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Middle Class - Changes in Two Polarized Societies

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Abstract

In this study we attempt to compare the size, composition changes in the "middle class" in the US and Poland. Sizable and stable middle class is critical for economic growth, savings, and investment as well as political stability. Growth of middle class typically implies decline in income inequality, poverty, government entitlements, while helping tax revenues and budgetary pressures. That translates into more funding for health care, education, and other public goods and political stability. While the US and Poland's economies differ considerably and factors responsible for the changes in the middle class are not always the same, the implications of those changes for growth and development (positive or negative) and political choices tend to be similar. In the light of political polarization in both countries this study attempts to shed some light on the role changes in middle class in each country might impact voters political choices.

Keywords: Middle class, income distribution

1. Introduction

In this study we compare the size and composition of "middle class" in the US and Poland. During the last decade both countries experienced rising political polarization. The purpose of this analysis is to better understand whether, and to what degree, that polarization was accompanied by trends in income disparities. While we do not attempt to measure the relationship between them, the correlation between rising income inequalities and political polarization seems inevitable, and strong.

Where data are available, we also describe changes in the middle classin both countries. While the economies of the United States and Poland differ considerably and factors underlying changes in the irrespective middle classes are not always the same, the implications of such changes on each country's r growth and development (positive or negative), as well as their political trajectories, appear to be similar.

A sizable, stable middle class is a core component of economic growth, savings, and investment, as well as political stability. Among other things, the growth of a middle class typically implies declining income inequality, poverty, and government entitlements, as well as enhancing tax revenues and relieving budgetary pressures. That translates into more funding for health care, education, and other public goods; each of which can be expected to contribute to a country's political stability.

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2. Literature Survey and Methodology

Literature concerning the impact of rising income inequality and a shrinking middle class on political divisions often suggests a positive and statistically significant cross-country association between them. (Gu 2021). Despite the inherent plausibility of this relationship, however, empirical support for it remains inconclusive, which suggests the need for a more comprehensive and nuanced analysis of these two factors. Indeed, given the heterogeneity of nations, understanding the relationship between income inequality and political polarization in a particular country likely requires a country specific approach that factors in the level of economic development, strength of institutions, history, and cultural norms/expectations of that country.

To date, much of the research in this area indicates that rising income inequality leads to greater support for left-wing political parties that advocate more radical welfare policies (Hibbs 1987). However, some empirical works question this finding. For example, there seems to be little, if any, direct relationship between voters' preference for Donald Trump in 2016 over his opponent's program of a strengthened social safety net (Mutz, 2018). Instead, the election may have been rooted more in voters' perceptions of group status.

Using the paradigm, this analysis focuses on one such group - broadly defined as the "middle class" – and examines changes in its size and characteristics. To better assess whether changes in the middle class are generally consistent with political polarization, we examine changes to that group in two polarized societies; Poland and the US.

The Economic literature provides empirical evidence that countries with sizable middle classes develop faster (Kharas, Gertz, 2010; Easterly, 1999). This is in part due to enhanced human capital accumulation, as members of middle class have sufficient financial, human and social capital to invest in and create new businesses (Banerjee, Duflo, 2008), and in part because middle class consumption drives demand (Murphy et al., 1989; Easterly, 1999). The same financial and human capital also facilitate the development of knowledge-based modern economies (Becker et al., 1990; Benhabib, Spiegel, 1994)that can promote innovation and technological advances.

A strong middle class is also associated with greater political and economic stability. A society in which relatively large segments prosper (even in the face of income inequality) is less dependent on state orchestrated redistributive policies. This limited dependence, in turn, has the natural tendency to bolster support for government policies aimed broadly at economic development, as opposed to narrow one that favor particular interests (Benabou, Ok, 1998).

Otherwise stated, a healthy middle class is to some degree both the cause and beneficiary of a virtuous circle of a society's economic and political progress. As that segment grows in size, and matures, it is in the interest of politicians to support and protect stable, thriving economy and institutions, which in turn protect the income, careers, and assets of the middle class.

Methodologically, classifying middle class can be challenging. For our purposes we focus on income (not wealth) when measuring the size of the middle class in Poland and the United States. Though imperfect, this focus allows us to forego reliance on household wealth, which is highly problematic for several reasons when two countries are being compared, primary among them being that the household wealth effect on consumption is different for different classes of

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assets (e.g., illiquid assets such as homes, as opposed to portfolio investment differently affect consumer spending) in different societies.

That said, precisely defining a 'middle class' based on income poses its own set of complications. We adhere to the bulk of the relevant literature in relying on the OECD classification of the middle class, which includes households with a per capita income ranging from 67 percent to 200 percent of the median earnings in each country.

3. Middle class in Poland - changes and characteristics

A lack of reliable Polish data before 1990 precludes an analysis of the size and composition middle class in that period. Until 1990, the income of most Poles was generated as workers in a public sector characterized by haphazard controls largely unrelated to marker forces and predictably perennial market shortages. The disconnect between effort and outcome meant that personal connections and a black-market economy shaped consumption and individual well-being; not officially reported income. By controlling wages, profits, and transfer payments, the government assured low income and wealth inequalities, consistent with the communist party ideology. This changed abruptly with the beginning of transition to a market economy in 1990 Poland, which initially caused a major shift in income distribution in favor of a relatively narrow segment of the population.

Despite this income inequality, by 1992 the size of Poland's middle class was sizeable (at slightly above 50 percent) and has remained so throug2020. Data covering much of this same period (1992 – 2016) indicates that the size of upper class doubled (increasing from 7.7 percent to 14.4 percent} while the percentage of Poles in lower economic class decreased (from 41.2 percent to 34.3 percent).

By 2020 Poland's middle class - that is, households with income between 2,564 and PLN 5,774- accounted for 54 percent of Polish society. This size places Poland among the largest middle classes in Europe (ranking third).

In terms of characteristics, many members of the Polish middle-class are small/medium-sized company owners, lower-level officials or managers, higher-level technicians, and lower-level professionals. Almost 90 percent live in urban areas. Somewhat surprisingly only 26 percent have a college degree, 45 percent are indebted, and 45 percent have no savings. The composition of this debt is somewhat unique to Polish conditions, which employs mortgages to purchase real property, and debt, less frequently then in the United States, and much of higher education is tuition free. Consequently, only 16 percent of middle class Poles have mortgages, virtually none relied on credit to finance their education, and most debt was incurred to finance current consumption (Portal statystyczny 2022).

One reason for low mortgage debt is that the prices of single-family homes in Poland are too high for those clustering at the lower end of the Polish middle class to afford. The relatively high consumer debt outside of mortgages and limited savings therefore is not a wealth indicator (CBOS 2020).

Indeed, the limited purchasing power of the middle-class was further eroded by a July 2022 tax reform(popularly referred to as the 'New Order' (Nowy Lad)) that eliminated certain tax breaks for this group, which were only partially offset by lower tax brackets. While the fu; l impact of this complex tax reform is unclear, most Polish economists have concluded that by diminishing

the disposable income of Poland's middle class, it may well reduce its size https://www.rp.pl/podatki/art37108711-polski-lad-koniec-z-ulga-dla-klasy-sredniej.
More broadly, one distinguishing features of Polish society today is the economic weakness of the relatively large lower middle class. Although the middle class writ large benefited from Poland's post-transformation economic expansion, this subgroup – often working on short-term contracts with employers that do not guarantee financial security – may have benefitted less. One indicator of this outcome is that the pursuit of what popular culture portrays as a "comfortable standard of living" has – for many – led to a reliance (and ultimately suboptimal use of) credit to subsidize current consumption. This suggests that achieving.

4. US middle class-changes and characteristics

To qualify as middle class in the United States based on relative annual income, households must earn between two-thirds and double the 2020 national median income. That includes those who, after adjusting for household size, earn between $52,000 to $156,000.This describes 42 percent of US households, which ranks well below Poland and, more broadly places the United States among all G20 economies.
Moreover, unlike Poland, the middle class in the United has been steadily declining; from 61 percent of households in 1971 to 56 percent in 1991, and then 52 percent in 2016 before to 42 percent (PEW 2018 and 2020).
Also, unlike Poland, the lower income spectrum has increased; from 25 percent in 1971 to 27 percent in 1991, rising to 29 percent in 2016 and maintaining that share in 2020. This simultaneous decrease in the shares of the middle and lower income classes, respectively, has affected all age groups, except for 65 and older.
Within these overall trends, the elderly and minorities moved upwards in their economic status. Those over the age 65 (baby boomers) rose from 39 percent of the middle class in 1971 to 47 percent in 2020, while their share at the lower income strata decreased from 54 percent to 37 percent (PEW 2022).
Regarding minorities, in 1979, 84 percent of the middle class was white, while 9 percent were Black and 5 percent Hispanic. By 2020, 59 percent of the American middle class was white, 12 percent Black and 18 percent Hispanic. https://www.brookings.edu/blog/up-front/2020/10/30/the-middle-class-is-already-racially-diverse/. This composition roughly parallels the ethnic composition of the US society: as of 2020, 57.8 percent of the population were non-Hispanic whites, 18.7 percent were Hispanic and Latino Americans, and 12.1 [percent were African Americans (Wikipedia).
Viewed by gender, the relative economic shares of men and women have changed little from 1971 to 2021. Both experienced similar percentage point increases in the shares in the lower- and upper-income tiers, and both saw double-digit decreases in the shares who are middle class, however, women remained more likely than men to live in lower-income households in 2021 (31% vs. 26%).
As in Poland, by occupation semi-professionals and skilled craftsmen predominate (?) in America's middle class. and lower-level at the lower end of income bracket but also, unlike in Poland, of highly educated, salaried professionals and managers (Thomson William; Joseph Hickey 2005). Gilbert, Dennis (1998). The American Class Structure. New York: Wadsworth

Publishing. ISBN 0-534-50520-1. Thus, one factor critical in promoting upward mobility was, not surprisingly, education. Failure to attain at least a bachelor's degree resulted in economic regression, as adults lacking a college degree has consistently grown as a shares in the lower-income tier over in the past five decades(Gilbert, Dennis 1998).

Middle-income Americans tend to be indebted. The structure of that debt in order of magnitude is mortgages followed by student loans (virtually absent in Poland). More specifically, in 2019,40 to 59 percent of middle class Americans held a median $21,700 in student debt and 60 to 79.9 percent held an even greater educational loan burden, with a median of $24,400 (Business Insider 2022). However, during the examined period middle class Americans infrequently finance current consumption (e.g., vacation, purchases of consumer durables) with credit.

Middle class Americans reside primarily in small and medium size towns and cities as well and suburban metro areas. In the latter, a larger share of the population works in retail, construction, administrative services, agriculture, manufacturing, and transportation have larger middle classes on average. These industries tend to provide wages well above the average for individuals who do not have a four-year college degree, which represent the bulk of the workforce in most metro areas. By contrast, in urban metro areas professional services, information, finance, and management industries, which generally do require secondary education degrees, predominate – and those communities have relatively smaller middle classes and considerably larger high-income populations. Examples include the San Francisco Bay Area, Washington, Boston, and Seattle, each of which is characterized by work forces with significant numbers of highly paid workers. Consistent with the observation about college towns, metro areas where more people work in higher education tend to have smaller middle classes, and larger low-income and high-income populations. (Brookings 2). While this research relies on income as a measure of societal group positioning, some key factors omitted by this study affect two middle class societal groups ability to fund their activities. For one, accumulated wealth/assets are responsible for some of the differences between the two groups in Poland and the US. Presumably middle-class Americans have accumulated more wealth, though US savings rate is lower than Polish (2.1 percent vs. 2.8 percent) (GovTax). Compared to Poland and many other Western countries, American middle-class experiences a more comfortable standard of living, higher purchasing power of income, significant economic security, considerable work autonomy and rely on their expertise to sustain themselves. Consequently, those belonging to middle class in both countries often face different choices and challenges.

5. Conclusion

One of the important findings of this work involves changes in the group defined as middle class in both countries. Poland's appears to have a 'positive momentum' as compared to the US with a 'negative momentum.' While Polish middle class remains roughly stable in size, there appears to be an upward mobility – the upper class is expending as the bottom of the income spectrum is shrinking.

The opposite is true for the US: its middle class is shrinking mostly because Americans are falling below the income thresholds, expending the lower and, less frequently moving upwards. These trends are also partially reflected in indicators measuring income inequality – for Poland

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GINI coefficient declined between late 1990s to 2020 from 0.38 to 0.30 in 2021, for the US the respective numbers are 0.38 and 0.42 (FED St Louis).

The size, characteristics and changes to middle class have possible political implications. While both countries are increasingly politically divided, however this study sheds some light on the economic causes of those divisions in the US, which are less pronounced. In the US, rising inequality and a shrinking middle class have accompanied polarization politically. Diminished upwards mobility may well have frustrated voters who blame political leaders for their decline, absolute or relative, in standards of living. Indeed, one could argue that in the US voters on each end of political spectrum (i.e., supporters of D. Trump and B. Sanders), while differ greatly on policies, share a common frustration: a sense of a relative decline in their economic status.

More generally, our findings support the notion that the relationship between changes in the composition and relative economic health of the middle class and political polarization is country specific and may well differ in different countries depending on their respective level of economic development, the strength of their institutions, and historical differences, and cultural expectations. Otherwise stated, a declining middle class can be expected to cause and/or exacerbate polarization, but citizens may care about more than economics and, when they do, that relationship is weaker and – quite possibly – substantially so. A two country analysis is, of course, a single data point. To better understand the factors driving political polarization across nations, more research is needed that employs country specific data for different economies.

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