

School of Global Affairs and Public Policy





#### **EGYPT: ECONOMIC DEVELOPMENT AND POLICIES CONFERENCE**

#### November 7-9, 2024

## Egypt's Ailing Middle Class: Socioeconomic Shifts 1995-2020

Heba El Laithy – Cairo University Khalid Abu-Ismail – ESCWA Dina Armanious – Cairo University Wafaa El Baba - ESCWA

To cite this presentation:

El Laithy, H., Abu-Ismail, K., Armanious, D., & El Baba, W. (2024, November). Egypt's Ailing Middle Class: Socioeconomic Shifts 1995–2020 [PowerPoint slides]. Egypt's Ailing Middle Class: Socioeconomic Shifts 1995-2020

Chapter 48 in Oxford's Handbook of the Egyptian Economy

> Heba El Laithy – Cairo University Khalid Abu-Ismail – ESCWA Dina Armanious – Cairo University Wafaa El Baba - ESCWA

> > Egypt's Ailing Middle Class: Socioeconomic Shifts 1995-2020

・ロト ・日子・ ・ ヨト・

Introduction Related Literature Methodology & Data Empirical Results Concluding Remarks

Reality of the global middle class The Egyptian middle class 1990s-2020 Objective

## > Pivotal role of the middle class in development

Acts as a social buffer | Economic growth engine | Political stability | Fosters innovation and sustainability

## > Fears of a disappearing middle class

- Deteriorated living standards
- Rising debt obligations and lost saving ability
- Fourth industrial revolution and job-replacements
- Unemployment and precarious employment
- Poverty haunting the middle class
- Lack of adequate social protection coverage
- Conflict and its implications
- Implications of contractionary fiscal and monetary policies

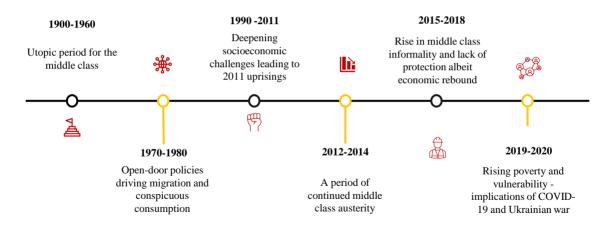
Forum			FREE
IT'S NOT JUST DEN	AOGRAPHICS		EDUCATIO
The Disap	pearance of the Middle	e Class 🛛 🖾	
A LICE RO HORE	State of the second state	The other inserts formulation	Contraction Aligned
A CALLER OF A CALE		Subjects days and the second s	A SEA
<ul> <li>State State V (Science State State</li></ul>		6 ches de la control, the better control de la control de la la che parte d'agé access hanne baté de parte d'agé access hanne baté de parte quiter de la control de la control de la control de la control de la control de la control de la control de la control de la la control de	Workshow of a subset of the su
within the new primers on any off M arithmetic Anathue of Anti- rup referenced waters, a basis water and a second	Li a Valuera Andréssione Lega Bartin Maria Martina de La construir de la construire de la construir de la construir de la c	and print, or two south's over otherwise Actions. But is a south of actions for the Actions provide theorem, when Actions are used theorem, when Actions are used in a strangent that the constant tests in Action and the constant tests in Action actions are used to the Action action are an action to the action are an action to the action	An end of the second se
And the second s	and even the B had a super- section of the super-section of the super-se	But March President evolution for all non-transmission for the factor of the count of the enable class. The analysis is the an interest is pro- sention classical and an interest in a strategy of the strategy classical form that with a strategy classical form that the tax classical form	1

Introduction

Related Literature Methodology & Data Empirical Results Concluding Remarks

Reality of the global middle class The Egyptian middle class 1990s-2020 Objective

## The Egyptian middle class 1900s-2020



Egypt's Ailing Middle Class: Socioeconomic Shifts 1995-2020

A D F A B F A B F A B F

э



*MC* Identification and Measurement: A stepping stone to policymaking



# Who counts as middle class?

(日) (同) (日) (日)

Introduction Related Literature Methodology & Data Empirical Results Concluding Remarks

## Objectives of this chapter

- 1. Identify the social middle class in Egypt and track it's size from 1995 to 2020
- 2. Determine the share of income poor and vulnerable middle class in Egypt and its dynamics over the past 15 years
- 3. Assess some features of the social middle class in Egypt

-

		Introduction Related Literature Methodology & Data Empirical Results Concluding Remarks	Income and social definitions Misclassification of the MC				
Definition	Scholars	Identification of the MC	Examples				
	Ravallion (2009)	Distance from median income/expenditure	between 75% and 125% of the median				
Income	Barro (2000);Quintile or PercentileAtkinson andincome distributionBrandolini (2013)		between the second and fourth quintiles, or third and fourth				
	Haskins and Sawhill (2009)	Multiples of the poverty lines	ranges from 1.5 to 10 times the poverty line				
	Piketty (2014)	Wealth index	members of the middle class own assets that the poor cannot afford				
Social	Karl Marx	Location in the production process	Dichotomous classes: Bourgoisie and working				
	Max Weber	Shared individual characteristics	Middle class emerges between the bourgeoisie and working classes				
	Erikson-Goldthorpe- Portocarero (1992)	Labour market relations	11 distinct classes based on occupation and labour market position				
	Erik O. Wright (1997)	assets, authority, expertise	Distance from assets or levels of authority and expertise $\equiv \qquad \diamondsuit \mathbin{\triangleleft} \mathbin{\bigcirc} \mathbin{\triangleleft} \mathbin{\bigcirc}$				
		Egypt's	Ailing Middle Class: Socioeconomic Shifts 1995-2020				



> Misclassification of the middle class using some income-based measures

- Arbitrary interval that may yield inconsistent findings and misclassification of the middle class

## > Income polarization

- Decline in the size of the middle class due to income polarization and not necessarily a shrinking or "missing" MC.

"The middle class identified on the basis of income includes a sizeable proportion of the working class, together with some fraction of individuals in the top class." (Atkinson and Brandolini, 2013).

-

Related Literature Methodology & data Empirical Results Concluding Remarks

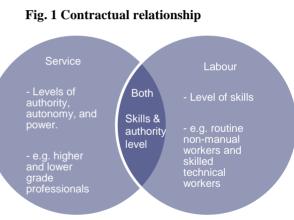
EGP social class scheme:

Based on labour market position
 3 positions: employee, employer, and self-employed

Widely used in the UK and Europe UK's National Statistics Office

Can be applied using only occupational data (employment status, occupation, and firm size)

Consists of 11 classes can be grouped into 9, 5 or 3 classes



-

Introduction Related Literature Methodology & data Empirical Results Concluding & Bamarks

## ESCWA's (2023) Social Class identification Scheme

Class	Detailed class	Contractual relationship	Examples
Upper/Owning class	<ol> <li>Large business employers; high- grade managers and legislators; high- income self-employed</li> </ol>	Service	Director general, Chief Executive Officer, large industrialists
Middle class	2. Higher-grade professionals and administrators	Service	Financial manager, lawyer, university professors
Upper middle	3. Lower-grade professionals	Service	Sociologist, graphic designer
Opper middle	4. Routine non-manual and clerical workers	Both	Clerks, cashiers
Lower middle	5. Self-employed; small business employers	None	Small supermarkets, small garage owners or working on their own account
	6. Sales and other low-level service workers	Labour	Shop supervisors, salesperson
Lower/Working	7. Blue-collar technicianslower blue collar	Both	Handicraft workers, carpenters, mechanics
class	8. Skilled technical workers	Labour	Ship deck crew, crop farmers, drivers
Other lower class	9. Non-skilled routine workers	Labour	Housekeepers, caretakers, construction workers

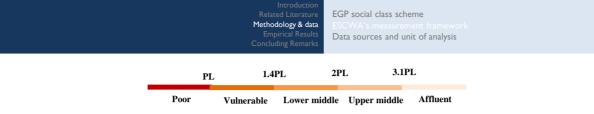
Egypt's Ailing Middle Class: Socioeconomic Shifts 1995-2020

・ロト ・日下 ・モト ・モト

-

#### Methodology used in this chapter:

- The methodology of ESCWA's (2023) framework is applied with some minor adjustments
- Variables used in defining the social classes are: Employment status, Occupation and Quintiles of Per capita Consumption
- Based on labour market position (Employment status)
   3 positions: employee, employer, and self-employed are used in classification
- Occupations are taken at the 6-digit level of ILO's International Standard Classification of Occupations (ISCO)
- Quintiles of per capita consumption is used to distinguish between large and small employers, and between high and low income self-employed
- ➢ 9 distinct classes grouped into 5 and 3 classes are established: Upper, middle, and lower



#### Thresholds to identify income groups/economic class

	Poor	Vulnerable	Lower middle	Upper middle	Affluent
Household status	Below poverty line (PL)	(1.0-1.4xPL)	(1.4-2.0xPL)	(2.0-3.1xPL)	(>3.1xPL)

Egypt's Ailing Middle Class: Socioeconomic Shifts 1995-2020

・ロト ・ 日 ト ・ ヨ ト ・ ヨ ト ・ ヨ

Introduction Related Literature Methodology & data Empirical Results Concluding Remarks

## Data source

Household Income, Expenditure, and Consumption Surveys (HIECS) Surveys for the periods 1994/95, 2004/05, 2010/11, 2015, 2017/18 and 2019/20 are used.

Gives a combination between 6-digits level of occupation and income and expenditure data.

## > Unit of analysis

- Households Economic interdependence of household members
- However, initial classification is done at the individual level
- All those living in the same household are assigned the same class position, depending on the highest social class in the household.
- In the analysis, we always weight the household by its household size

throdology & data
Empirical Results
Prominent features

## > The myth of a disappearing social middle class

Fig. 2 Share of social classes over time (% of total individuals)

51.4

2015

Middle class

100.0

90.0

80.0

70.0

60.0

50.0

40.0

30.0

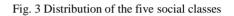
20.0

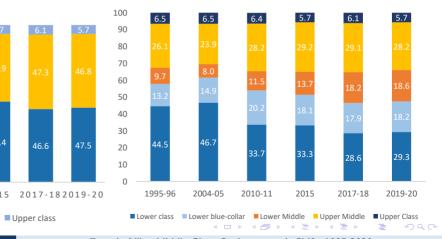
10.0

61.5

1995-962004-052010-11

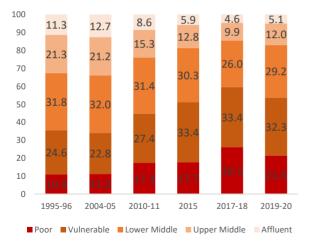
Lower class



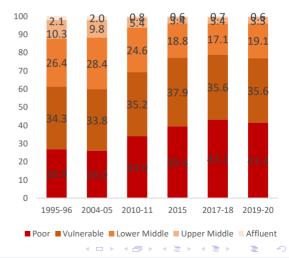


Introduction Velated Literature Social middle class size Rising middle class poverty and vulnerability Prominent features

#### Fig. 6 Poverty incidence among the middle class



#### Fig. 7 Poverty incidence among the lower class



Introduction Related Literature Methodology & data Empirical Results Concluding Remarks

Social middle class size Rising middle class poverty and vulnerability Prominent features

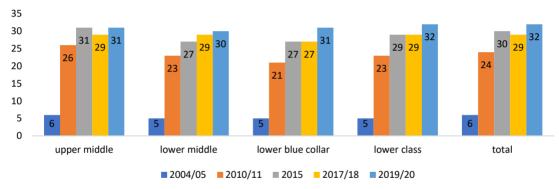
#### Table 3. Distribution of individuals by social class and income groups in 1995/96 and 2019/20

Income groups (Row Percent) Income groups (Column Percent)												
	income groups (Kow Percent)											
Social Classes	Poor	Vulnerable	Lower	Upper	Affluent	Total	Poor	Vulnerable	Lower	Upper	Affluent	Total
			Middle	Middle					Middle	Middle		
1995/96												
Upper Class	0.0	0.0	1.9	40.8	57.3	100	0.0	0.0	0.5	16.3	41.3	6.5
Upper Middle	8.6	21.1	31.0	23.9	15.3	100	11.5	19.3	30.2	38.5	44.4	26.1
Lower Middle	17.2	33.8	34.0	14.4	0.6	100	8.6	11.5	12.3	8.6	0.6	9.7
Lower blue-						100						
collar	25.0	31.9	28.3	11.7	3.1	100	17.0	14.7	13.9	9.5	4.6	13.2
Lower class	27.4	35.0	25.9	9.9	1.8	100	62.9	54.5	43.0	27.1	9.0	44.5
Total	19.4	28.6	26.8	16.2	9.0	100	100	100	100	100	100	100
					2019/	20						
Social Classes	Poor	Vulnerable	Lower	Upper	Affluent	Total	Poor	Vulnerable	Lower	Upper	Affluent	Total
			Middle	Middle					Middle	Middle		
Upper Class	0.3	0.9	14.1	57.3	27.3	100	0.1	0.2	3.4	31.1	36.8	5.7
Upper Middle	15.2	29.2	31.0	16.8	7.9	100	14.4	25.7	37.1	45.3	52.4	28.2
Lower Middle	31.0	36.9	26.5	4.7	0.8	100	19.4	21.4	21.0	8.4	3.6	18.6
Lower blue-	40.7	35.6	19.3	3.7	0.6	100	24.9	20.2	14.0	61	2.8	18.2
collar	40.7	55.0	19.5	5./	0.6	100	24.9	20.2	14.9	6.4	∠.δ	10.2
Lower class	41.8	35.6	18.9	3.1	0.6	100	41.2	32.5	23.6	8.7	4.5	29.3
Total	29.7	32.1	23.5	10.5	4.2	100	100	100	100	100	100	100

Related Literature Soc Aethodology & data Ris Empirical Results Pro-

Social middle class size Rising middle class poverty and vulnerability Prominent features

#### Fig. 8 % of Catastrophic health spending among Social classes



Note: Identification of households experiencing catastrophic health spending was based on their out-of-pocket health payments exceeding 10% of their total consumption, Such expenses can substantially impact their overall well-being.

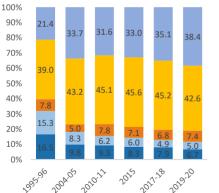
From 2010/11, the government began to reduce their expenditure on health, thus the out-of-pocket increases. These findings emphasize the urgent necessity for comprehensive healthcare policies aimed at alleviating out-of-pocket health expenses.

Related Literature Methodology & data Empirical Results Concluding Remarks

Social middle class size Rising middle class poverty and vulnerability Prominent features

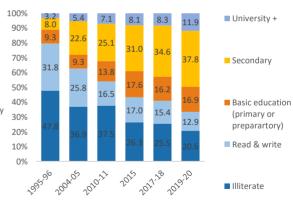
## A dichotomous middle class in educational attainment

#### Fig. 9 Educational attainment of household head by classes



#### (a) Upper middle class

- University +
   Secondary
   Basic education (primary or preparartory)
  - Read & write
  - Illiterate



-

=

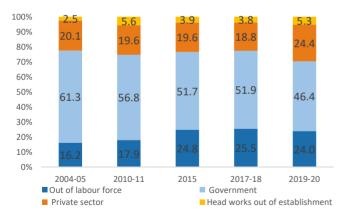
-

#### (b) Lower middle class

Related Literature Methodology & data Empirical Results Concluding Remarks

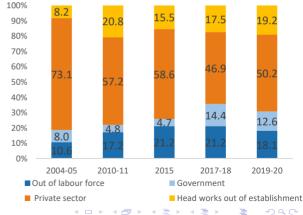
Social middle class size Rising middle class poverty and vulnerability Prominent features

#### Fig. 10 Shifts in middle class employment



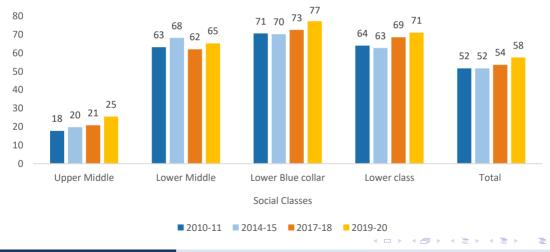
#### (a) Upper middle class





Introduction elared Literature Social middle class size ethodology & data Rising middle class poverty and vulnerability Empirical Results Prominent features

Fig. 11 Informal employment looms high among the lower middle class



Introduction Related Literature Methodology & data Empirical Results Concluding Remarks

Take home message Policy recommendations

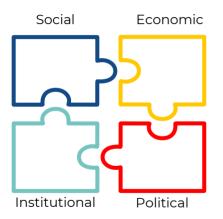
"The rise of Egypt's middle class in the 19th century was succeeded by a freefall not in terms of its size but rather by a plummet in its living standards, patriotism, identity, and social capital. "

- If current middle class trends persist:
- 1. The whole lower middle class would be either vulnerable or poor.
- 2. The upper middle, which is the main source of human capital, would be left with informal and precarious employment rendering higher poverty.
- 3. Amid escalating out-of-pocket expenditure and a curtailed spending ability, a narrowed welfare of both the lower and upper middle class poses alarming risks of instability.

Introduction Related Literature Methodology & data Empirical Results Concluding Remarks

#### Take home message Policy recommendation

## A full-fledged menu of policies



What is needed?

- Short term resilience measures against shocks (ex. targeted public transfers).
- Long-term structural transformation broad based decent employment.
- Wealth accumulation via education and higher earnings
- Curb further erosion in spending ability increasing public expenditure on health and education
- Redistributive tax policies equitable revenue generation enhancing social security coverage
- Well functioning institutions and political stability —> key for thriving and stable middle class

-

## Thank You!

Egypt's Ailing Middle Class: Socioeconomic Shifts 1995-2020

< ロ > < 回 > < 回 > < 回 > < 回 >

-