

Middle Class Analysis in Some Countries of Central and Southeast Europe

Tiberiu-Cristian Avrănescu
National University of Science and Technology POLITEHNICA Bucharest,
Pitesti University Center, Romania
tiberiu.avramescu@upb.ro

Abstract

Measuring the middle class is a rather difficult process. It is necessary to identify some objective criteria, such as the income level, the occupation, the level of education, but also some subjective criteria, such as the social category of the family or the origin environment. Another problem is related to the availability of data sources that allow us to classify a person into a certain social category. This paper aims to present a first, strictly quantitative perspective on measuring the middle class in Romania compared to other countries in Central and South-Eastern Europe, using the population income indicator. This paper provides a picture of income disparities in the analyzed countries, using indicators that capture income inequality, the size of the middle class and the degree of income polarization, providing clues about the difficulties the households in the analyzed area are facing with.

Key words: inequality, middle class, economic development

J.E.L. classification: E25, E64, F63

1. Introduction

Dividing population into social classes is a permanent concern of both researchers and government authorities, because this information is very important to establish the public policies at the macroeconomic level. The size of the middle class could be a relevant indicator to study the standard of living, the poverty and the social inequalities in a given country and may indicate the level of its economic development. Based on this information, the state can make economic policy decisions to protect people in difficulty.

The middle class in Romania has gone through three stages in the last one hundred years. First, during the interwar period, there was a process of transition to a capitalist economy. Then, the communist regime established in Romania in 1945 dissolved the middle class created during the interwar period and created a new middle class associated with the industrialization process of the postwar period. The transition from a command economy to a market economy led to important transformations in the economic and social structure of Romania. The free initiative, the openness to the West, the emergence of multinational corporations, and the increase in the population's income led to the emergence of the present middle class, made up of the most dynamic, creative, and educated part of this country's population.

The mission of the middle class is conditioned by the functions it performs within the society. The middle class constitutes the social foundation and the main force of reforms, ensures the reproduction of highly qualified labor force, contributes to the development of technical, scientific and social progress, applies innovations, preserves the unity and cultural identity of society. A large and dynamic middle class is important for any nation. It contributes to both economic growth and social and political stability.

Given the adherence to the European Union and the economic growth, the rise of the middle class in Romania is evident. The implications of its rise are profound, both in terms of generating economic opportunities and in terms of transforming the political class. There is no unanimously accepted definition of what the middle class means, but the most frequently used method to delimitate it is the income method, which has many drawbacks.

2. Literature review

The notion of "middle class" has a long history. It is argued that, for the first time, the respective notion was used by the playwright Euripides (5th century BC), designating three classes in society: the rich, the poor and the middle class. In the pre-industrial society, the middle class was analyzed as a residual social category. Thus, individuals who did not hold noble titles and were not part of the peasant class were included in this class, such as small entrepreneurs, merchants, manufacturers and other similar categories. The composition of this class varied considerably depending on the national context and the historical period analyzed.

The middle class, as a well-defined entity, occurs during the industrial society. The social and economic transformations generated by the industrial revolution led to the reconfiguration of the traditional social structure and the rise of a new class - the middle class - as a central actor in the industrial society development. This social category was defined both by its intermediate economic position between the working class and the elite of capital holders, and by a distinct lifestyle, characterized by the values of work, education, civic responsibility and the aspiration towards stability and social ascension.

The middle class has been the subject of the sociological and economic studies since the second half of the 20th century. As a result of the scientific and technological revolution and the economic growth it generated, the share of poor population decreased, and the emergence of another type of state, called the social state or the development state, contributed to the expansion and consolidation of the middle class, which became predominant in the advanced capitalist countries (Tikhonova, Mareeva, 2004, p.46).

Many researchers emphasize the role of the middle class in developing democracy, social cohesion, economic prosperity, and political stability. These studies consider the middle class as a driving force that facilitates the economic growth by promoting stability, human capital accumulation, and a better infrastructure (Landes, 1998, p.15, Pressman, 2007, p.41, Estache and Leipziger, 2009, p.176).

A very common approach in the specialized literature is to define the middle class as a range of income values, with minimum and maximum limits relative to a mean (Thurow, 1987, p.30, Horrigan and Haugen, 1988, p.5). Another approach defines the middle class as a core group of the population, a percentage of the total population (Beach et al, 1997, p.134).

Some international organizations have also recognized the importance of the middle class in supporting consumption, significant investments in education, health and housing, as well as for the essential role it plays in supporting the social protection systems through tax contributions (OECD, 2019).

There is no consensus on the definition of the middle class, and different definitions have been developed for different purposes and countries, at various stages of social and economic development.

In Romania, the first approach regarding the class structure in our country was made by D. Draghicescu, who identified the social categories after the Great Union of 1918: the large landowners, the urban bourgeoisie, the freelancers, the civil servants and the medium-sized rural landowners, the peasants and the village civil servants; the proletariat of the large industry and the craftsmen (Draghicescu, 1922, p. 38).

Virgil Madgearu, a Romanian economist, sociologist and politician, was a prominent advocate of the middle class, especially the rural and urban petty bourgeoisie, and of the peasantry as an essential economic and social force. He addressed the issue of developing a stable middle class, through social protection policies, cooperative and agrarian reforms. Madgearu argues that the Romanian economy must be built on the basis of the peasant household, seen as part of an indigenous middle class. He combats the capitalist-industrial model imported from the West, advocating an economic

development specific to the Romanian social structure (Madgearu, 1923, p.58-59). Madgearu emphasizes the importance of the small and medium-sized peasant households as the basis to develop the national industry and for the social stability. He considered this to be the only solid basis to develop a large national industry which, in turn, by encouraging the growth of the urban population and raising its well-being, will contribute to the formation of an intense market for the peasant household products – a necessary condition for its intensification (Madgearu, 1936, p.73-76). Thus, Madgearu highlighted the importance of developing an economy based on small peasant households and a solid middle class, considering that such an economic structure would ensure Romania's economic independence and contribute to its social stability.

Another approach from the interwar period belongs to Maria Larionescu. The author carried out an in-depth analysis of the papers related to social classes, with an emphasis on the middle class: the old middle class, related to property and the new middle class, resulting from the accumulation of capital (Larionescu, 2007, p.35-37). The categories of population that belonged to the middle class are highlighted: the independents, the self-employed, the professionals, the management staff of the enterprises, the small craftsmen and the workers with a patent.

The abolition of private property by the communist regime established in Romania after the World War II, the destruction of the bourgeoisie and landowner classes diminished the size of the middle class. The Revolution of December 1989 reopened the path for the private property and the respective social classes.

In a reference paper on the structure of the middle class in Romania, Ioan Marginean identifies four coverage spheres of the middle class (Marginean, 2020, p.147):

- the active population in a restricted (congruent) format with non-manual occupations (the first four ISCO code groups) and educational training at least at high school level (high school, post-secondary or master's school, higher education);
- all non-manual activities included in the four codes, regardless of educational training;
- activities in non-manual occupational groups and the other part of the active population with an educational level of at least high school level;
- the active population mentioned above plus the other part of the country's population with high school or higher education.

Most Romanian economists have seen the middle class as a pillar of social, economic and democratic stability, but they have always been aware of its fragility in Romania. From the small-scale peasantry of Madgearu to the small entrepreneur of today, the middle class has been and remains essential for the economic development and progress.

3. Research methodology

This analysis uses the most recent EU-SILC data and defines the social classes based on some pre-defined income thresholds. This is in line with the income-based approach mentioned above. As Table 1 shows, the distinction between the three income classes (low, middle and high) is made by means of determined thresholds, expressed as a percentage of the median disposable income of households in each European country. This report describes the evolution of the population share falling into each of these classes.

This analysis follows the empirical approach proposed by Gigliarano and Muliere (2012, p.22-23). The individuals are assigned to different income classes according to their disposable income, the table below shows.

Table no.1. The thresholds used to define the income classes

<i>Income class</i>	<i>Lower</i>	<i>Middle</i>	<i>High</i>
Share of average household disposable income	< 75%	75 – 200%	> 200%

This research defines the middle class in each country as consisting of people whose household disposable income is between 75% and 200% of the national median disposable income.

The income distance indicator, which measures the relative distance, expressed as a percentage, is calculated using the relation below:

$$\text{Income distance indicator (\%)} = \left(\left(\frac{\text{Income of individual } i \text{ in country } j}{\text{Income threshold of reference}} \right) - 1 \right) * 100$$

The income polarization can be calculated separately for each income class, as the average of the income distance indicator for all individuals in that class. Subsequently, the total income polarization in a country is determined as the average of the income distance indicator for the entire population.

Materials and methods. This paper presents an empirical analysis of income polarization resulting in a trend overview of income distribution in Romania and the European Union member states. The analysis presents an approximation of income polarization for the middle class. The size of the middle class is analyzed over time, to see if it has increased or decreased. Its composition and changes over time are also examined.

We used an empirical approach to measure the income polarization for the entire population. The aim is to investigate whether polarization is increasing due to the deepening of the gap between different income groups. The analysis aims to highlight how the concentration of middle class's income contributes to income polarization.

4. Findings

Scholars from different fields of knowledge or from different institutions provided quite different, sometimes almost contradictory definitions to the middle class. This confusion stems mainly from the lack of some fixed criteria for such a definition (Tarkhnishvili A, Tarkhnishvili L.). In fact, the situation is the opposite: there are too many criteria, resulting from different perspectives and fields.

Many economic studies use income as a primary indicator to define the middle class membership. In one of its reports, the OECD uses income to analyze the middle class (OECD, 2019) and uses the term "middle-income class" instead of the term "middle class".

The report defines the "middle-income class" as the population living in households with incomes between 75% and 200% of the national average. For some analyses, the middle-income class is subdivided into three groups:

- Lower middle income (75%–100% of the average),
- Middle income (100%–150%),
- Upper middle income (150%–200%).

The population in households with incomes below 75% of the average is considered the "low-income class", and those with incomes above 200% of the average are part of the "high-income class".

The European Commission reports define the middle class in terms of income: people with an equivalent disposable household income between 75% and 200% of the national average (Eurofound, 2024, p. 63-69). Based on this definition, the European countries are mostly made up of the middle class. On average, the middle class in the European Union represented approximately 64% of the population in 2023, being more than twice as large as the low-income class (28%) and much larger than the high-income class (8%). There are no significant differences between 2023 and 2015, however, compared to 2007, the share of the middle class in the total population increased in the European Union by 6 percentage points.

There are differences between countries; among the countries analyzed, the middle-income population has the highest share in the Czech Republic, Slovenia and Slovakia (over 70% in 2023), while, at the opposite side, the share of the middle-income population is lower in Bulgaria (51% in 2023), Romania (59%) and Greece (61%).

In Romania, the middle class share rose to 60% in 2023 from 51% in 2007. The 9 percentage point increase was the highest in the region and resulted from the high-income class decrease from 14% in 2007 to 8% in 2023, as well as from the low-income class decrease from 35% in 2007 to 31% in 2023. Despite the upward trend, the size of the middle class in Romania remained the second smallest in the region after Bulgaria.

A larger middle class means a more cohesive society, with a higher proportion of families whose incomes are concentrated around the average level (Eurofound, 2017, p. 15-21). The extremely important role of the welfare state in redistributing income between households and compressing the

income distribution is reflected in the much smaller size of the middle class when it is calculated based on the market income, instead of the household disposable income (Eurofound, 2019, p. 3).

Table no. 2. The size of income classes by household disposable income

		Low income	Middle income	High income
EU 27	2023	28	64	8
	2015	29	63	8
	2007	32	58	10
Romania	2023	32	60	8
	2015	31	58	11
	2007	35	51	14
Czech Republic	2023	24	71	6
	2015	22	63	5
	2007	22	69	8
Croatia	2023	30	64	7
	2015	30	63	8
	2007	32	58	10
Poland	2023	26	68	7
	2015	30	61	9
	2007	29	60	11
Hungary	2023	26	68	6
	2015	28	64	8
	2007	24	70	6
Slovakia	2023	23	75	2
	2015	25	72	3
	2007	27	69	4
Slovenia	2023	25	72	4
	2015	26	70	4
	2007	28	66	6
Bulgaria	2023	35	51	14
	2015	34	53	13
	2007	32	48	20
Greece	2023	31	61	8
	2015	33	56	11
	2007	32	57	11

Source: EU-SILC 2024 (own determination).

The average size of the middle class in the EU Member States is falling from 64% of the population to 42%, which translates into an increase in the share of high-income classes (from 8% to 18%) and low-income classes (from 29% to 40%). Before the income redistribution made by the welfare state, the size of the middle class ranges from 52% in Slovakia (and around 50% in Hungary, Slovenia and Poland) to below 40% in Romania (39%) and Bulgaria (38%).

On the one hand, there is a group of countries where the middle class is relatively small before redistribution, but expands considerably after the application of taxes and social benefits. On the other hand, there are countries where the middle class is relatively large before redistribution, but becomes relatively small after the intervention of the welfare state. This is the case of Bulgaria and Croatia.

The analysis of the income structure shows that, in countries where the share of middle-class income has increased, this advance has generally occurred at the expense of the upper-income class. Conversely, in countries where the middle class has lost from its economic influence, the upper-income class has also benefited the most. This development suggests that, in countries where the middle class has shrunk, the incomes of the lower-income class have stagnated: although the share of the population with low incomes has increased, its contribution to the total income has not changed significantly.

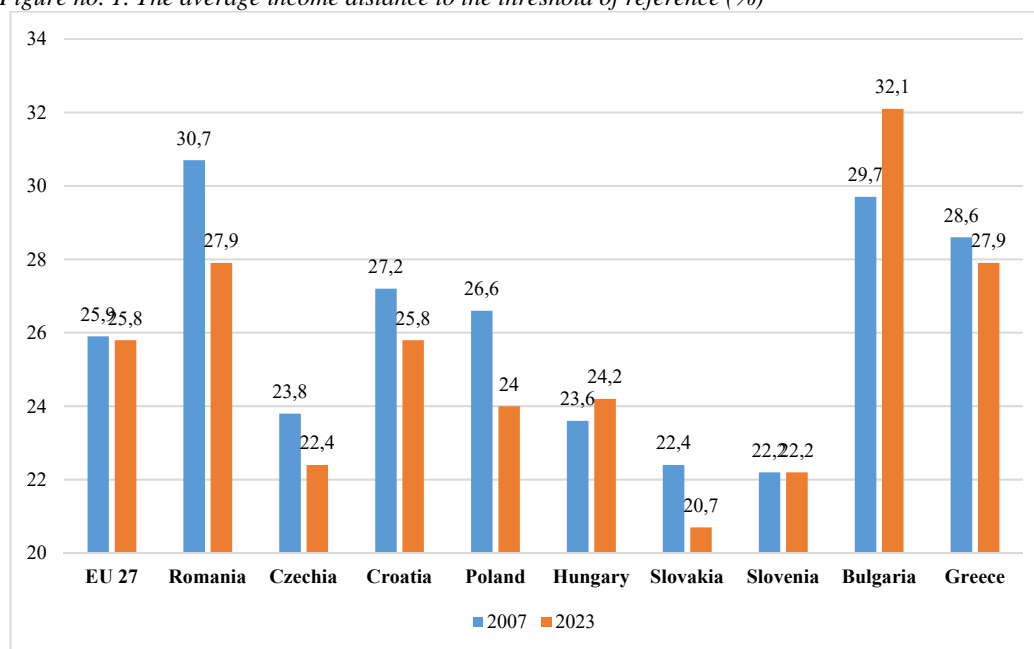
Table no. 3. The size of income classes by household by market income, 2023, %

	Low income	Middle income	High income
EU 27	40	42	18
Romania	42	39	19
Czech Republic	38	50	12
Croatia	39	45	16
Poland	38	47	15
Hungary	37	50	13
Slovakia	35	52	13
Slovenia	39	48	14
Bulgaria	39	38	23
Greece	40	42	18

Source: EU-SILC 2024 (own determination).

In addition to the analysis of the middle class size, this paper also analyzes the income polarization. The data for the analyzed countries show important differences between countries (Figure no. 1).

Figure no. 1. The average income distance to the threshold of reference (%)



Source: EU-SILC 2024 (own determination)

The income polarization varies considerably between countries, the lowest values being recorded by Slovakia (22.4% in 2023, respectively 20.7% in 2007) and Slovenia (22.2% in both 2023 and 2007), and the highest by Bulgaria (29.7% in 2023, respectively 32.1% in 2007), Romania (30.7% in 2023, respectively 27.9% in 2007) and Greece (28.6% in 2023, respectively 27.9% in 2007). The income polarization has decreased in the countries where the low- and high-income groups have moved closer together. In countries where polarization has increased, low- and high-income groups have moved further apart.

In some countries (Poland, Slovakia, the Czech Republic), the middle class has become more homogeneous, which means that the gap between the two groups has narrowed. There are countries (Slovenia, Greece, Hungary) where the middle class has become more homogeneous, but to a lesser extent and not necessarily by reducing the gap between the two groups. In other countries (Bulgaria, Romania, Croatia), the middle class has become more heterogeneous, the gap between the low-income and high-income groups has increased.

5. Conclusions

In recent decades, the middle class has become a central topic in the economic and social analyses, being perceived as an essential pillar of sustainable development and democratic stability. The international studies highlight the fact that a strong middle class contributes to economic growth, reduces social polarization and supports the functioning of democratic institutions. In Romania, the evolution of the middle class has been strongly influenced by the post-communist transition, the economic reforms, but also by the recent economic and financial crises.

The changes in the size of the middle-income class are influenced both by the income increase for the people around the average income level and by the changes in the average income, which is used as a reference to define the income class thresholds. Given the significant reduction in the average income level, the size of the middle class may remain broadly similar, without reflecting the actual deterioration in the income level of this class.

The middle class (defined as people with a disposable income between 75% and 200% of the national average) represents most of the population in all EU Member States. However, its size varies considerably: it exceeds 75% of the population in Slovakia (and it is also relatively high in Slovenia or the Czech Republic), but drops to 51% in Bulgaria, and it is also relatively small in several countries in Central and Eastern Europe and the Mediterranean, including Romania.

Countries with a small middle class tend to have weaker social protection systems, with little impact on reducing market income inequalities. The weakness of the welfare state in these cases partly explains the high levels of income inequality and the small size of the middle class.

A large middle class is typical for the European models and reflects an inclusive society. The analysis highlights the increase of the middle class in most of the countries analyzed between 2007 and 2023, even significantly in several countries in Central and Eastern Europe (Romania, Poland, Croatia).

A specific analysis of polarization within the middle class shows that it has become more heterogeneous in less than half of the countries analyzed (including Slovenia, Greece, Hungary). In contrast, the middle class has become more homogeneous in over half of the countries (including Romania, Bulgaria, Croatia).

6. References

- Beach, C. M., Chaykowski, R. P., & Slotsve, G. A., 1997. Inequality and polarization of male earnings in the United States, 1968–1990. *North American Journal of Economics and Finance*, 8(2), 135–152. [https://doi.org/10.1016/S1062-9408\(97\)90004-8](https://doi.org/10.1016/S1062-9408(97)90004-8)
- Drăghicescu, D., 1922. *Political parties and social classes* (p. 38). Bucharest.
- Estache, A., & Leipziger, D., 2009. *Stuck in the middle: Is fiscal policy failing the middle class?* Brookings Institution Press.
- Eurofound, 2024. *Developments in income inequality and the middle class in the EU* (pp. 63–69). Publications Office of the European Union. <https://doi.org/10.2806/477653>
- Eurofound, 2017. *Income inequalities and employment patterns in Europe before and after the Great Recession* (pp. 15–21). Publications Office of the European Union. <https://doi.org/10.2806/370969>
- Eurofound, 2019. *Recent developments in the state of the middle classes* (p. 3). Publications Office of the European Union. <https://doi.org/10.2806/881907>
- Gigliarano, C., & Muliere, P., 2012. Measuring income polarization using an enlarged middle class. *ECINEQ Working Paper Series, No. 2012–127*, Society for the Study of Economic Inequality. [online] Available at: <https://www.ecineq.org/milano/WP/ECINEQ2012-271.pdf>
- Horrigan, M. W., & Haugen, S. E., 1988. The declining middle class thesis: A sensitivity analysis. *Monthly Labor Review*, 111(5), 3–13.
- Landes, D. S., 1998. *The wealth and poverty of nations*. Norton.
- Larionescu, M., Mărginean, I., & Neagu, G. (with Rughinis, C.), 2006. *The establishment of the middle class in Romania* (2nd ed., pp. 35–37). Economic Publishing House.
- Madgearu, V., 1936. *Agrarianism, capitalism, imperialism: Contributions to the study of Romanian social evolution* (pp. 73–76). Bucharest.
- Madgearu, V., 1923. *Agrarian reform and the evolution of the peasant class (Extract from the Archive for Science and Social Reform)* (pp. 58–59). Bucharest.

- Mărginean, I., 2020. Middle class in Romania for the last three decades. *Romanian Journal of Sociology*, 31(3–4), 147. [online] Available at: <https://www.revistadesociologie.ro/sites/default/files/02-imargineanb.pdf>
- OECD, 2019. *The squeezed middle class in OECD and emerging countries – Myth and reality*. Issues Paper. OECD.
- Pressman, S., 2007. The decline of the middle class: An international perspective. *Journal of Economic Issues*, 41(1), 181–200. <https://doi.org/10.1080/00213624.2007.11507000>
- Tikhonova, N. E., & Mareeva, S. E., 2009. *Middle class: Theory and reality* (p. 46). Alfa. <https://doi.org/10.31857/S013216250012166-5>
- Thurow, L. C., 1987. A surge in inequality. *Scientific American*, 256(5), 30–37. [online] Available at: <https://www.jstor.org/stable/24979382>