

Where are the Middle Class in OECD Countries?

David S Johnson

Bureau of Economic Analysis

Paper Abstract: Many recent studies have examined the recent middle class squeeze – that there is both a shrinking middle class and their incomes not rising. Recent studies (Gornick and Jantti (2013)) find that this shrinking of the middle class is occurring in many developed countries; however, in many countries this fall in the middle class is due to households moving up the income distribution. While in some countries the fall in the middle class is accompanied with an increase in poverty. These changes in the size and composition of the middle class also change with the recessionary periods, with the economic well-being of both the bottom and middle falling behind those at the top.

We use the Luxembourg Income Study Database to evaluate the OECD member countries (about 28 countries) for the past 3 decades (from 1980-2010). This time period spans the Great Recession, and will allow us to measure the change in the size and composition of the middle class. We use a simple definition of the middle class – between half and twice each country's median disposable household income (size adjusted), and for sensitivity we also use 75% and 150%. For those OECD countries that are not included in the LIS data, we attempt to impute distributions using the summary statistics in the OECD Income Distribution database and the Eurostat SILC database. Finally, we adjust each country's income by PPPs and pool all country data for similar years to create a large LIS/OECD database that provides a sample of the OECD countries.

Using this database, we can determine the OECD-wide income distribution, median and middle class. We evaluate how the OECD middle class has changed over the past three decades and how each country's middle class (and the identifying parameters) compares to the overall OECD middle class. In particular, we can see which countries are more likely to be in the OECD-wide middle class and which people (from which countries) are more likely to move up or move down the income ladder. With the LIS/OECD data, many the countries have data before and after the Great Recession (usually 2007 and 2010); hence, we can evaluate the impact of the Great Recession on the composition and size of the middle class. By examining before tax and transfer income and disposable income, we can examine the impact of government taxes and transfers on the size of the middle class. We can further evaluate the demographics of this changing middle class in determining who and where are the middle class.