OECD report: Growth of social inequality fuels global political and economic crisis

By Jessica Goldstein
23 April 2019

The Organization for Economic Co-operation and Development (OECD) released an annual report, *Under Pressure: The Squeezed Middle Class* on April 10. The 178-page report paints a glaring picture of the social polarization that has occurred over the past three decades among all OECD countries.

The OECD defines the "middle class" as households earning between 75 percent and 200 percent of the national median income in each country. In the United States, the middle-income threshold for a single person household ranges from $23,416 to $62,442 per year; in contrast, the poverty threshold for a single person in the US is $12,490.

In reality, the vast majority of those households in the middle-income strata would be defined as working class, not middle class—those working for a wage or salary and whose labor is exploited for profit. The findings of the report further underscore this point.

The report shows that among OECD countries, a growing number of middle-income earners perceive "that the current socioeconomic system is unfair." This is attributed to the fact that in many OECD countries, working households have faced "dismal income growth or stagnation" and in some cases, decline. Middle incomes increased at a rate of one-third less than the top 10 percent over the past 30 years. Broken down by decade, income growth for middle-income households was 1.0 percent from the mid-1980s to the mid-1990s; 1.6 percent from the mid-1990s to the mid-2000s; and 0.3 percent from 2007 to 2016.

The alarming rate of social polarization and growth of income inequality is a main feature of the report. It found that the top 10 percent of households, across all OECD countries, own nearly half of all wealth, while the bottom forty percent own only three percent. In the US, the wealth held by the top one percent of households surged from 11 percent to 20 percent, nearly doubling over the past three decades.

At the same time, the share of middle-income earners in the total population fell from 64 percent to 61 percent, and the proportion of low-income households in OECD has expanded.

The OECD refers to this decline in the middle-income category and expansion of high-income and low-income categories as a "shift in center of gravity of economy." In the US, earnings have increased faster at the top than in the middle since the 1980s. Among all OECD countries, while the high-income population increased from 11 percent to 14 percent, its share of wealth increased disproportionately from 26 percent to 35 percent.

No longer does a two-income household guarantee middle-income status, the report found. Also, the number of families with children in the middle-income category has fallen over the past three decades, which it attributes to the exorbitant costs of education, healthcare and housing needed to raise a family in most OECD countries.

For middle-income households, the report found that the slide into lower-income status is a real threat, and especially pronounced in the US, Latvia, Estonia, Portugal, Spain and Greece, where middle-income households are at the greatest risk of falling into the lower income category over a four-year period. The immediate reasons for this are varied.

For middle-income earners, one in six jobs are at risk for automation. This number is one in five for low-income earners and one in ten for high-income earners. Housing prices have grown three times faster than the median income over the past two decades, and the cost of education and healthcare have also increased well above the rate of inflation in OECD countries.

This has caused over-indebtedness to be a major problem for middle-income households, with one in five finding that they have to spend more than they earn to make ends meet. In European countries, half of middle-income households say they have difficulty making ends meet.

The report also found that 60 percent of OECD parents surveyed believe that future generations will not reach the same income level as their parents and grandparents. Younger generations of workers have less stable jobs than baby boomers, or those born from 1943–1964. The sharpest decline in the middle-income population was among 18–44-year-olds, with the greatest decline over 30 years being those aged 30–44.

In the US, the share of adults in the middle-income range either fell or remained the same over 30 years. In all OECD countries, an increasing number of elderly people fall into the middle-income elderly, in large part due to the growth in those working past retirement age in order to afford necessities.

Middle-income households do not receive as much in social benefits as they pay in taxes. Meanwhile, since 1981, corporate and personal income tax for top earners has been cut, with corporate taxes down from 47 percent to 25 percent and personal income tax on the wealthy down from 66 percent to 43 percent. The supposed lack of money for social benefits is exacerbated by the fact the wealthy are more likely to hoard income in offshore accounts.

Jobs requiring a high skill level make up one fifth of high-income earners today, as opposed to one-fourth in the mid-1990s. Jobs requiring a medium skill level are mostly found in the middle-income households, but the likelihood that they are now lower income has increased in 14 countries. Medium skilled occupations, according to the OECD, are those in such positions as clerks, craft workers, plant and machine operators and assemblers.

An increasing number of higher skilled and professional occupations are now found in middle-income households as opposed to high-income households. These positions include managerial, professional, and technical occupations, such as teachers, lawyers, health professionals, engineers and social workers. This points to the proletarianization of large sections of the labor force.

More workers than ever in the middle-income bracket are engaged in non-standard work, increasing the perception of instability, insecurity and anxiety. Non-standard work is defined as temporary, part-time and self-employed work arrangements. These jobs have fewer job protections, social rights and job training opportunities.

The OECD report expresses the nervousness within the ruling class over the consequences of these transformations. It states that “a rising sense of vulnerability, uncertainty and anxiety has translated into increasing distrust towards global integration and public institutions” and attributes social inequality to the rise of politicians who promote nationalism, isolationism, populism and protectionism.

Such political tendencies, however, do not actually express the genuine sentiments of the working class, whose strivings are toward social equality and international cooperation. They represent sections of the ruling class that aim to suppress any movement of the working class towards socialism and internationalism through the use of national chauvinism and demagogy.

The report offers desperate proposals for limited reforms to address the crisis. Among these reforms are relaxation on regulations on construction and introduction of rent controls, publicly subsidized childcare or cash reimbursement for parents, universal healthcare coverage or “means-tested” assistance, vocational training programs and adult education, and tuition fee loans and school-to-work programs.

But why have these limited reforms not been enacted already as the world economic system faces its next great financial crisis? The OECD report fails to address the fundamental cause of the crisis: the capitalist system itself.

Money abounds in the banks and stock markets, as the report itself details. The massive transfer of wealth from the working class to the ruling class over the past three decades has created the conditions of social crisis, and yet this same ruling class offers no answers.