

IS THE WEALTH MIDDLE CLASS SHRINKING?

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Executive Summary

- *Is the middle class shrinking? The data suggest a heterogeneous picture, but genuine success stories are rare: In most countries, the situation of the middle class has deteriorated, especially with regard to its share of total wealth. Since the 2008 financial crisis, only three countries have seen the wealth share unequivocally improve: Austria, the Netherlands and South Korea.*
- *However, similar figures reflect very different realities: In Germany and Sweden, for example, the low share of the middle class is mainly due to a relatively larger upper class.*
- *Looking ahead, the direct impact of Covid-19 is likely to have increased inequality in many countries but generous state support may have cushioned the blow. The bigger concern will be the consequences of disrupted education, which could further entrench social immobility.*

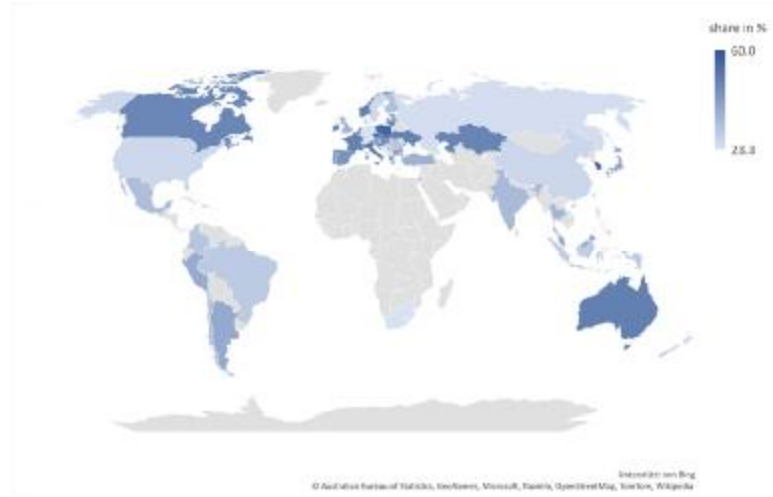
Is the middle class really shrinking? Every year, the Allianz Global Wealth Report¹ examines the question of wealth distribution, looking at shifts in the international wealth map and the emergence of a new global middle class. However, our data also allow us to take a closer look at national changes in the middle class, which we define as the population with wealth in a range between 30% to 180% around the national mean².

As expected, the middle class varies widely between countries. Their share of total net financial assets ranges from a modest 23% in Germany to 60% in Slovakia. In general, the figures are (still) higher in many Eastern European countries, where a still short "wealth history" has led to a relatively egalitarian distribution. Exceptions confirm the rule: In Russia, the share of the middle class in total net financial assets is 24.5%. However, it is also low in Serbia and Romania (around 30% each). On the other side are the "usual suspects," i.e. countries with a notoriously uneven distribution such as South Africa (23.5%), Switzerland (25.3%), the US (26%) and Indonesia (29%). Germany and Sweden also belong to this group of countries where the share of the middle class is below 30%. The other Western European countries, on the other hand, have much higher figures between 40% and 50% (see Figure 1, next page).

¹ See [Allianz Global Wealth Report 2021](#)

² This band is wider than the usual 75% to 150% defining the middle class in income terms. This reflects the wider dispersion of wealth outcomes: households with an income of 75% of the average income have assets that correspond to 30% of the average assets; correspondingly, 150% of average income translates into 180% of average assets. See Davies, James B. et al. (2009), The level and distribution of global household wealth, NBER working paper 15508.

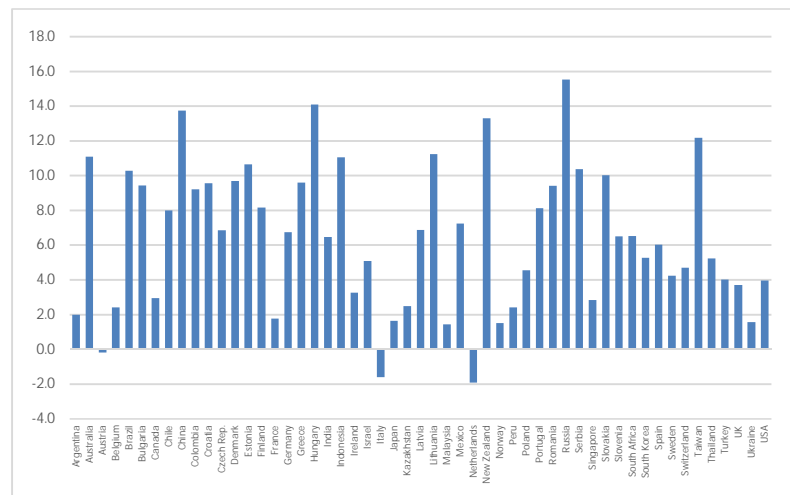
Figure 1: Share of middle class in total net financial assets, 2020, in %



Source: Allianz Research

The share of the middle class in total wealth is, of course, closely correlated with the population size. However, in almost all the countries considered, the population share is significantly larger than the wealth share. Only in the Netherlands, Italy and Austria is the wealth share somewhat higher. In contrast, however, there are countries with a very large difference in the opposite direction: In Russia, Hungary, China, New Zealand and Taiwan, the difference is more than 12pp, i.e., based on their numerical strength, the middle class is strongly underrepresented in the wealth distribution in these countries (see Figure 2).

Figure 2: Share of middle class in population and total net financial assets, 2020, difference in pp



Source: Allianz Research

Only three countries have seen the wealth share of the middle class improve since the 2008 financial crisis: Austria, the Netherlands and South Korea. The period since the Great Financial Crisis is generally

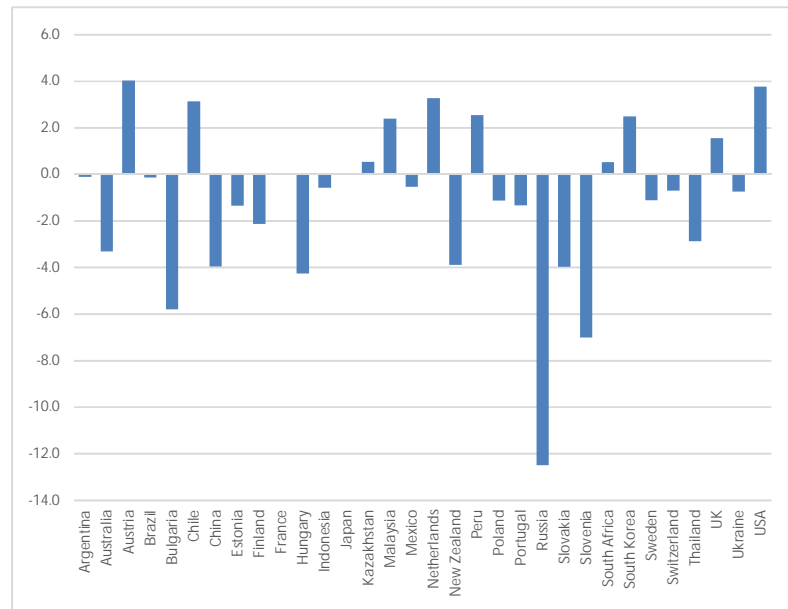
regarded as a decade in which the combination of weak growth on the one hand, and flourishing markets for stocks and real estate and dramatic technological upheavals (keyword: digitalization) on the other, led to rising inequality, not least in wealth. But what does the data reveal?

To examine the wealth development of the middle class, we divide the countries under consideration into three groups: the largest group (32 countries) comprises those in which the population share of the middle class has remained more or less stable. This contrasts with nine countries in which the share has increased and 12 countries in which it has decreased.

Within the first group, there are seven countries where the share of the middle class in total net financial assets has increased significantly (i.e. by more than +2%) despite numerical stability. Surprisingly, this category includes the US, though this can be explained primarily by the low starting point: In the aftermath of the GFC, the wealth share of the middle class had fallen to 22%; since then, there has been a slight recovery. The US also stands out in terms of numbers: Only around 30% of the population can be counted as part of the middle class, compared with around 60% with lower wealth. Only in South Africa (and Switzerland) is this proportion comparably high. Similar to the US, the positive development in Chile (and Peru) in the last decade is primarily due to the low starting level. In contrast, the other countries in this subgroup, especially Austria, the Netherlands and South Korea, are unqualified success stories. These countries have succeeded in strengthening the wealth position of their middle class.

However, the far larger group comprises the countries where the wealth situation of the middle class has deteriorated significantly. These include China and Russia, but also Slovenia, Bulgaria, Hungary and Slovakia. Eastern Europe thus shows the opposite trend to South America: From a high starting level – owing to the late opening to a market economy – the middle class is now facing a gradual deterioration of its wealth situation (see Figure 3, next page).

Figure 3: Share of middle class in total net financial assets, change in pp 2020/2010 (all countries with stable population share)

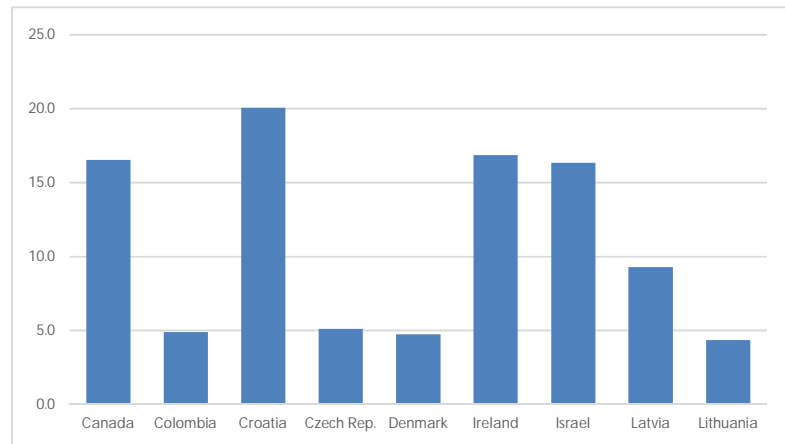


Source: Allianz Research

Turning to the second group (rising population share), we find that, unsurprisingly, the wealth share of the middle class has also risen in these countries, particularly in Croatia, Canada, Israel and Ireland. Why? For the latter three, the growth of the middle class has mainly been fed by "downshifters" from the upper wealth class. Namely, the middle class is being expanded "from above" and the percentage increase in wealth is correspondingly strong. The question is whether this form of strengthening the middle is really a desirable development since it goes hand in hand with the formation of an ever smaller wealth elite that is becoming ever more distant from the rest of society.

The situation in Croatia, on the other hand, is more complicated as both developments are occurring simultaneously: a strengthening of the middle "from above" and "from below." As a result, Croatia's middle class has grown strongly by almost +50%, over the past 10 years. In the other five countries, the middle class has grown only for the "right" reasons: former members from poorer segments of society have moved up, and the percentage increase in wealth is correspondingly lower (see Figure 4, next page).

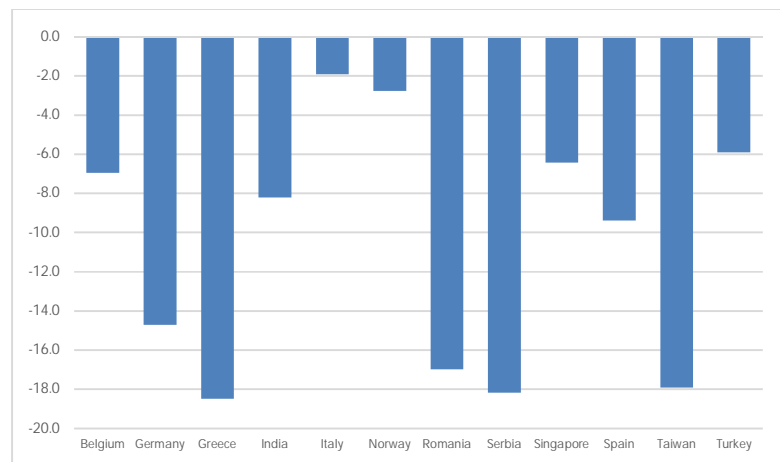
Figure 4: Share of middle class in total net financial assets, change in pp 2020/2010 (all countries with rising population share)



Source: Allianz Research

As for the third group with a falling population share, here again the wealth share of the middle class in countries has also declined, unsurprisingly. Again, however, there are different reasons for the decline of the middle class. In the five countries with the largest percentage decline in wealth, the cause is that some members of the middle class have managed to move up. Somewhat surprisingly, Germany belongs to this group. Against the backdrop of this development, the overall low wealth share of the middle class in Germany also appears in a new light: It is due to a relatively large upper class; a similar phenomenon can also be observed above all in the Scandinavian countries (e.g. Sweden) as well as in Japan and Taiwan. However, in the majority of the countries considered, the upper class literally consists only of the "happy few." Finally, in the remaining countries in this group, the trend is in the opposite direction: a descent into a lower share of national wealth (see Figure 5).

Figure 5: Share of middle class in total net financial assets, change in pp 2020/2010 (all countries with falling population share)



Source: Allianz Research.

What can be concluded from this study? The grand, uniform narrative of the disappearance of the middle class should be met with suspicion. The data, at least with a view to net financial assets, suggest a more heterogeneous picture. It is noticeable, however, that genuine success stories are rather rare; in most countries, the situation of the middle class has deteriorated, especially with regard to its share of the total wealth pie. Moreover, this share is at a very low level in many countries, and the situation of the middle class appears precarious here. However, similar figures reflect very different realities. Take Germany (and Sweden), for example: Here, the low share of the middle class is mainly due to a relatively larger upper class. (Part of it, sociologically speaking, would probably rather count as the upper middle class.) It is therefore worth taking a closer look in any case, and we would caution against jumping to conclusions.

However, despite the generally difficult situation of the middle class, the figures should be encouraging, especially in view of the (few) successes: They show that policymakers certainly have room for maneuver to strengthen the middle of society by, say, sustainable pension systems that allow big chunks of society to participate in capital markets. Distribution issues are not determined by external circumstances – even if the economic conditions of recent years have certainly tended to point in the direction of greater inequality.

A final word about the data itself. In many countries, the data on wealth distribution are still rather unsatisfactory. We therefore make do with population deciles in order to obtain at least an approximate picture of the distribution situation. As usual in purely quantitative studies, we work with threshold values. As a consequence, there may be movements at the edges of the groups, even if the actual wealth situation has only changed by a few hundred euros. Thus, some households are classified in other wealth classes over time, even if the reality of their lives has hardly changed at all. A second weakness of a purely quantitative classification is that it ignores important sociological criteria such as education, occupation and family status, hence our specific definition of the middle class.

What is the future of the middle class after Covid-19? It is still too early to make data-based statements but some trends are already emerging. The direct impact of Covid-19 is more likely to have increased inequality in many countries. Lockdowns and sanitation measures to contain the pandemic have primarily affected jobs with direct social contact, such as those in hospitality and other services. Earnings in these jobs are often below average, while above-average numbers of women and young people work in them. The home office, on the other hand, is primarily a privilege of well-educated and high-earning employees.

This was confirmed in our Allianz Pulse³ survey, where 33% of German respondents stated that their economic situation had worsened during the pandemic. However, among 18-24 year-olds, this figure was 43%, while it fell to less than 30% among the over-45s. The differences between men and women were also striking. Among Italian respondents, for example, the ratio of those affected by the pandemic was 41% (women) to 31%

³ [Allianz Pulse 2021: Old beliefs die hard](#)

(men). There were equally wide divergences among income groups. In France, more than one-third of respondents with low net incomes (below EUR2,000) reported having suffered economically from Covid-19; for higher incomes (between EUR4,000 and 5,000), this proportion dropped to 15%. However, the ratio rose again for top earners (above EUR5,000 net income) as they were likely to include many self-employed individuals who were hit hard. This shows that even the direct effects of Covid-19 are not just black and white.

The picture becomes even more complex when the (very) generous government aid is taken into account. In some cases, this not only stabilized incomes, but also led to overcompensation and thus to rising incomes for those affected, from which poorer sections of the population benefited first and foremost. Initial studies therefore also conclude that income inequality may even have decreased in 2020, at least in the rich countries⁴. The US distributional financial accounts⁵ even suggest that the overall distribution of wealth will not have changed in 2020 either (even if the richest 1% could slightly increase their share of total wealth).

But this state of affairs will be of limited duration. With the expiry of state support, the direct effects of the crisis – the loss of millions of jobs – will once again be felt. Above all, however, another channel of impact is causing concern: Covid-19 led to a significant impairment in education. The consequences – ranging from major gaps in knowledge to dropping out from school – will affect above all the lower educated classes, where there is a lack of education and (financial) resources to compensate for the shortfalls in instruction⁶. Covid-19 is thus likely to further entrench social immobility.

However, there is also an important point that could counteract the further widening of the wealth gap: redistributive policies. Covid-19 was also the hour of fiscal policy, which successfully countered the crisis with billions in support. A return to the status quo ante seems unlikely at present; politicians will want to use their newfound power in the future as well. And in contrast to the financial crisis, when the experience with (extremely) expansive monetary and fiscal policy was still new and the return to stability was high on the agenda, this time the economic policy landscape is fundamentally different. The political shocks of recent years (Trump & Brexit), which have sharpened the sense of the importance of inclusive growth, also contribute to this. So it cannot be ruled out that the structural upheavals looming in the next few years will be politically hemmed in. What this would then mean for long-term growth and prosperity in general is another matter.

⁴ See for example Clark, A., D'Ambrosio, C. & Lepinteur, A. (2020), The Fall in Income Inequality during COVID-19 in Five European Countries, ECINEQ Working Paper 2020-565, Society for the Study of Economic Inequality, Palma de Mallorca, Spain. Or Grabka, M. (2021), Einkommensungleichheit stagniert langfristig, sinkt aber während der Corona-Pandemie leicht, DIW Wochenbericht 18.

⁵ [The Fed - Distributional Financial Accounts Overview \(federalreserve.gov\)](https://www.federalreserve.gov/monetarypolicy/distributional-financial-accounts-overview)

⁶ See for example Fuchs-Schündeln, N., Krueger, D., Ludwig, A. and I. Popova (2020), The Long-Term Distributional and Welfare Effects of Covid-19 School Closures, National Bureau of Economic Research, Working Paper No 27773.

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