTIONARY).

Defined from an economic point of view, the middle class represents the social group of well-educated people, such as doctors, lawyers and teachers, who are neither reach, nor very poor (DICTIONARY CAMBRIDGE).

The middle class represents a description given to individuals and households that can be found between the working and the higher class in a society hierarchy. In Western cultures, the middle class individuals tend to possess a higher degree of studies than those from the labour class, a higher consumption income, and to have personal properties. Those from the middle class are usually hired as professionals, managers and public servants (INVESTOPEDIA).

Synthesizing the definitions given to the middle class allows us to identify some defining characteristics:

- The middle class occupies an intermediary position between the higher and lower class.
- It represents a heterogeneous socio-economic group, composed mainly of businessmen and professionals, government officials, farmers and qualified workers.
- A social group formed of well-educated people, such as doctors, lawyers and teachers, who have good jobs and who are neither too rich, nor too poor.
- The people from a society who do not possess a high social position.
- The middle class is perceived as the helm of a country's democracy.
- The members of the middle class share common characteristics and social values.
- The representatives of the middle class tend towards an ascendant mobility by gaining a higher socio-economic status.
- The ideal of the middle class is to increase its revenues through career advancement and better salaries.

Therefore, we notice a variety of definitions for the middle class: from revenue and fortuneto lifestyle and mood. Summarizing these multiple definitions, we conclude that the middle class represents a class of people who are at the middle of a social hierarchy. The dimensions and the content of what we call middle class vary significantly among cultures.

Today the middle class seems to hold the economic faith of the world in its hands, if we look at the frequency of its appearances in the media debates and in academic discussions. A large and flourishing middle class is associated with a combination of stable political systems and sustainable economic growth rates. In contrast, a society with a small and decreasing middle class is associated with political tensions and economic fragility (BUSSOLO et al., 2018).

### **3. THE GLOBAL MIDDLE CLASS**

Measuring the middle class has recently become the centre of political debates in countries with medium revenues, while they search for

potential growth engines and good governance. This debate firstly assumes that there is a significant class definition, and secondly, that the bridges which define the relatively homogenous groups in terms of the predetermined sociologic characteristics can be empirically found.

In the conditions of globalization, the comparative analyses on the middle class became an estimation tool of modern societies. The transversal evidences present an image of the middle class based on its vulnerability to poverty. The middle class represents an important consumption class, as the revenue elasticity of durable goods and services is much higher.

The global middle class is defined as households with daily expenditures between 10 USD and 100 USD per person. The lower limit is chosen according the medium line of poverty in Portugal and Italy. The superior limit is chosen as double the average income of Luxembourg. Therefore, the middle class excludes those seen as poor in the poorest developed countries and those considered rich in the wealthiest developed countries (KHARAS, 2010).

Economic growth moves people towards the middle class. Recent analyses show that the centre of the global economic gravity shifts towards South-East. The middle class is project to grow from 1.8 billion to 3.2 billion by 2020 and to 4.9 billion by 2030. The middle class's growth rate is approaching its peak. Already approximately 140 million people per year enter the middle class. This figure could increase to 170 million in the following five years. The majority of the newcomers in the middle class, 88% out of the next billion will be found in the Asian part of the world (KHARAS, 2010).

The absolute size of the expenditures of the middle class is higher than previous estimations. In 2015, the expenditures of the middle class were approximately 35 trillions of dollars, which represents one third of the global economy. The global market of the middle class is now clearly bifurcated: a steady growth in the developed countries and a rapid growth in the countries with emergent economies, both situations being measures either in the number of people, or in total expenditures. The most dynamic segment of the global middle class can

be found at the lower end of the scale, for the new participants with relatively low expenditure per capita. Important changes of geographic distributions take place on the markets, with China and India representing a growing market share, while the European and the North-American middle class market basically stagnates. At an increase of about 4% in real terms, the middle class market is growing much faster than the world GDP, but not as fast as in the 60s or 70s, the boom years for the middle class (KHARAS, 2017).

A large middle class population and market presents significant environmental and social implications. The author KharasHomisupports the hypothesis, according to which our technology will change and the carbon footprint per person will increase as the middle class expands. Two diminishing factors could limit the proportion of this situation. The first, the middle class growth is associated with the migration from rural to urban areas, for a certain income level. Urban households tend to possess a lower carbon footprint than those from rural areas, especially for transportation. Secondly, middle class households tend to invest more in the education of their children and this fact may also diminish the fertility rate and the continuity path of the world's population.

The social implications of a larger middle class are also important. There is considerable proof that a larger number of middle class will also imply a happier population, at least for the new comers in the middle class. But there is little proof to suggest that this will create pressures for a more democratic governance or for a better supply of public services, both highly necessary for sustainable development. Actually, governments may find themselves in the impossibility of meeting the growing expectations for middle class improvement programmes, such as universal medical assistance, public education, prices and houses at accessible prices, without resorting to often unpopular tax increases. Gaining the right balance between middle class taxation and the services to support it, represents probably the highest source of uncertainty regarding social class previsions (KHARAS, 2017).

#### 4. EUROPEAN COUNTRIES

From a historical point of view, Europe represented the quintessence of middle class. Appeared in the 19<sup>th</sup> century, the growing middle class supported an extension of public services and social assistance programmes, aimed at protecting themselves and helping the poorer people to join it.

More recently, the great recession resulted from the 2009 global financial crisis, lowered the real income level of European countries. But the impact was highly unequal among countries and income groups. The countries in the European periphery were more affected than those from the centre, stopping the income convergence process among European countries, which we were able to notice before the crisis. The individuals from the lower quintile of income distribution were generally more affected than their homologues with higher incomes, which led to an increase of income inequality among many European countries, and even to a diminish of the middle class after years of expansion (VACAS-SORIANO & FERNÁNDEZ-MACÍAS, 2017).

Following the 2009 global financial crisis, the studies on the European middle class present unprecedented levels of vulnerability. The evolution of the European middle class dimension is not the most relevant one in the last decades. Even if the size tendencies of the middle class were relatively static (especially in the last 10 years), the vulnerability tendencies were highly dynamic. Although the share of the population in Europe which could be classified as middle class reached a limit, its member's vulnerability of falling back into poverty increased.

Using the 21.70 USD per day poverty line as an assessment criterion (within the purchasing power parity term), which was suggested for the countries with high incomes - having a low probability of falling into poverty - it was of approximately 34 USD per day in the European Union between 2005-2008. In less than one decade this line increased with 20%, up to 40 USD per day. This increase of vulnerability could be considered an "insurance premium," necessary in order to reduce the risk of falling into poverty. This premium can be shockingly high - at 100%

or even more. In Bulgaria, for example, it increased from 14 to 32 dollars per day and in Latvia from 22 to 44 dollars per day (BUSSOLO et al., 2018).

Recent analyses on the European countries suggest the following tendency: although the size of the middle class remained stable in recent past, its vulnerability of falling into poverty increased. This increase in vulnerability, accompanied by a changing profile of the middle class individuals, is consistent with the perception that the middle class is being lost - resulting in political debates and restructuring proposals for the taxation and social protection systems. Also, it presents implications for the political platforms that the middle class is willing to support (BUSSOLO et al., 2018).

**The United States of America** has a middle class between 25% and 66%, depending on the indicators and methodologies used for measuring the middle class.

One of the first major studies on the American middle class was "*White Collar: American Middle Classes*," published in 1951 by the sociologist C. Wright Mills (MILLS, 2002). Later on Dennis L. Gilbert divides the middle class into two groups: upper and lower. In a new edition on the structure of the American middle class "*The American Class Structure in an Age of Growing Inequality*" (GILBERT, 2014) he focuses on the socio-economic core of the social class American system. Using classic and contemporary studies, Dennis L. Gilbert describes the class structure and presents the way in which class influences the lives of the Americans.

The members of the middle class belong to various social groups, which are overlapped. The American middle class is highly influential, as it is comprised of the majority of electors, writers, teachers, journalists and editors. The majority of the societal tendencies stem from the middle class (EHRENREICH, 1989).

The GALLUP studies show that in the pre-recession period, similar to the year 2008, 2% of the Americans state that they belong to the higher class, 62% identified themselves with the middle class and 36% with the working or lower class. The GALLUP studies in dynamics, show that the post-recession diminishing of the dimensions of the middle class was overcome in

2017. The last analysis showed that 3% of the Americans identified themselves with the higher class, 15% with the superior middle class, 43% with the middle class, 30% with the working class and 8% with the lower class.

The annual household represents the most significant indicator, according to which people identify themselves with a social class. The lowest annual income (below 20.000\$ per year) determines people to identify themselves with "inferiors," "workers" or "average."

Identification with an inferior class rapidly diminishes as income grows, and the identification with working or middle class grows. The Americans with incomes between 30.000 and 40.000 dollars, for example, much lower than the average income of USA, less than 10% identify themselves with the lower class. Here the working class is much more spread than the middle class. We see a change at an approximate annual income of 40.000\$. Starting from this point most people claim that they belong to the middle class and not to the working class.

Identification with the working class significantly decreases when the annual income level is between 75.000 and 99.000 \$. The middle class is still dominant, but the higher middle class becomes somehow more predominant. At an income level of 150.000\$ the higher middle class becomes the most dominant social class. Finally, one third of the American who earn 250.000\$ or more per year identify themselves with the higher middle class. In the GALLUP survey there are few people who claim that they earn 500.000\$ per year or more, but approximately half of them say that they belong to the higher class. Most people identify themselves with the higher middle class (BIRD & NEWPORT, 2018).

## **5. PEOPLE'S REPUBLIC OF CHINA**

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A scientific international effort to explain China's prosperity is the running of the project entitled China Power. The studies undertaken by China Power are based on providing vital analysis on the most important problems related to China's ascension. The focus on identifying a Chinese middle class offers a comparison and identification index of the transnational evidences.

In the last decades, China's economic development has raised hundreds of millions of Chinese people out of poverty and placed them into the emergent middle class. Middle class households possess sufficient income to satisfy their basic needs (food, clothing and shelter) and also some additional income available for the desired supplementary consumption and savings. In 2002, the Chinese middle class represented only 4% of the total population. A decade later this figure grew to 31%, representing over 420 million people. From the beginning of 2000, the Chinese middle class was among the fastest developing ones in the world, extending from 29 million in 1999 to approximately 421 million in 2013. The Chinese middle class is forecasted by McKinsey & Company to reach 550 million by 2022 and this will represent 75% of the urban households. This continuous extension of the middle class offers a series of new economic opportunities, but also political, environmental, demographic and social challenges.

China's continuous development led to a rapid economic development within its cities, determining hundreds of millions of Chinese people from the rural environment to migrate towards the urban centres. In only a few decades, China's urban population grew from 19% of the total population in 1980 to 56% in 2015. Given the fact that Chinese workers moved to the city, the wages grew significantly, with an average of 11% between 2001 and 2015. This wage increase led to a constant grow of the gross national income per capita (China GNI), which amounts to 13.300 dollars. This figure is situated between the gross national income per capita in other developing countries, such as South Africa (12.100 dollars) and Brazil (14.100 dollars), but it is significantly lower than the 37.900 dollars average of the OECD economies.

A higher labour force demand in China's coastal cities disproportionately led to urbanization in the eastern provinces and this significantly aggravated the regional differences. China's coastal regions usually have higher levels of per capita income than the inner regions, even after taking into account the gap between the rural and the urban income. For example, the per capita income for people from the urban environment within the Jiangsu region 40.152

yuans (6.043 dollars), in comparison to only 26.743 yuans (4.025 dollar) for the inhabitants of the Guizhou region. China's main cities, especially Beijing, Tianjin and Shanghai, present the highest levels of gross domestic product (GDP) per capita (around 30.000 dollars), but these levels are still lower than those of the cities with a developed economy, such as New York (69.900 dollars) or Tokyo (43.700 dollars).

Although there is no standard statistical definition for a middle class income level, there are methodologies which are used at an international level and they offer the possibility of distinguishing between different numbers of income groups. For example, the Chinese government defines the income between 60.000 and 500.000 yuans per year (7.250 - 62.500 dollars) as middle class. McKinsey uses a yearly range of 75.000 - 280.000 de yuans (11.500 - 43.000 \$). In order to facilitate the comparisons between countries, the World Bank uses a dollar per day amount in order to express purchase power parity (PPP). In 2015, the Pew Research Centre extended this value, in order to replace four supplementary levels of income. Middle class is defined as the people who spend between 10 and 50 dollars per day.

**Table 1. Rankings of income class (VAN BLERK, 2018)**

Income Class	Purchase power parity (1\$USD per day)
Poor	< 2\$ per day
Low	2\$-10\$
Inferior-Medium	10\$- 20\$
Superior-Medium	20\$- 50\$
High	> 50\$

The highest part of China's middle class growth took place within the medium inferior income group. The percentage within China's middle class, of 31% of its population, is similar to that of the Netherlands (32%), but differences appear when the middle class is classified in lower and higher echelons. In China, 75% of the middle class has lower incomes, whereas in the Netherlands this figure is only 7%. However, the appearance of a strong middle class may offer

the opportunity of a higher political participation for a larger segment of the Chinese population whose basic needs are now being satisfied.

A number of economic means also created new educational opportunities. The tuition rates for academic teaching in China increased from 5,5 million in 2006 to nearly 7,5 million in 2015 - a growth of 35%. Students also travel abroad to study. Students' yearly travels increased from approximately 285.000 in 2010 to over 520.000 in 2015 - most students go to study in South Correa, Great Britain, Australia and the United States. Starting with 2015, China had over 790 000 students studying abroad. In comparison, there were 234 000 Indian students and 116 000 German students who studied abroad in the same year.

Also, the Chinese travel with an extended frequency, recording an increase of 185% in the number of annual domestic travels in the last decade. During the same period, the annual expenses of Chinese travellers from outside the continent increased by over 1100% - from 20 billion dollars to over 250 billion dollars - with Hong Kong, Macao and Taiwan as top destinations. Also, Chinese people still travel to locations such as Thailand, South Korea and the Philippines. During the same period, foreign tourism expenses of the American citizens increased by 39%, reaching 148 billion dollars, and the expenses made by EU citizens increased by only 8%, up to 382 billion dollars (CHINA POWER, n.d.).

## 6. AFRICAN COUNTRIES

The nature and the dimension of the African middle class represent a topic of controversial debates. Identifying the African middle class is difficult due to the lack of data available. The forecasts made vary considerably as a result of the use of different assessment criteria. Despite the disparities of the African middle class, the studies conducted in the last two decades show an increase in the number of people who may be regarded as the middle class.

The recent results of the study "*African Lions: Who are Africa's rising middle class?*" (February, 2018) state that the African middle class cannot be defined only in terms of dollars, as there is a

substantial difference in the values of the dollar in those respective countries. There are a number of factors that determine middle class membership, such as: people's attitudes towards money, traditions, brands, nutrition, education, aspirations, the way in which people perceive their wealth in comparison to others (VAN BLERK, 2018).

Therefore, the African middle class member was defined as having an available income (it does not spend more than 75% of the income on utilities); he is an employee or runs his own business, has secondary or higher education.

In order to define the parameters of the African middle class the criteria applied by the African Development Bank were used. Defining the African middle class is based on the absolute value of the dollar, proving itself as a useful measure for the transnational comparison and inclusion. Therefore, 60% of the total number of people on the African continent are placed below the poverty line, with daily expenses lower than 2\$ per capita; the second class represents 20% with daily expenses between 2 and 4\$ per capita; the upper middle class represents 5% of the population with daily expenses between 10 and 20\$; the upper class represents 6% of the population who spends more than 20\$ per capita per day.

From the perspective of future prognostics, from a demographical point of view, the African middle class will continue to grow, as a result of the increased number of young population, enhancing the urbanization process and the development of the entrepreneurial spirit. Africa's urbanization rate has already reached 37%, comparable to that of China and larger than that of India. For the 2020-2050 period we expect Africa to become the fastest urbanization region in the world. Looking towards the future, we can expect an improvement of the living standard, although probably just incremental. Despite the continual challenges faced by the African continent, the middle class is characterised by strong will and a feeling of positivism and hope. This optimistic feeling is mostly determined by the fact that two thirds of African population are aged below 35, and this represents a significant demographic dividend and a positive forecast in terms of the increase in purchasing power (VAN BLERK, 2018).

## 7. CONCLUSIONS

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Despite the gloomy forecasts regarding global growth, middle class expansion seems to continue among almost 150 million people per year. The next decade could represent the fastest middle class expansion in history. In the following years, based on current forecasts, a majority of the world's population may adopt a lifestyle in the middle class or even richer.

It is expected to realign the economy with a gravity centre that will shift from Europe to Asia. In the future, it is expected that the growth of the middle class will mainly come from Asia. India and China continue on their projection of high economic growth, together with a growth of the middle class.

The middle class estimation methodologies differ according to the group participation indicators (other people's recognition, values, lifestyles etc.)

The social class emergence dynamic will also bring multiple challenges: environmental, economic, politic, demographic, social. Obvious, the raise of the middle class will also increase carbon emissions, life longevity will grow and birth rate will decrease, governments will have to adopt politics in order to respond to the challenges determined by the middle class emergence phenomenon.

The contribution that the middle class may bring to the development of the society has to be analysed from the perspective of the globalization processes and of the collisions that take place between the emergent and the developed economies. The inclusion of the middle class has to be built on the basis of eliminating the inequalities in terms of revenues and opportunities, the social mobility barriers and, at the same time, valuing the benefits of globalization, the changes in technology and innovation.

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