



## The Middle Class in Arab Countries



Shared Prosperity **Dignified Life**





Shared Prosperity **Dignified Life**



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# The Middle Class in Arab Countries



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# Foreword

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Preserving a sizeable and prosperous middle class in the Arab region is vital for economic and political stability, and for higher levels of well-being, economic prosperity, better governance, and lower social inequalities. Recent global challenges, including the COVID-19 pandemic and lately the war in Ukraine, have further aggravated the challenges faced by the middle class in the Arab region to be resilient and to sustain its decent well-being. Prior to this, the middle class in Arab countries was already grappling with political instability and conflict, rising informality, lack of decent work opportunities, inactive social protection schemes, and an unrelenting poverty. In light of those issues, it is of particular policy relevance to ensure the future development of the middle class since it acts as a key pillar to the peace, prosperity and welfare of the Arab region.

This report aims to conceptualize and measure the middle class in six Arab countries using available data from household surveys. It builds on previous literature and evidence to propose a robust framework for measuring social classes based on positions in the labour market instead of income and wealth. Beyond the measurement part, the report offers a descriptive portrait of the middle class, its size and peculiarities, and the rising impediments shaping its fate and fortune.

The report focuses on addressing the challenges impeding middle-class growth and associated policy implications for its revival which is vital to the peace, prosperity and welfare of the Arab region. It identifies a marginalized category of the middle class that is highly vulnerable to slipping below the poverty line, owing mainly to the lack of sufficient and effective social protection policies to prevent the deterioration of its living conditions.

Typically, social protection programmes have long been targeted to the poor and the less advantaged; however, not enough emphasis is given to the middle class, which has shown signs of precarity and vulnerability amid recurrent economic and political shocks. Consequently, this report also aims to investigate to what extent the Arab middle class is covered and has access to social protection programmes, and to set forward protection and mitigation policies to prevent its further erosion. The report also tackles informality among the middle class given the abundance of workers in unprotected and informal micro-, small and medium-sized enterprises (MSMEs) and ways to formalize the missing middle. Transfers, tax policies, fiscal stimuli and their impact on the middle class are critically discussed to rethink current and future policies that aim to reduce poverty among the middle class. The skills of the middle class and the influence of automation brought about by the fourth industrial revolution are also investigated to give a glimpse into the future of work for the middle class. Another topic of particular interest is the impact of conflict and uprisings on the middle class and ways Governments can work to help prevent the pauperization of the middle class in conflict-affected areas.

We hope that this blueprint, along with its resulting policy implications, set forth a brighter future for a vibrant middle class, which can serve as an anchor for a prosperous and stable Arab region.

***Rola Dashti***

Executive Secretary of ESCWA  
Under-Secretary-General of the United Nations



# Key messages



Measuring and monitoring the middle class in Arab countries is important for **improving knowledge about changes** in its relative size, disposition and vulnerabilities.

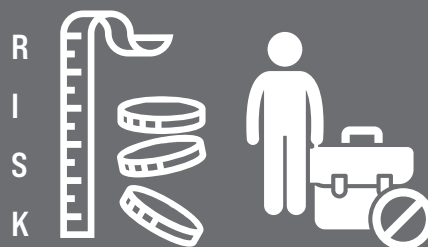


The Arab region can enhance **economic growth** through **human capital accumulation** and **employment gains** via a protected middle class.



As the **middle class** can act as a **key pillar of social stability**, it is necessary to restore this role through **new development policies** to mitigate **associated risks of downward social mobility**.

The lower middle class faces **heightened vulnerabilities** compared with other social classes due to **increased risks of informal employment**.



For the past several years, **poverty** has been an unrelenting problem for the lower middle class. **Immediate intervention is required to prevent further deterioration** in their standards of living.



Leaving a considerable share of the middle class **without social insurance** adds to **social instability** by driving more lower middle-class members into lower classes.

Middle-class households are major consumers and vulnerable to adverse **fiscal or inflationary pressures**.

Effective fiscal policy choices are needed to reduce poverty and vulnerability.



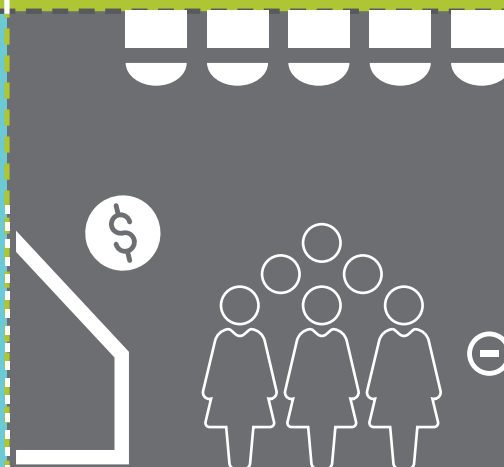
Without effective **fiscal reforms**, direct transfers fail to act as a **safety net** for the lower middle and working class amid **regressive indirect taxes**.



Amid a fast-paced labour market associated with automation waves, there is a **growing urgency to bridge the skills gap** between traditional middle-class jobs and the ones that will be required in the future.

**Labour market disruptions** caused by the fourth industrial revolution will disproportionately **affect women**, and this highlights the need to implement **proper legislative measures**.

**Conflict impedes socioeconomic leverage**, resulting in further **pauperization** among the middle class.



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# List of abbreviations and acronyms

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<b>AI</b>	artificial intelligence
<b>CAPMAS</b>	Central Agency for Public Mobilization and Statistics
<b>EGP</b>	Erikson-Goldthorpe-Portocarero
<b>ESCWA</b>	Economic and Social Commission for Western Asia
<b>FAO</b>	Food and Agriculture Organization
<b>GCC</b>	Gulf Cooperation Council
<b>GDP</b>	gross domestic product
<b>GED</b>	Georeferenced Event Dataset
<b>GRID</b>	Global Report on Internal Displacement
<b>HIECS</b>	Household Income, Expenditure and Consumption Surveys
<b>HIES</b>	Household Income and Expenditure Survey
<b>HRP</b>	Humanitarian Response Plan
<b>ICLS</b>	International Conference of Labour Statisticians
<b>ICSE</b>	International Classification of Status in Employment
<b>IDMC</b>	Internal Displacement Monitoring Centre
<b>ILO</b>	International Labour Organization
<b>IMF</b>	International Monetary Fund
<b>ISCO</b>	International Standard Classification of Occupations
<b>LFS</b>	labour force survey
<b>LMIL</b>	lower middle income line
<b>LMPS</b>	Labour Market Panel Survey
<b>MSME</b>	micro-, small and medium-sized enterprises
<b>NPL</b>	national poverty line
<b>NRC</b>	Norwegian Refugee Council
<b>OCHA</b>	United Nations Office for the Coordination of Humanitarian Affairs
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PCBS</b>	Palestinian Central Bureau of Statistics
<b>UCDP</b>	Uppsala Conflict Data Program
<b>UMIL</b>	upper middle income line
<b>UNDP</b>	United Nations Development Programme
<b>UNICEF</b>	United Nations Children's Fund
<b>UPL</b>	upper poverty line

# Introduction

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*"The future of the middle class depends on building an inclusive and sustainable economy that provides decent work and economic opportunities for all, regardless of gender, race, or social status."*

António Guterres<sup>162</sup>

Over the past few decades, concerns have escalated about the fate and fortune of the middle class worldwide. The first industrial revolution gave rise to a prosperous wage-earning middle class that drove aggregate demand through higher consumption, acted a social buffer between the working class and the extremely rich, and maintained a level of political stability. This middle-class euphoria did not last long as simultaneous economic and political shocks hit the world with austerity pushing millions out of the middle class, and swelling the ranks of the poor and working class. The Internet and digital revolution have placed routine and manual workers and those without a university degree in a highly precarious situation given underlying trends in job polarization and the subsequent labour market turnaround. More recently, the impact of the COVID-19 pandemic and the war in Ukraine gave rise to inequalities in disposable income which has put a brake on long-term economic growth. Food and energy prices surged to near historic highs in recent years amid the pandemic and the war in Ukraine, which prompted major supply disruptions causing sharp rises in commodity prices. While wage levels remain rigid to price changes, the middle class can barely cover their non-food expenses allocating the bulk of their incomes to meet their basic food needs.

Interest in the middle class within the Arab region gained more momentum following the Arab uprisings of 2011, with some studies highlighting the leading role of the middle class in protest events in several countries, and in forming coalitions with the poor to drive political change.<sup>1</sup> The middle class, and to some extent members of the working classes, were mobilized for mass protests, demanding dignity, better employment opportunities, more equitable distribution of resources, end to corruption, and more democratic governance. The Arab middle class, which was once a symbol of social and economic stability, found itself grappling with overlapping shocks impeding its ability to sustain a decent standard of living. This has led to a sharp erosion in the fortune of the middle class which has exacerbated existing inequalities in the Arab region, one of the most unequal regions in the world. Among the factors causing the shrinking of the middle class are the cost-of-living crisis, conflict, political turmoil, poor governance, privatization of education and health-care services, precarious employment, weak social protection and pension systems, and low labour productivity. Informal and insecure employment is rising. There has been a rapid growth of non-standard forms of employment, further exacerbated by the growth of temporary work and part-time work. Increasing precariousness of labour markets through irregular work, informal employment and the slowdown of public-sector employment have reduced access to social insurance coverage. The latter escalations can be alarming in the region given that social protection systems are still in the early stages of their development.

Despite its importance and the rising upheavals threatening its existence, the middle class is little understood and has not been thoroughly studied. The debate on the shrinking middle class revolves around a crucial matter of how to determine its size. The definition of middle class cannot be precisely determined by theory, except for the arbitrary notion that it constitutes the middle of the income

distribution.<sup>2</sup> However, the decline in the size of the middle class may indicate income ‘polarization’ and not necessarily shrinking or ‘missing’ class. Ultimately, the particular definition used will depend on the questions one is attempting to answer. Despite this inherent arbitrariness, it is still important to define and measure the middle class.

**This report contains nine chapters built on a working paper series on the middle class:<sup>3</sup>**

■ **Chapter 01** builds on previous research on social class to propose a harmonized way to conceptualize and measure the middle class in Arab countries. The proposed class identification scheme identifies three main classes (owning, middle and working) based mainly on employment status, occupation and firm size.

■ **Chapter 02** examines the relative size and characteristics of the middle class in six Arab countries – Egypt, Jordan, Kuwait, Lebanon, the State of Palestine, and Tunisia – using household survey data. The chapter provides evidence of a contracting middle class while analysing key factors contributing to its erosion. It also acts as a descriptive portrait reflecting prominent features of the Arab middle class.

■ **Chapter 03** investigates to what extent the middle class is vulnerable to falling into poverty with a short brief about the profile of the poor middle class. The chapter looks into the diverse culprits contributing to poverty and vulnerability among the middle class while highlighting major gaps feeding widening inequalities.

■ **Chapter 04** addresses the informal middle class also known as the missing middle.

It attempts to unravel how informality among the middle class remains a pervasive and pressing conundrum in the Arab region. It also examines which middle-class groups are dealing most with the ramifications of informality highlighting employment and pay gender disparities.

■ **Chapter 05** looks into the middle-class access to contributory and non-contributory social protection schemes in the Arab region. It highlights social protection deprivation among the middle class and their high propensity to be informally employed while stressing stark disparities among the lower and upper middle class. The chapter also addresses the erosion in social insurance coverage for middle-class workers and draws exposure implications to the socioeconomic impact of life-cycle risks.

■ **Chapter 06** sets the context of fiscal policy for improving equity at macro level while it zooms in on household level information of Egypt to assess the effectiveness of fiscal policy choices on reducing poverty and vulnerability of the middle class. The chapter reveals interesting findings about the importance of public transfers in reducing poverty among the middle class and the reverse impact of increasing indirect taxes on poverty reduction as the middle class is considered to consist of major consumers.

**Chapter 07** investigates the skills among middle-class occupations in the Arab region using labour force surveys (LFSs) in Egypt, Jordan, Kuwait, the State of Palestine and Tunisia. This chapter identifies several trends in accumulated skills among the Arabic middle class. It also discusses how likely middle-class occupations are inclined to automation by comparing the demanded skills to existing artificial intelligence patents. Decompositions by industry and gender are conducted to further enrich the discussion.

**Chapter 08** analyses the impact of conflict on the middle class. It breaks down conflict into three phases and examines how each phase affects the middle class in a particular way. Conflict ramifications in each of these phases are studied from the perspectives of well-being, coping strategy and governance (namely access to essential services).

**Chapter 09** concludes by providing a set of evidence-based policy recommendations.



# Conceptualizing and measuring the middle class



# 01





It is widely believed that a large and secure middle class is beneficial to countries for the following reasons: reducing inequalities and polarization, improving savings and the accumulation of human capital, and fostering the emergence of entrepreneurs, which can boost productivity, promote innovation and increase employment opportunities. Entrepreneurs, especially those active in the new high technology economy, typically come from the middle class. Furthermore, middle-class values, such as tolerance and the importance of working hard, are believed to foster political stability and support democracy.

Many members of the middle class are not in formal employment; they thereby often lack many legal protections and enjoy only limited access to finance or pension coverage, making them particularly vulnerable to economic shocks. At the same time, innovative technology and the drive for automation have eliminated many

jobs traditionally held by skilled professionals. New social, labour, economic, and tax policies to promote formalization within the labour market are needed to strengthen legal and social protections, not only for the very poor, but also for members of the middle class employed in the private sector. It is therefore critical to identify mechanisms that Governments can adopt to maintain stability, protect the middle class and bolster its resilience to socioeconomic shocks.

Although there are policy concerns with regard to the future of the middle class, there is little agreement on who should be considered members of that class. Typically, middle-class boundaries are identified in terms of distance from median income or from the poverty threshold, or in terms of people's positions and occupations within the labour market. In this chapter, the author builds on previous research to propose a harmonized methodology for the identification of middle-class boundaries.

## A. Conceptual background -----

Broadly speaking, a social class refers to a group of people living under similar socioeconomic conditions. Those conditions are, however, defined and conceptualized differently across disciplines, and the indicators used to measure those conditions also differ. Economists tend to use household income as an indicator with which to measure those conditions, and identify the middle class as a middle-income group or "middle income class"<sup>4</sup>. Other social scientists make use of occupation and position in the labour market,<sup>5</sup> assets, or social and cultural capital<sup>6</sup> to measure the middle class. Subjective class identification has also been used, but less frequently.<sup>7</sup>

Although any definition of the middle class is arbitrary, it is important to outline its parameters precisely in order to formulate and assess appropriate policies.<sup>8</sup> Ultimately, the particular

definition used will depend on the questions one is attempting to answer.

### 1. The middle class as income group -----

Economists tend to view the middle class as a middle-income group, and it is therefore measured within some interval of income, expenditure or purchasing power distribution or as a multiplier of the poverty rate. Although some researchers are reluctant to use the term "class" when using income as the sole indicator,<sup>9</sup> the focus is almost always on households falling in the middle of the income distribution. The proportion of households falling into an interval around median income indicates the size of the middle class.



In this tradition, households are typically categorized as poor, middle-class or rich.

Income-based measures of the middle class vary widely owing to a lack of consensus on the size of the interval that should be used to capture the middle of the income distribution or its range.<sup>10</sup> One common approach is to use distance from per capita median income or expenditure,<sup>11</sup> defining the interval as 75 per cent to 125 per cent of the median.<sup>12</sup> Others use an interval of 50 per cent to 150 per cent of the median, and some increase the upper bound to 200 per cent or more.<sup>13</sup> More recently, OECD, using data from 18 countries, defined the middle class by the interval 70 per cent to 200 per cent of national median income.<sup>14</sup> Those median-based measures are all proxy indicators for income inequality. The middle class can, moreover, shrink or expand due to the expansion or contraction of the lower income or the upper income classes.

A closely related, relative approach is to focus on income distribution, and assign households falling within the middle quintiles to the middle class. For some, the middle class encompasses households that fall into the second, third and fourth quintiles,<sup>15</sup> which account for 60 per cent of the population, while others view the middle class as those households that fall into the third and fourth quintiles.<sup>16</sup> Any proportion of households falling in the middle of the income distribution curve can be used.<sup>17</sup> It should be pointed out, however, that using a relative approach may yield inconsistent findings, placing some households identified as middle class under the absolute international poverty line.<sup>18</sup>

Such inconsistent findings have led some analysts to construct the boundaries of the middle class either as a multiplier of the official poverty line or in terms of an absolute purchasing power threshold. Distance from the official poverty line has been used for the United States<sup>19</sup> among other contexts.<sup>20</sup> Although intuitive, the multiplier used as an indicator of middle-class status is arbitrary and ranges from 1.5 to 10 times the

poverty line, which acknowledges that those with incomes near the poverty line are vulnerable to poverty and, therefore, cannot be considered part of the middle class.<sup>21</sup>

A different but related perspective on the middle class is based on the concept of assets instead of income-based measures.<sup>22</sup> Piketty defines the middle class only in terms of wealth, defining this class as those with assets between the top 10 per cent and the median.<sup>23</sup> Household assets measured by the wealth index or similar indicators of durable goods can be a good proxy for welfare, and the members of the middle class own certain assets that the poor cannot afford.

Previous research has shown, however, that income-based or asset-based measures do not provide for the meaningful identification of the middle class in middle-income countries,<sup>24</sup> and may not reflect their actual living conditions. Using data from a number of European countries, Atkinson and Brandolini found considerable overlap among income-based measures and socioeconomic indicators, such as occupation and education, but they also found that income misclassifies a sizeable proportion of the middle class.<sup>25</sup> Indeed, per their research, 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. The authors therefore called for a different conceptualization of the middle class based on social indicators or hybrid measures indicating both social status and income levels.

## 2. The middle class as social class

There is no standard definition of the term “social class”. One widely accepted definition in the social sciences refers to social classes as “groups among which unequal distribution of economic goods and/or preferential division of political prerogatives and/or discriminatory differentiation

of cultural values result from economic exploitation or political oppression”.<sup>26</sup>

Social class as an analytic concept emerged in the nineteenth century during the first industrial revolution and the development of capitalist societies in Europe. Much of the debate on the concept and measurement of social class can be traced to the writings of two nineteenth century thinkers, namely Karl Marx and Max Weber.

Marx advanced an essentially dichotomous view of social classes, originating from the economic structure of capitalist societies. According to Marx, a person’s location in the production process, namely the means of production, determines his or her class position. Those who own the means of production are the bourgeois class and those who do not are the working class. The bourgeois retain their economic power by preserving existing class arrangements and blocking attempts at class mobility.

This rather deterministic and dichotomous view of class was widely disputed. Max Weber was among those who criticized Marx’s dichotomous

concept of class and the primacy of economic exploitation and ownership of property and the means of production to define it. He argued that those in different classes have similar life chances, which are shaped by many factors, such as position in the market, status and skills. Thus, social classes are many and can be defined by common individual characteristics rather than by considering whether they are the victims or perpetrators of exploitation.

Much contemporary research on social class builds on Weber’s view of class as shared individual characteristics, with a particular focus on market relations. One exception is the work of Pierre Bourdieu,<sup>27</sup> which attempts to tackle class formation in an innovative way, linking Marxist and Weberian perspectives and highlighting the role of “cultural capital” in reproducing the class structure. According to Bourdieu, rather than being a vehicle for social mobility, the educational system in particular privileges middle and upper middle-class students to stay in school and attain credentials to become part of these classes themselves.

## **B. Measuring social class** -----

### **1. The Erikson-Goldthorpe-Portocarero class identification scheme**

One of the most widely used class identification models is the so-called Erikson-Goldthorpe-Portocarero (EGP) class scheme, developed by John Goldthorpe and his associates.<sup>28</sup> That scheme has been endorsed by the European Union<sup>29</sup> and is used by the United Kingdom Office of National Statistics<sup>30</sup> and the statistical offices of other European countries<sup>31</sup> for social class categorization.

The scheme has proven to be useful in predicting various outcomes, including health inequalities, educational achievement and earnings.<sup>32</sup>

Based on employment relations, the EGP scheme divides individuals into three positions in the labour market, namely, employer, own-account worker and employee. Since class is essentially a relational concept, those positions, rather than individual occupants of the positions, play a major role in differentiating classes. The positions of employer and own-account worker are clearly defined in the labour market. However, this is not the case for employees, who have diverse and

qualitatively different employment relationships with employers. Those relationships can best be captured by the type of contract they have with their employers.<sup>33</sup> Those contracts can be “service” contracts, “labour” contracts, or a combination of both. Those types of contractual arrangements refer to different systems of authority and control within the workplace.

The EGP scheme consists of 11 classes, which can be collapsed into a smaller number of classes depending on the application in question. Most commonly, the 11 are collapsed into either 7, 5 or 3 classes. For example, the self-employed can be combined with small employers and farmers, and the two professional classes can be combined into one. This scheme can be drawn up using only three indicators, namely occupation, employment status and firm size.

## 2. Other class schemes

The second most commonly used scheme is that of Erik Wright.<sup>34</sup> That class categorization system draws on the Marxist theory, and is based on the concept of exploitation and a person’s distance from assets or the means of production. Three factors are required to operationalize the class boundaries, namely assets, authority and expertise. The operationalization of the scheme

requires detailed questions on those three dimensions, in addition to questions relating to occupation, employment status and firm size, and cannot therefore be easily established using data obtained through standard LFSs.

There have been other attempts to operationalize classes so as to more accurately reflect the structure of post-industrial societies, including by Gosta Esping-Andersen,<sup>35</sup> but the schemes have not been thoroughly validated.

## 3. Self-identification

An alternative approach is the direct self-assessment of class position. Rather than relying on proxy objective criteria to identify an individual’s class, this approach relies on people’s subjective evaluation of their class location. The self-assessment approach is usually adopted in public opinion surveys. Although there are different formulations, most self-assessment surveys offer three class categories, namely lower class, middle class and upper class. Data obtained in developed countries on self-perception of class indicate that most people locate themselves in the middle-class category.<sup>36</sup> Interestingly, there is a strong association between subjective class assignment and objective metrics such as household income.<sup>37</sup>

# C. Proposed framework for measuring social class

Social class identification will be mainly based on one’s position in the labour market. In a market economy, position in the labour market is a major determinant of life chances for individuals and families, and how those positions are distributed is a marker of structural inequalities. The most commonly used indicator of position in the labour market is occupation. Although occupational

scales have been used to capture social stratification, a categorical approach is preferable because it reflects the relational and distributive dimension of stratification.

The proposed class identification scheme builds on the EGP class scheme, with some important modifications made in order to distinguish the

three main classes while taking into account the regional context. The EGP scheme is widely used, validated and accepted internationally,<sup>38</sup> but it has major limitations such as the lack of an upper or owning class. Unlike EGP-based schemes, the proposed scheme uses information on the relative income (and/or wealth if available) of employers or the self-employed to identify upper-class boundaries. Three main variables are used to measure social class: occupation, employment status and establishment size.

## 1. Key variables

### a. Occupation

Coded at the minor groups level of the 1988 (ISCO-88) or 2008 (ISCO-08) edition of the International Standard Classification of Occupations (ISCO), occupations are classified into a hierarchical structure based on the similarity of jobs in terms of the tasks and duties of the work performed and the skill levels required.

Unfortunately, there is no one-to-one mapping of ISCO-88 and ISCO-08. Almost all of the LFSs used in this report follow the 2008 version. To minimize the potential loss of information and distortions from the reverse conversion of ISCO-88 to ISCO-08, we choose the best possible occupation alternative based on the ISCO-88–ISCO-08 conversion table developed by the International Labour Organization (ILO).

Some countries do not provide occupational data in household surveys at the four-digit level owing to confidentiality rules or other reasons. Here, we use data with at least three-digit ISCO occupational classification.

### b. Status in employment

The International Classification of Status in Employment (ICSE) refers to the type of contract an employed person has with other persons or organizations and comprises the following five main categories (1993 version): employer, self-employed, employee, contributing family member, and member of cooperative. Most LFSs include the first four categories; here, only the first three categories are used.

This variable captures the market situation of workers, namely the power and/or authority relationship between labour and capital.<sup>39</sup>

### c. Firm size

This variable captures the number of employees in the workplace and is used mainly to distinguish between employers in large and small firms. Distinguishing between large and small business enterprises is somewhat arbitrary and depends to a large extent on the nature of the economy in question. Following an exploratory analysis of data on establishment size from several countries, we have decided to use a cut-off of 10 employees to distinguish between large and small business establishments.

## 2. Control variables

Additional variables may be used to control for potential inconsistencies in class assignment. Some, but not all, inconsistencies may be due to measurement errors. For example, a self-employed worker performing semi-skilled work can be categorized as a member of either the middle or the lower class. The following two additional variables may be used to resolve inconsistencies or ambiguous class location. We rely primarily on income/earnings indicators as well as on a wealth index, calculated mainly on the basis of housing conditions, in cases where income data are missing.

### 3. Class identification

As illustrated in table 1, the proposed class scheme encompasses nine distinct (detailed) classes, which are grouped into three broader, overarching classes, namely the owning (upper) class, the middle class and the working class. The middle-class group is further divided into the upper middle class (detailed class 2) and the lower middle class (detailed classes 3 to 6).

A description of the constituents of each class follows.

### 4. Owning class

#### Large business employers; high-grade managers and legislators; high-income self-employed

The owning class includes both employers and employees in large business enterprises as well as self-employed individuals with very high income. With regard to employees, only

high-level managers and those with high-level executive and legislative authority are included in the upper class. Thus, the upper class is not confined to the so-called “capitalist class” here, as it is assumed that those who hold power and authority at the national level are as influential as capitalists.

High-level managers include those in positions characterized by a service relationship with their employers and who exercise high-level executive, planning and supervisory duties within business enterprises.

### 5. Middle class

The middle class encompasses those in a wide range of occupations and positions, who can be grouped into five major groups, namely, higher-grade professionals and administrators; lower-grade professionals; routine non-manual workers; the self-employed and small business employers; and sales and other low-level service workers. Those groups can be reduced further into upper and lower middle classes.

**Table 1.** Social class and labour market relations

Class	Detailed class	Contractual relationship
Owning class	Large business employers; high-grade managers and legislators; high-income self-employed	Service
Middle class	Higher-grade professionals and administrators	Service
	Lower-grade professionals	Service
	Routine non-manual and clerical workers	Both
	Self-employed; small business employers	None
	Sales and other low-level service workers	Labour
Working class	Blue-collar technicians	Both
	Skilled technical workers	Labour
	Non-skilled routine workers	Labour

Source: Author elaboration.

### a. Higher-grade professionals and administrators

This group is distinguished from lower-grade professionals by their work situation, as they enjoy greater autonomy and control over their work than the latter group. It includes those with service contractual relations, implying some autonomy but not necessarily executive power. All managers and heads of departments without executive power are included here. Also included are the self-employed and small business employers in those occupations.

### b. Lower-grade professionals

This group includes employees who have a service contractual relationship with their employers. Those workers usually work under the control and supervision of those higher in the professional hierarchy, and hence have less autonomy and authority than their higher-grade professional counterparts. All professionals in this category who are in self-employment are included in the low-grade professionals.

Occupations with supervisory functions in organizations and white-collar technicians are also included in this category.

### c. Routine non-manual and clerical workers

This group includes clerical-type and technical occupations with no supervisory or planning role. Employees in these occupations can have either service or labour contracts with some degree of autonomy in performing the tasks assigned to them. Clerks in bureaucratic organizations and electrical and computer technicians are included here. This group also includes those working in sales and service occupations with no supervisory authority.

### d. Self-employed; small business employers

Employers in non-professional occupations employing fewer than 10 persons and the self-employed are included in this category. Individuals in this group tend to be less economically secure than their professional counterparts and cannot access many of the benefits that the latter group enjoy. In terms of employment relations, those in this category working for small business enterprises usually work closely together, although their employers tend to exercise control over all management functions.

The self-employed in this category are involved in non-professional occupations such as trade and services, and work with no other workers.

### e. Sales and other low-level service workers

This group includes those in routine sales and service occupations with labour contractual relationships with their employers. Employees in this class often have some autonomy in decision-making and work performance. Typical occupations in this group include retail workers, shop assistants and semi-routine clerical workers.

## 6. Working class

### a. Blue-collar technicians

Employees in this group have specific skills, and their employment is regulated by a mixed form of service and labour contracts. Employees in this group may enjoy some autonomy in the performance of their duties, especially those occupying lower supervisory roles. Typical occupations in this category include telephone installers and precision instrument makers.



## b. Skilled technical workers

Members of this group are employed under labour contractual arrangements with their employers. A certain degree of monitoring takes place as the occupations in this group require specific skills, and employees must regularly update their skills in their area of work. Employees in this group are tightly controlled by their employers and enjoy no autonomy in their work. Plumbers and tool makers are examples of those included here.

## c. Non-skilled routine workers

Employees in this group are employed under labour contracts and are under the total control of their employers. They can be replaced easily without any loss of productivity to the business establishment, and the quality of their work is always directly monitored. This category includes low-skilled occupations such as cleaners and drivers.

## 7. Unit of analysis

Although labour force household surveys collect information at the individual level for all adults, class composition usually has been determined for households, and all those living together in the same household are assigned the same class position. This is primarily because of the economic interdependence of family members. The family household is the basic decision-making unit in terms of labour market participation and consumption, and this implies that household members have the same class “fate.”<sup>40</sup>

This poses a practical problem: assigning a household a single class position. A simple solution would be to assign the class position of the head of household. However, the head of household in Arab societies may not necessarily be the individual with the highest-class position in the household. Indeed, household headship

is often acquired by an individual due to age or gender considerations, and assigning the class position of the head of household may therefore result in an inaccurate assignment of class to the household. To address that challenge, Martin derived a household reference person empirically with a view to ascribing a household class position by considering the individuals in the household with the highest occupational status, earnings or income.<sup>41</sup> Here, we follow a similar strategy of assigning class at the household level on the basis of the highest occupational position or class achieved by its members. It should be mentioned that in our samples, most households are nuclear households and have one adult in the labour market, so class assignment is straightforward.

## 8. Data sources

Detailed occupational data with at least three-digit ISCO codes are often made available through household surveys and population and housing censuses. Recent micro-level data files from censuses in the region are not readily available, but relevant data are often made available through LFSs or through household income and expenditure surveys (HIES). The latter have the advantage of containing household income and/or expenditure that can be used to analyse the living conditions of the middle class. As illustrated in table 2, however, the sample sizes used in HIESs are typically smaller than those used in LFSs, and may not provide the detailed occupational codes required. Furthermore, LFSs are conducted more frequently, and their data are made available on a yearly basis in some countries in the region, including Egypt, Jordan, Kuwait, Lebanon, the State of Palestine, and Tunisia. We therefore use data made available through LFSs to measure the size and characteristics of the middle class, but also use HIESs in order to examine the living conditions of the middle class in certain countries.

Tables 2 and 3 provide an overview of the household surveys used to measure social class in the region. Data for three countries, namely Egypt, Jordan and the State of Palestine, are available for two time points, with either nine

or twelve years elapsing between the first and second surveys. As shown in table 3, HIESs with the requisite variables are smaller in size and available for only three countries, namely Egypt, Jordan and the State of Palestine.

**Table 2.** Characteristics of the household labour force surveys used in the assessment of social class

Country	Year	Household sample size	Sample size roster	ISCO digits	Employment status	Firm size	Wealth/income	Notes
State of Palestine	2010	15 612	94 303	3	Y	Y	N	
State of Palestine	2019	14 469	77 503	6	Y	Y	Y	
Jordan	2004	14 173	78 731	3	Y	N	Y	
Jordan	2016	7 229	33 450	4	Y	Y	Y	Panel, compared with 2010
Egypt	2006	8 370	37 140	3	Y	Y	Y	Panel, compared with 1988 and 1998
Egypt	2018	15 746	61 231	6	Y	Y	Y	Panel, compared with 1988, 1998, 2006, and 2012
Tunisia	2014	4 521	16 430	5	Y	Y	Y	Panel, only 2014
Kuwait	2016	4 869	48 029	4	Y	Y	Y	
Lebanon	2019	39 116	149 263	3	Y	Y	Y	

**Source:** Data files provided by national statistical offices.

**Table 3.** Characteristics of the household income and expenditure surveys used in the assessment of social class

Country	Year	Household sample size	Sample size roster	ISCO digits	Employment status	Firm size	Wealth/income	Notes
State of Palestine	2016/17	3 739	20 185	6	Y	N	Y	
Jordan	2013	4 850	25 845	3	Y	N	Y	
Egypt	2017/18	12 485	52 928	1	Y	N	Y	

**Source:** Data files provided by national statistical offices.



Even when using comparable occupational codes, certain limitations impede the application of the scheme across countries. Occupational titles across countries differ in importance and use, creating difficulties in mapping occupations onto social classes. Another challenge is posed by a lack of standardized income or wealth variables across surveys and countries that can be used to place employers and the self-employed into either detailed class 1 or detailed class 2. Some LFSs provide no or only limited data on earnings from self-employment, and we are therefore compelled to use wealth and income variables interchangeably to determine which social class employers and the self-employed should be assigned to. Firm size has also been used when classifying employers into classes. In most surveys, firm size is introduced as a categorical variable with predefined categories. It is therefore challenging to establish precise cut-offs or threshold values to distinguish between large business employers and small business employers.

## 9. Out of the labour force

Occupational and related data are not available in household surveys for those outside the labour market, including those who have never worked and the long-term unemployed. This group represents a relatively large proportion of the population, and their characteristics differ from those of households that include members in the labour force. Therefore, we opted to assign them to a class based on models or matching techniques using relevant variables such as education, income, assets, and housing conditions.

Various models were considered in assigning classes to those households, and two methods were chosen. The first is the nearest neighbour interpolation technique and involves sorting households based on the primary sampling unit and filling in missing class information from a donor cell that has similar characteristics. When class is missing, the imputed class entries use the value of the previous non-missing class cell

or the next non-missing class cell depending on which value is nearer in terms of the covariates chosen.<sup>42</sup> The imputed class variable retains the original data structure and distribution of the class variable before imputation.<sup>43</sup> Furthermore, missing values are interpolated using the nearest neighbour, with the wealth index as the main covariate for imputation.

The wealth index has the highest correlation with our pre-constructed household class variable as compared with other indicators. Those covariates were initially selected based on findings from previous studies showing associations with social class distribution.<sup>44</sup> The wealth index was chosen because it most accurately predicts a household's class and is primarily calculated based on housing conditions and asset ownership, which the middle class can afford but the working class cannot. In addition, it is widely used in the literature as a proxy for social class when data on housing conditions and assets are available.<sup>45</sup>

However, not all data sets contain data on housing conditions needed to construct a wealth index. In such cases, the iterative hot deck imputation is used. That method follows the nearest neighbour criteria after sorting by primary sampling unit, governorate and/or residence area. It is assumed that households within a particular sampling unit share a similar standard of living.

# Portraying the middle class in Arab countries



# 02



This chapter provides a descriptive portrait of the middle class in six Arab countries, including its size and change over time. The relative size of the middle class is of particular importance to policymakers as it is linked to (a) economic growth through consumption and the potential to enhance physical and human capital, and (b) political stability and democracy. With those implications in mind, it is of policy relevance to assess changes in the size of the middle class over time, and to design policy instruments to halt its contraction.

Despite the middle class being a visible example of the adverse implications of inflation, political turmoil and economic instability in Arab countries, limited investigations have been conducted regarding the size of the middle class and the challenges it faces. Existing literature provides a scattered and diverse overview of the size and salient features of the middle class across countries, as the methodologies and conceptual frameworks adopted in these studies vary widely. ESCWA conducted a comprehensive study using an expenditure-based approach to identify the middle class in nine Arab countries.<sup>46</sup> Four class categories were used: affluent, middle class, vulnerable, and poor. This study found that Jordan, Lebanon, Tunisia, and the Syrian Arab Republic had middle-class proportions ranging from 55 per cent to 57 per cent. Yemen and Egypt had smaller middle classes, while Oman had a higher proportion of affluent individuals. Some other studies examined the middle class from a social perspective, considering factors such as labour market position, education and job authority. These studies estimated that approximately 45 per cent of the total population in the Arab region belonged to the middle class, with variations between oil-producing and non-oil-producing countries.<sup>47</sup>

In the State of Palestine, the middle class expanded due to public sector employment and the growth of non-governmental organizations, but it remains fragile due to political instability and reliance on international aid.<sup>48</sup> In Lebanon,

the middle class contracted after the civil war but later increased in size with international aid and loans.<sup>49</sup> However, recent economic challenges and the impact of the COVID-19 pandemic led to another contraction.<sup>50</sup> The Economic and Social Council of Jordan estimated the size of the Jordanian middle class at only 41 per cent during 2008;<sup>51</sup> this group consisted largely of professionals and private sector employees, particularly in telecommunications, finance and real estate, rather than public sector workers. In Morocco, the Syrian Arab Republic and Yemen, sectarianism, which can impede access to employment opportunities, has placed additional pressure on the middle class.<sup>52</sup> The middle class in Gulf Cooperation Council (GCC) countries generally have a positive outlook for their future, but there is more uncertainty regarding financial security and stability among the middle class in the United Arab Emirates and Bahrain compared with Saudi Arabia.<sup>53</sup>

Although the literature about the middle class in Arab countries remains fragmented, there is a consensus about a contracting middle class, propelled by widening inequalities and various socioeconomic challenges.<sup>54</sup> This contraction has been evident in such countries as Egypt, Lebanon, Morocco, the State of Palestine, the Syrian Arab Republic, Tunisia, and Yemen, where factors such as inflation, political shocks, sectarianism, economic instability, and a diminished ability to create decent jobs for an educated middle class have taken their toll. The Arab uprisings of 2011 further emphasized the role of the middle class in driving political change and demanding better opportunities and governance.<sup>55</sup> However, it is essential to note that the middle class is a heterogeneous social group, consisting of pro-democratic constituents as well as conservatives supportive of the regime. Given these circumstances, understanding the characteristics and dynamics of the middle class becomes crucial for policymakers to address the challenges faced by this influential group and to foster inclusive growth and stability in the region.

## A. Size of the middle class in Arab countries -----

### 1. More than half of households are classified as middle class

Our results, displayed in table 4, show that more than half of the households in Egypt, Jordan, Kuwait, Lebanon, and the State of Palestine belong to the middle class, and over one third (around 38 per cent) of the households in Tunisia are middle class. In 2019, Lebanon had the highest percentage of middle-class households among the six Arab countries, with 19.7 per cent of the sample consisting of small business owners and the self-employed. Additionally, the percentage of the owning class in Lebanon was also relatively high, at 11.3 per cent, due to a significant number of high-income self-employed individuals and employers running small and medium-sized enterprises in that country. Egypt and the State of Palestine are in second place, with a middle class amounting to some 53 per cent of households, but the two countries

differ in terms of who makes up their middle class. As shown in figure 1, Egypt has a larger lower middle class compared with the State of Palestine. About 11 per cent of households in the latter country are higher-grade professionals, and 21 per cent are lower-grade professionals compared with 7 per cent and 16 per cent, respectively, in Egypt. The Egyptian middle class includes the largest share of small business employers and low-income self-employed individuals compared with other countries, making its lower middle class relatively large.

The Tunisian class structure is more polarized than in other Arab countries. It has the largest working class, at 53 per cent, and one of the largest owning classes, at 8 per cent, and hence the smallest middle class among the six countries examined in this study. Looking deeper into the class composition shown in figure 1, it can be seen that there is a very small proportion of higher-grade and lower-grade professionals in Tunisia relative to the other countries.

**Table 4.** Social class distribution in six Arab countries (Percentage of households)

	Egypt	Jordan	Kuwait	Lebanon	State of Palestine	Tunisia
<b>Class</b>	2018	2016	2016	2019	2019	2014
<b>Owning</b>	4.9	6.5	4.2	11.3	4.2	8.2
<b>Middle</b>	52.7	51.3	51.9	58.8	52.7	38.4
<b>Upper-middle</b>	7.0	11.3	16.3	9.4	11.1	5.3
<b>Lower-middle</b>	45.7	40.0	35.6	49.4	41.6	33.2
<b>Working</b>	42.4	42.2	43.9	29.9	43.2	53.4
<b>Total no. of households</b>	13 655	6 268	8 351	34 071	12 600	3 420

**Source:** ESCWA calculations.

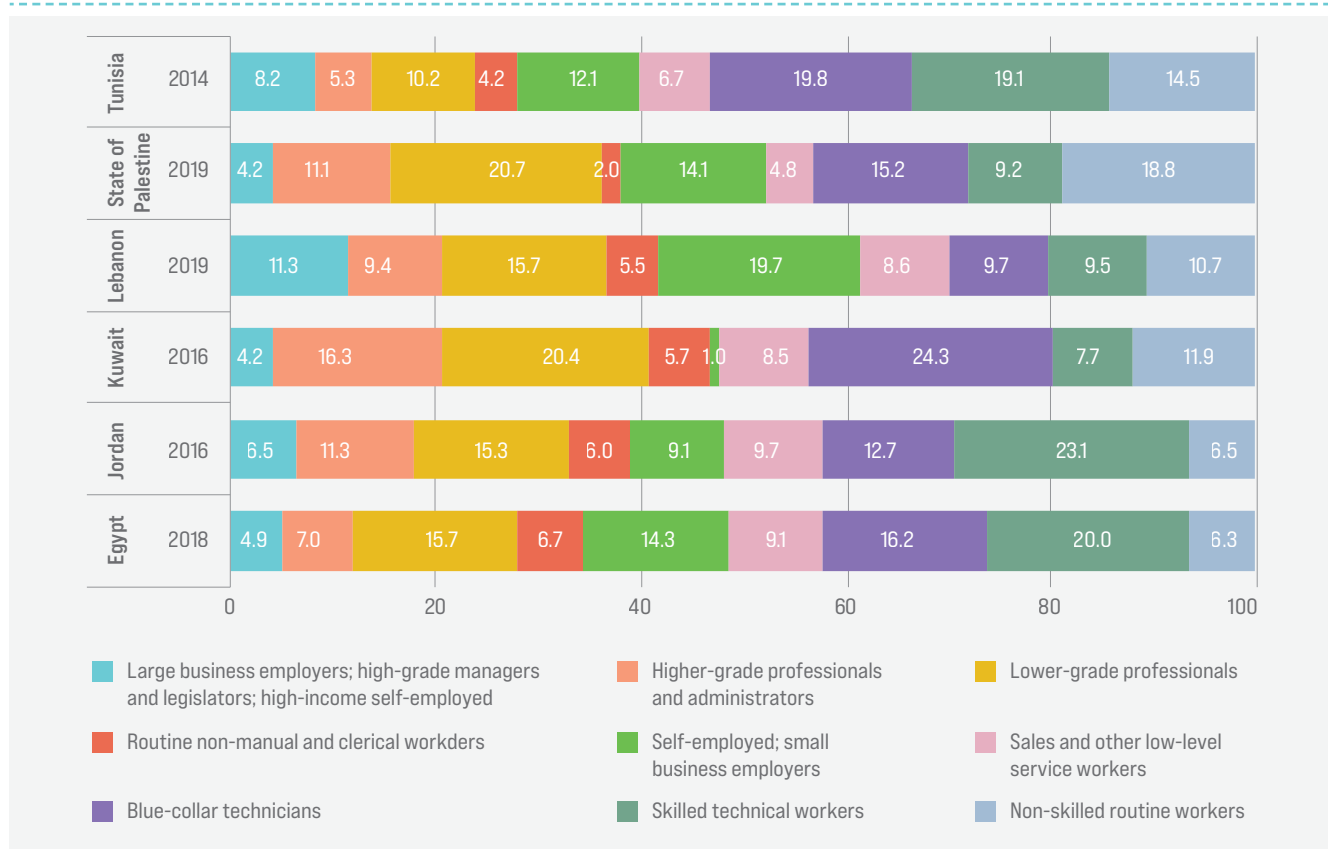
**Note:** The size of the middle class in Kuwait covers nationals and non-nationals. Non-nationals are mainly represented in collective households; hence, to be able to classify these households into social classes while reducing bias from assigning the highest class within a household, we disaggregate them into smaller households, including at maximum five members, which is the average household size for a Kuwaiti family.

Despite Tunisia's rapid economic growth, inequalities had increased since 1987, and there was a sense of injustice caused by a regime perceived to prioritize the wealthy, neglect the poor and fail to create enough jobs for the educated middle class. The middle class, particularly the young and educated, suffered from a broken social contract that deprived them of the security and benefits enjoyed by their parents, such as public sector jobs and subsidies. With limited formal job opportunities in a stagnant labour market, the middle class had no choice but to seek employment under unfavourable conditions. The dominance of non-competitive markets and strong ties between the State and large businesses hindered small and medium-sized enterprises, which were often owned by the middle class. Sectors such as telecommunications, transportation and banking were controlled by quasi-monopolies, discouraging foreign investment and creating

barriers for smaller firms.<sup>56</sup> Similar challenges existed in other Arab countries, where rising inequality and the retreat of State economic control since the 1990s undermined people's access to employment and economic prospects.<sup>57</sup>

If we look further into the class structure of Kuwait (table 5), we notice stark differences between nationals and non-nationals. Indeed, more than two thirds of Kuwaitis are either owning class or middle class, while only 48 per cent of non-Kuwaitis are middle class and 3 per cent are owning class. Nationals in GCC countries enjoy greater access to stable, relatively well-paid jobs as compared with expatriate workers, 49 per cent of whom are in blue-collar occupations. Non-Kuwaitis are overwhelmingly working class, working as technicians, non-skilled routine and blue-collar workers, while most Kuwaiti nationals work in professional jobs.

**Figure 1.** Composition of the social classes in six Arab countries (Percentage)



Source: ESCWA calculations.



**Table 5.** Social class by nationality in Kuwait, 2016 (Percentage of households)

Class	All households	Kuwaiti households	Non-Kuwaiti households
Owning	4.2	8.2	3.4
Middle	51.9	70.8	48.2
Upper-middle	16.3	22.4	15.1
Lower-middle	35.6	48.3	33.1
Working	43.9	21.08	48.45
Total No. of households	8 351	2 815	5 536

Source: ESCWA calculations.

## 2. Declining middle class

It is widely believed that the middle class in the Arab region is contracting in tandem with rising inequality and increasing political turmoil. Figure 2 illustrates that the percentage change in the Egyptian upper middle class exceeds the percentage change in the lower middle class. This signals the failure of economic and social reforms to support and sustain an educated middle class, and particularly young members of that class, by providing decent and stable employment opportunities. In fact, data confirm that the owning and middle classes are decreasing in size in Egypt while the working class accounts for an increasing share of the population. That finding adds to the growing literature on rising inequality and marginalization, vulnerability to poverty, and structural employment bottlenecks in Egypt and the region as a whole.<sup>58</sup>

The middle class in Jordan has proved to be more stable over time than the middle class in Egypt. Figure 2 shows that the upper middle class in Jordan increased very slightly in size between 2004 and 2016, while the lower middle class decreased in size by some 3 per cent. Hence, the Jordanian middle class contracted slightly during

that period (by 2.2 per cent) while the owning class grew by 4.3 per cent. The Government implemented distribution policies after the 2011 uprisings in order to address discontent among the middle class. These policies included increased subsidies and cash transfers to assist Jordanians in dealing with higher food prices, which were a result of fiscal reforms sponsored by the International Monetary Fund (IMF). Additionally, the Government raised salaries in public sector jobs to support the upper middle class in coping with inflation and unemployment between 2010 and 2016.<sup>59</sup>

In the State of Palestine, as illustrated in figure 2, the middle class decreased by 12 per cent between 2009 and 2019, with 9 per cent of those joining the working class and only about 3 per cent moving upward to join the owning class. The middle class, and especially those working for the Palestinian Authority, were the most severely affected by the repercussions of the Israeli occupation and the reluctance of Israel to release funds for the Palestinian Authority. It should, moreover, be emphasized that the financial well-being and survival of the middle class in the West Bank is heavily dependent on an effective and fully functioning Palestinian Authority.

**Figure 2.** Change in the relative size of the middle class over time in three Arab countries



**Source:** ESCWA calculations.

**Note:** The percentage change in the social classes size is calculated on the basis of data generated from surveys conducted over a time span of between 10 to 12 years. For Egypt, the comparison is made between data derived from the Egypt Labor Market Panel Survey (ELMPS) 2006 and ELMPS 2018. For Jordan, we have taken data from the 2004 employment and unemployment survey and compared those data with estimates made on the basis of data contained in the 2016 LFS, while in the State of Palestine, we have compared data derived from the 2009 and 2019 LFSs.

## **B. Salient features of the middle class -----**

### **1. Members of the upper middle class are particularly well educated**

Figure 3 illustrates educational attainment levels by social class in the six Arab countries reviewed in this chapter. Interestingly, it is the upper middle

class that exhibits the greatest number of years of education among the social classes in almost all countries. Lebanon and the State of Palestine have the highest educational attainment for the upper middle class. Figure 3 supports the widely held belief that there is an educational gradient between the various social classes.

Figure 3. Years of schooling by social class



Source: ESCWA calculations.

Note: The estimates for Kuwait are for Kuwaiti nationals only.

## 2. Upper middle class primarily employed in public administration

Figure 4 illustrates the distribution of the social classes across major economic activities. The middle class in Arab countries is concentrated, primarily, in public administration and defence, education, and trade and transportation. In Kuwait, middle-class Kuwaiti nationals hold jobs mainly in the public administration and defence. Egypt, Jordan, Lebanon, the State of Palestine, and Tunisia have fairly similar employment distributions. In these six countries, the upper middle class is predominantly employed in public administration and defence, while the lower middle class tends to find employment in trade and transportation and in education, except in Tunisia, where the lower middle class tends to find employment in the industrial and trade sectors. In all six countries, with the notable exception of Kuwait, the owning class is active in the trade sector while the working

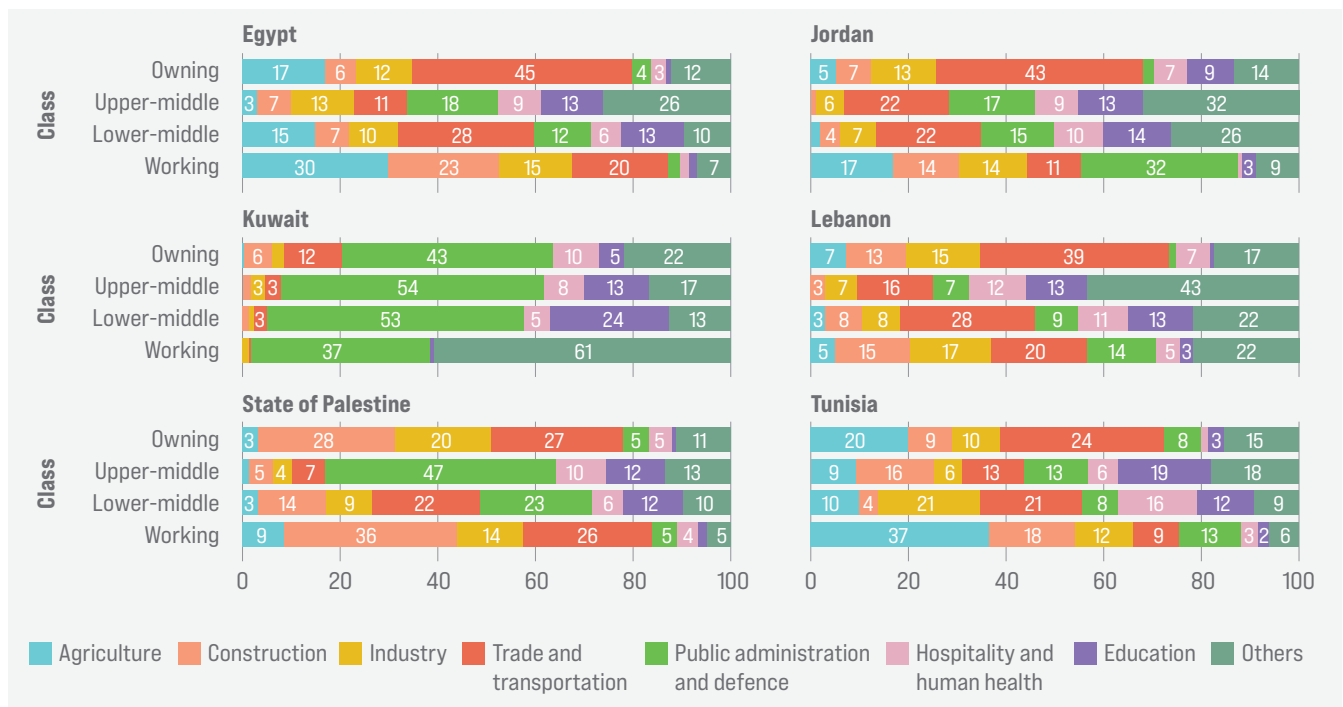
class has high participation rates in construction relative to other non-agricultural activities.

## 3. Most of the lower middle class works in small firms

Figure 5 shows the distribution of social classes by enterprise size in each of the six countries analysed. With the exception of Kuwait, large disparities are evident between the upper middle and the lower middle classes in all countries with regard to the size of the enterprise in which workers are employed. In Egypt, 53 per cent of the upper middle class work in large enterprises compared with 27 per cent of the lower middle class. Jordan and Lebanon have the same employment rate in small enterprises. More than half of the lower middle class across the region are engaged in microenterprise work. In contrast, in Kuwait, about 69 per cent of the lower middle class work in medium-sized and large enterprises, while 29 per cent work in small enterprises.



Figure 4. Social class by economic activity across the six countries (Percentage)



Source: ESCWA calculations.

Note: The estimates for Kuwait are for Kuwaiti nationals only.

Figure 5. Social class by enterprise size across the six countries (Percentage)



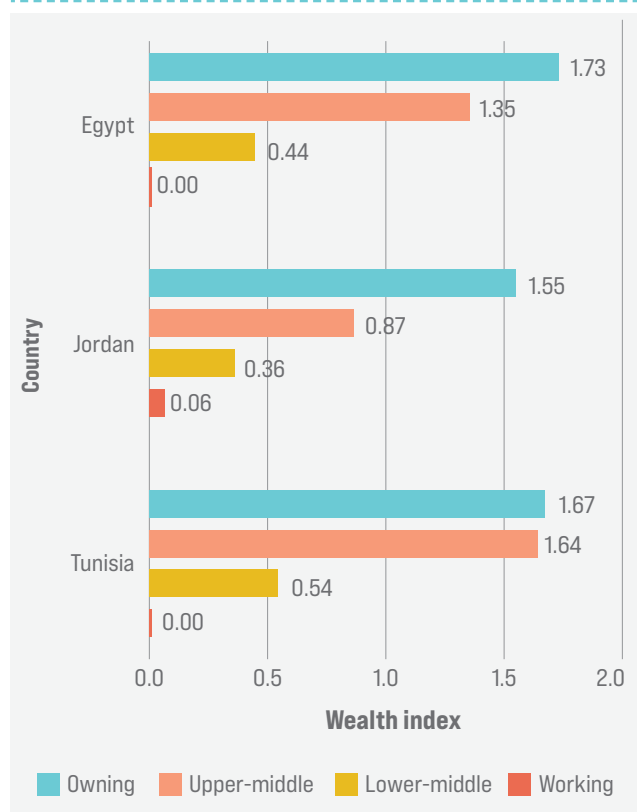
Source: ESCWA calculations.

Note: The estimates for Kuwait are for Kuwaiti nationals only. A separate category of medium-large enterprises is included for Kuwait to accommodate the design of the LFS.

## 4. A class gradient in wealth

Figure 6 reveals a clear correlation between wealth score and social class. Among the three countries examined, the owning and upper middle classes have much higher wealth scores than the lower middle and working classes. The data illustrate a strong association between social class and wealth in which the owning class is the wealthiest across all three countries and the working class seems to be the most disadvantaged in terms of wealth distribution. Interestingly, in Tunisia, the upper middle class has a wealth score almost equal to that of the owning class, while at the same time, Tunisia has the lowest working class wealth score of the three countries, signalling a high degree of polarization among classes. Another observation is that the lower middle class in Jordan is more disadvantaged in terms of wealth as compared with their counterparts in Egypt and Tunisia.

Figure 6. Distribution of wealth scores by class and country



Source: ESCWA calculations.

**Note:** The wealth score represents a composite measure of household standard of living. The score is calculated based on a factor analysis and household data that reflect ownership of assets and housing conditions, including floor material, source of heat, sanitation facilities and ownership of a car and goods such as televisions. Wealth scores have been normalized to a lower boundary of 0.



## C. Conclusion -----

Over half of the households in the six Arab countries selected (Egypt, Jordan, Kuwait, Lebanon, the State of Palestine, and Tunisia) are classified as middle class, with clear disparities in their social composition between the countries. Those households considered middle class are generally lower middle class, and include lower-grade professionals, small business employers, the low-income self-employed, and retail workers.

The middle class in Egypt, Jordan and the State of Palestine has contracted by around 12 per cent over a period of 10 years. However, the middle class in Jordan is relatively stable as compared with the other two countries. The contraction seems to reflect the fact that a considerable number of households have become working class rather than experiencing upward mobility and thus improved standards of living. A shrinking middle class across the region is partly due to the abandonment of established social contracts, a factor that also contributed to the Arab uprisings of 2011. Moreover, political unrest,

rising inflation and unemployment, and widening income and wealth disparities across the region have also contributed to the contraction of the middle class.

Overall, the findings outlined in this chapter indicate that there is still a vibrant and diverse middle class in Arab countries, characterized by high levels of educational attainment, particularly among the upper middle class. Across the region, middle-class households include members that are likely to work in public sector jobs, the trade and transportation, education, administration, and industrial sectors, or to work in microenterprises. Furthermore, the lower middle class underperforms in wealth accumulation relative to the upper middle class, thus illustrating unequal wealth distribution not only among classes but also within the middle class itself. As the middle class can act as a key pillar of social stability, it is necessary to restore this role through new development policies to mitigate associated risks of downward social mobility.



# The economic status of the middle class: the situation in Egypt, Jordan and the State of Palestine

# 03



The Arab region has been adversely affected by rising commodity prices, fluctuations in currency exchange rates and economic destruction stemming from armed conflict and the displacement of populations. At the same time, many countries have witnessed an increase in informality within the labour market and the elimination of many formal-sector jobs. The COVID-19 pandemic further exacerbated pre-existing vulnerabilities and highlighted structural deficits undermining the region's labour markets. As a result of those overlapping shocks, many Arab societies have experienced increased socioeconomic polarization. The position of the Arab middle class is increasingly precarious, and both paid employees and the self-employed within the middle class have experienced a significant erosion to their incomes and purchasing power.

The aim of this chapter is to highlight the situation of the most vulnerable segment of the middle class and identify a number of mechanisms that could be used to prevent them from falling into poverty. To identify poverty and vulnerability among the middle class, we used an expenditure-based approach and divide the population into economic groups. The chapter assesses poverty and vulnerability within the middle class in three Arab middle-income countries, namely Egypt, Jordan and the State of Palestine. Although the period of analysis for the three countries predates the COVID-19 pandemic and the fuel and food price increases stemming from the intensification of the war between the Russian Federation and Ukraine, the results obtained provide an important baseline narrative.

## **A. Identifying the poor middle class -----**

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Estimates of poverty rely on national poverty lines computed by national statistical offices, and on thresholds identified by Abu-Ismaïl and Sarangi,<sup>60</sup> distinguishing between five income groups:<sup>61</sup> the poor, the vulnerable, the lower middle-income group, the upper middle-income group, and the affluent. Those thresholds, expressed in local currency units, are based on the outcomes of household budget surveys and are projected to all years based on cost-of-living inflation rates. We relied on the multiples reached in ESCWA to assign the appropriate cut-offs used to capture the five income groups.<sup>62</sup>

Table 6 shows the national poverty lines and the proposed income group cut-offs used to capture the vulnerable, lower middle-income, upper middle-income, and affluent groups for Egypt, Jordan and the State of Palestine. Since Jordan did not report an official poverty line in 2013, we take the 2011 national poverty line for that country, calculated

using the 2011 Household Expenditure and Income Survey, and project it to 2013, using the consumer price index provided by the World Bank to account for cost-of-living changes.<sup>63</sup>

To identify the other income groups, we use country-specific poverty line multiples. For Egypt, those multiples are 1.33 for UPL/(national poverty line) NPL, 1.67 for (lower middle income line) LMIL/NPL and 2.00 for the upper middle income line (UMIL)/NPL. Given the similarities in per capita income levels and expenditure patterns between Jordan and the State of Palestine, the same poverty line multiples, provided in ESCWA on the basis of data generated in the context of the 2010 Household Expenditure and Income Survey of Jordan,<sup>64</sup> are used for the two countries: 1.5 for UPL/NPL, 2.5 for LMIL/NPL and 3.5 for UMIL/NPL.

**Table 6.** National poverty lines and poverty line multiples in local currency (Per capita per month)

Poverty lines (currency)	National poverty line (NPL)	UPL/ NPL	Upper poverty line (UPL) (vulnerability threshold)	LMIL/ NPL	Lower middle-income line (LMIL)	UMIL/ NPL	Upper middle-income line (UMIL) (affluence lower threshold)
Egypt 2018 (LE)	744	1.33	989	1.67	1242	2	1487
Jordan 2013 (JD)	78	1.5	117	2.5	195	3.5	273
State of Palestine (NIS)	494	1.5	741	2.5	1235	3.5	1729

**Source:** Authors' calculations based on poverty lines established by Central Agency for Public Mobilization and Statistics of Egypt (2018), World Bank (2011) and Palestinian Central Bureau of Statistics (2017), which each draw on data derived from the 2017/2018 Household Income, Expenditure and Consumption Survey in Egypt, the 2013 Household Expenditure and Income Survey in Jordan and the 2017 Palestine Expenditure and Consumption Survey.

## Data sources

The analysis reported here is based on microdata from household budget surveys. For Egypt, we use the 2017/2018 Household Income, Expenditure and Consumption Survey, provided by the Egyptian Central Agency for Public Mobilization and Statistics. For Jordan, we use the 2013

Household Expenditure and Income Survey, conducted by the Department of Statistics of Jordan, and for the State of Palestine, we use the 2017 Palestine Expenditure and Consumption Survey, provided by the Palestinian Central Bureau of Statistics.

## B. Substantial portion of the middle class falls into poverty

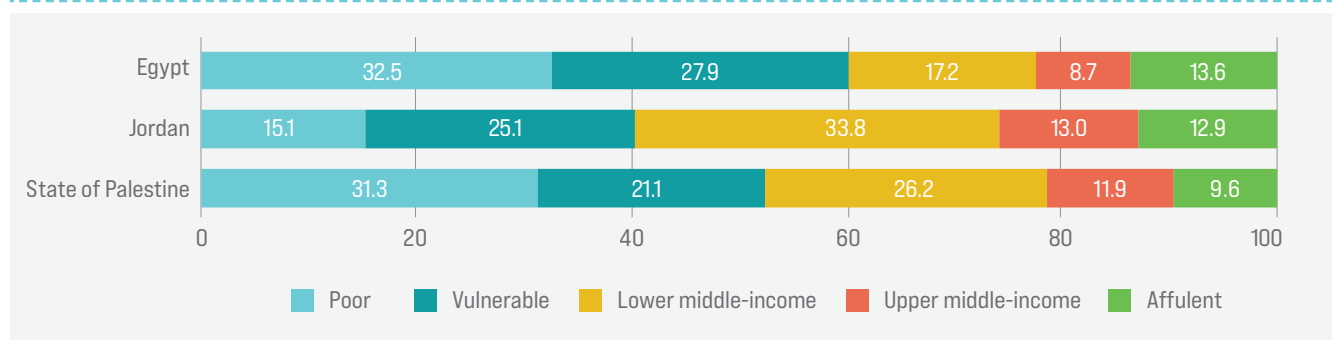
This section presents the main results of the analysis for the three countries. First, relevant thresholds are derived and compared across countries. Next, the corresponding shares of the population in poverty, vulnerability, and the lower middle-income, upper middle-income and affluent groups are evaluated. Finally, the economic and social delineations of classes are juxtaposed in order to report the incidence of poverty and vulnerability across social classes.

### 1. Highest income poverty is found in Egypt, followed by the State of Palestine and Jordan

Figure 7 shows the key results of the analysis, the economic stratification of the population in the three countries. Given that this chapter is concerned with the incidence of poverty among the middle class, particular focus is directed to poverty rates in the analysis.



**Figure 7. Income group distribution by country (Percentage)**



**Source:** ESCWA calculations, using expenditure as an income proxy. Income data taken from the 2017/2018 Household Income, Expenditure and Consumption Survey in Egypt, the 2013 Household Expenditure and Income Survey in Jordan and the 2017 Palestine Expenditure and Consumption Survey.

Egypt is characterized by the highest poverty rate of the three countries: the largest income group in Egypt is the poor, who make up 33 per cent of the population. The vulnerable population makes up the second largest group, at 28 per cent, followed by the lower middle, affluent and upper middle-income groups. In Jordan, the distribution of income groups is different. The lower middle-income group is the largest, accounting for 34 per cent of the population. Poverty affects 15 per cent of the Jordanian population, significantly less than in Egypt or the State of Palestine. Finally, in the State of Palestine, the poverty rate reached 31 per cent in 2017, making the poor the largest income group there. Hence, in all three States, the three lower-income groups, namely the poor, the vulnerable and the lower middle-income groups, comprise the highest shares of the national population, ranging from 78 per cent in Egypt to 69 per cent in the State of Palestine.

## 2. Around one third of the middle class is poor

Figure 8 illustrates the economic stratifications within each of the three social classes. It shows that the owning class is mostly affluent, with 72 per cent, 73 per cent and 53 per cent of households earning above the UMIL in Egypt,

Jordan and the State of Palestine, respectively. On the other end of the social spectrum, the highest poverty rates were found within the working class in Egypt and the State of Palestine, where 43 per cent and 38 per cent, respectively, are poor. However, in Jordan, most of the working-class population are either in the vulnerable or middle-income groups (64 per cent), and only 23 per cent are classified as poor.

Interestingly, in the case of Egypt, 29 per cent of the middle class are poor and another 29 per cent are vulnerable. In total, 58 per cent of the middle class are, therefore, vulnerable or already in poverty. By comparison, only 20 per cent and 10 per cent of the middle class in Egypt are within the lower or upper middle-income groups, respectively. The affluent share of the middle class is only 13 per cent of the population.

In Jordan, the middle class is, overall, in a stronger economic position, with only 8 per cent of the middle class living below the national poverty line. Most of the Jordanian middle class are either within the lower middle-income or vulnerable groups (37 per cent and 22 per cent, respectively). These figures underscore that, should an economic downturn occur, many members of the middle class would be at risk of being reduced to poverty.



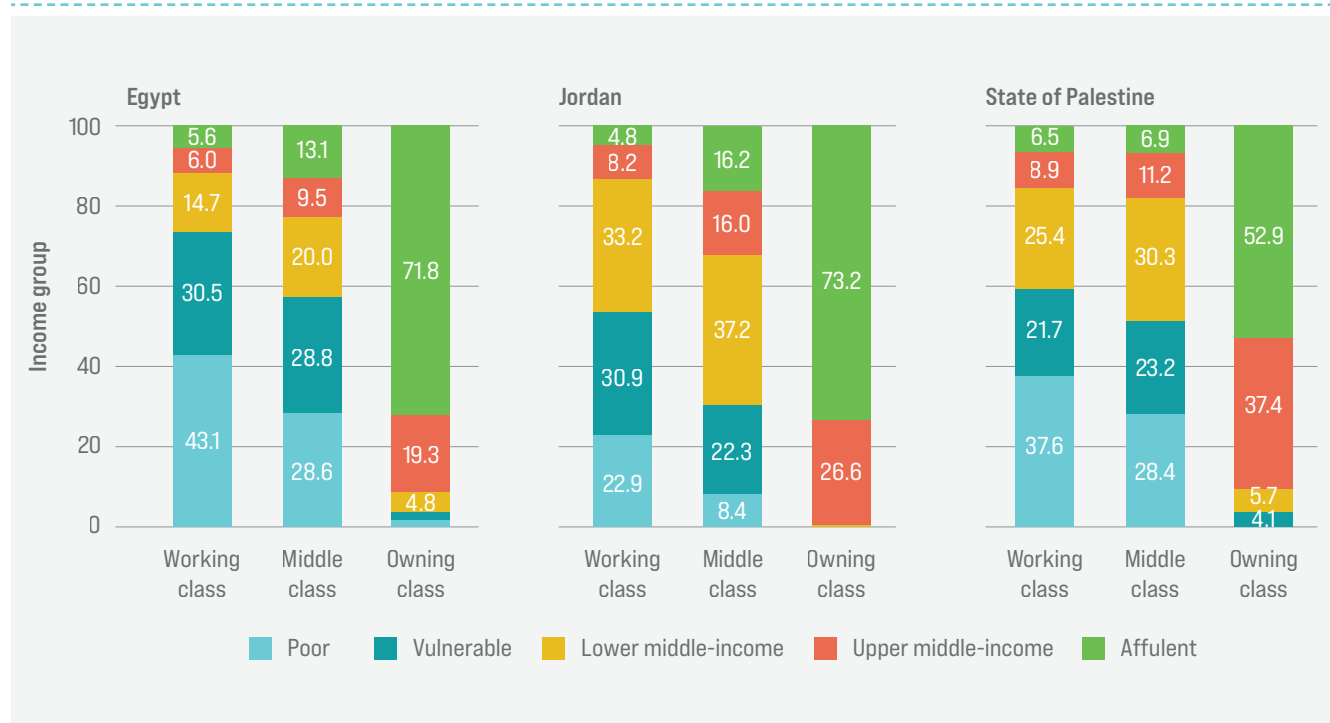
The Palestinian middle class exhibits an economic distribution midway between the distributions of Egypt and Jordan. Compared with the former, the distribution is somewhat narrower, with a marginally lower prevalence of poverty (28 per cent) and vulnerability (23 per cent) and a higher prevalence of lower middle-income households (30 per cent).

The aforementioned results show that poverty remains prevalent among members of the middle class in the three countries. This is in line with the conclusions previously reached by ESCWA in 2015. The results suggest that the plight of the “working poor” is not restricted to workers in traditionally vulnerable informal wage occupations, but extends to a significant number of self-employed and formal wage workers. Even in Jordan, much of the middle class includes low-income groups, mostly the lower middle and vulnerable groups. The middle class thus remains

markedly worse off economically compared with the owning class.

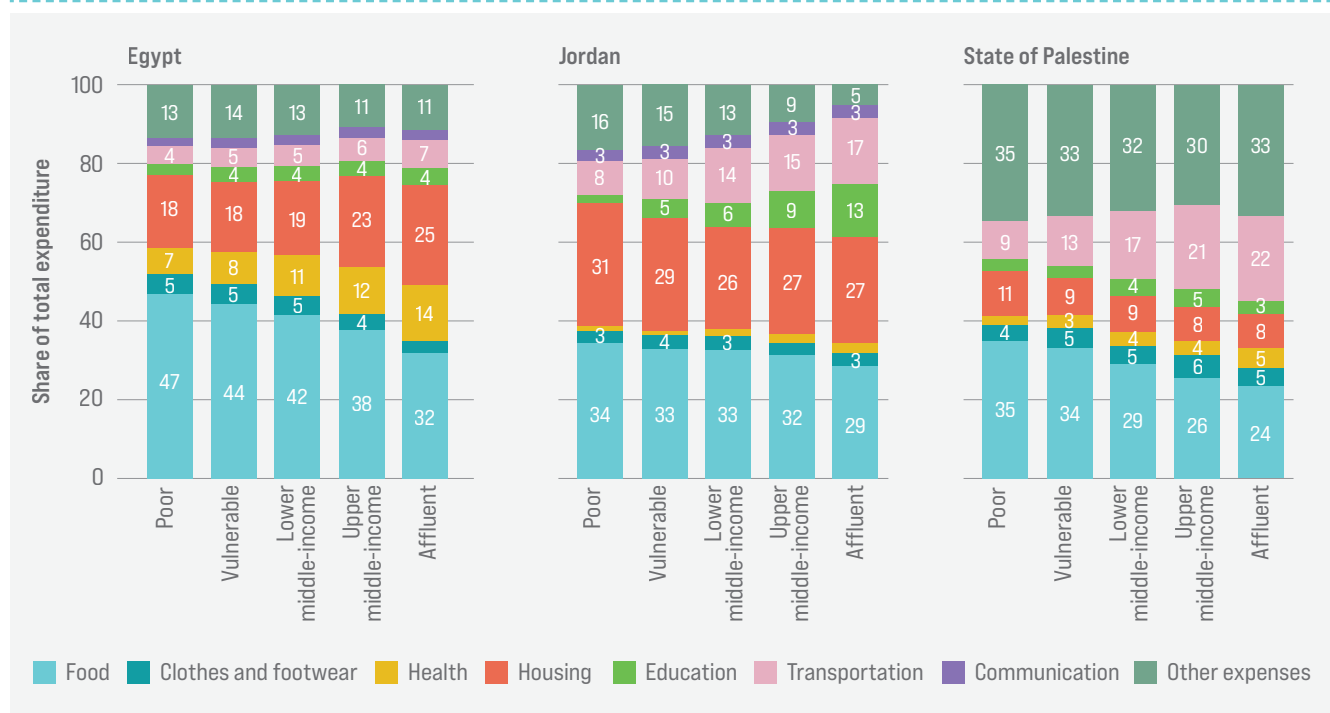
The results of this chapter also suggest that the Arab middle class is far from monolithic in terms of its composition and the characteristics of its members. Figure 9 illustrates the consumption patterns of the middle class in the three countries. Those vary significantly across the countries examined and the five economic groups. While in Egypt and the State of Palestine, there is, as expected, a decline in food share within total consumption among economically more privileged households, in Jordan, the food share remains very stable. While the housing share increases with economic status in Egypt, it is constant or declining slightly in Jordan. While health-care costs account for a non-trivial share of household budgets in Egypt (but not elsewhere), relative to its counterparts, Jordan records the highest budget shares for education expenditure.

**Figure 8.** Economic stratification of social classes (Percentage of population across income groups)



**Source:** ESCWA calculations, using expenditure as an income proxy. Income data taken from the 2017/2018 Household Income, Expenditure and Consumption Survey in Egypt, the 2013 Household Expenditure and Income Survey in Jordan and the 2017 Palestine Expenditure and Consumption Survey.

**Figure 9. Middle-class expenditure patterns by income group (Percentage)**



**Source:** ESCWA calculations, using expenditure as an income proxy. Income data taken from the 2017/2018 Household Income, Expenditure and Consumption Survey in Egypt, the 2013 Household Expenditure and Income Survey in Jordan and the 2017 Palestine Expenditure and Consumption Survey.

**Note:** Per capita expenditure distribution for the middle class is calculated for each expenditure category as a percentage of total per capita expenditure per month.

### 3. The poor middle class consists mainly of rural, less educated and self-employed or service workers

Table 7 provides descriptive statistics on the poor middle class and the non-poor middle class with a view to shedding light on the characteristics of the middle class and the factors that can increase their vulnerability.

In all three countries, poor middle-class households are larger in size on average, and include a greater number of children compared with non-poor middle-class households. In Jordan and the State of Palestine, the average poor middle-class household consists of some seven members, compared with around five members in the average non-poor middle-class household.

In Egypt, household size is also larger for the poor middle class (around six members) compared with the non-poor middle class (around four members). Moreover, a larger share of the poor middle class resides in rural areas compared with the non-poor middle class, except in the State of Palestine. In Egypt, a sizeable 65 per cent of the poor middle class live in rural areas, compared with 47 per cent of the non-poor middle class. The lower share of poor middle-class households living in Palestinian rural areas can be attributed to the significant number of such households in Palestinian refugee camps, in particular in the Gaza Strip. As for the educational status of the middle class, the proportion of the middle class who have completed tertiary education is considerably higher for the non-poor compared with the poor in all countries, and especially in Jordan, where there is marked educational disparity between the poor and non-poor.

Exploring the employment of the poor middle class against that of the non-poor middle class provides an indication of the differences in the types of jobs held by members of the poor middle class and the non-poor middle class. As indicated in table 7, a larger share of the poor middle class is self-employed compared with the non-poor middle class. The difference between the poor and the non-poor middle class in that respect is greatest in Jordan, where 7 per cent of the non-poor are self-employed compared with 21 per cent of the poor middle class. As for type of

employment, a sizeable share of the middle class is employed in the public sector, in particular in the State of Palestine, where 47 per cent and 41 per cent of the poor and non-poor middle class, respectively, are employed in the public sector. In other sectors, a significant portion of the middle class works in the trade and transportation sector and in sales occupations (most markedly in Jordan), which are classified as low value-added service sectors. In the three countries, those sectors employ a higher share of the poor middle class compared with the non-poor middle class.

**Table 7.** Characteristics of the poor and non-poor middle class

	State of Palestine		Jordan		Egypt	
	Poor	Non-poor	Poor	Non-poor	Poor	Non-poor
Household size	7.4	5.2	7.3	5.0	5.7	3.9
Number of children	3.5	1.8	3.3	1.5	2.4	1.4
Households in rural areas	6.1	18.0	16.4	12.9	64.6	46.9
Households with tertiary education	23.6	38.0	19.1	53.8	13.6	30.4
Households in self-employment	25.0	14.0	20.5	7.3	13.1	7.8
Households with members employed in the public sector	47.3	41.1	29.2	35.1	24.9	28.7
Households with members employed in trade and transportation	19.2	15.1	33.3	23.5	19.1	14
Households with members employed in sales occupations	17.0	9.7	26.7	14.2	14.0	10.3

Source: ESCWA calculations.

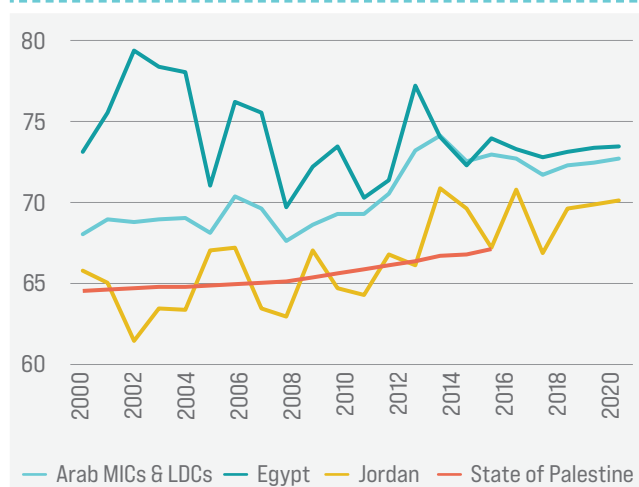
## C. Making sense of the results -----

### 1. Inequality in income and wealth is rising in much of the region

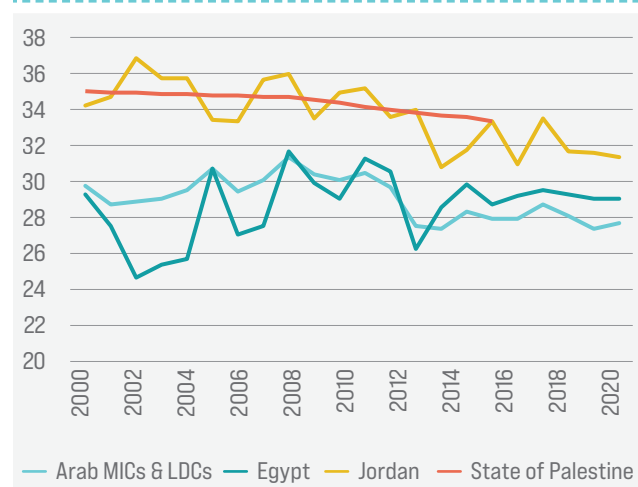
Why is poverty an unrelenting problem for the middle class in Egypt and the State of Palestine? And why are a significant number of Jordanian middle-class households vulnerable to poverty? Across the Arab region, there are significant disparities in income between capital owners and wage workers. A large share of the latter is employed informally and, therefore, unable to access social insurance schemes or other protections. Moreover, the share of business enterprise revenues earmarked for capital rents is higher than the share earmarked for the payment of wages. Without actions that will enable workers to lay claims to firms' profits, the earnings gap between wage earners and capital owners is likely to widen.

As illustrated in figure 10, Gini coefficients in many countries in the Arab region have ranged between 65 per cent and 75 per cent since 2015. The income and wealth performance of the middle-income group relative to other groups also reveals interesting trends. For income, we report the share of the population of each country earning between the UPL and the UMIL. For wealth, because there are no agreed thresholds on the assets held by the middle-income group, and because wealth is best reported in nominal international dollars, we use the conventional delineation between the fiftieth and ninetieth percentile of the wealth distribution curve, commonly known as the middle 40 per cent. Figure 11 shows that the share of wealth of the middle 40 per cent has declined in the past two decades in Jordan and the State of Palestine, and has remained volatile in Egypt. Among Arab middle-income countries and least developed

**Figure 10.** Within-country Gini coefficients (Percentage)



**Figure 11.** Wealth share of the middle 40 per cent of the population (Percentage)



**Source:** ESCWA calculations on the basis of data contained in the 2022 Global Wealth Report of the Credit Suisse Research Institute.

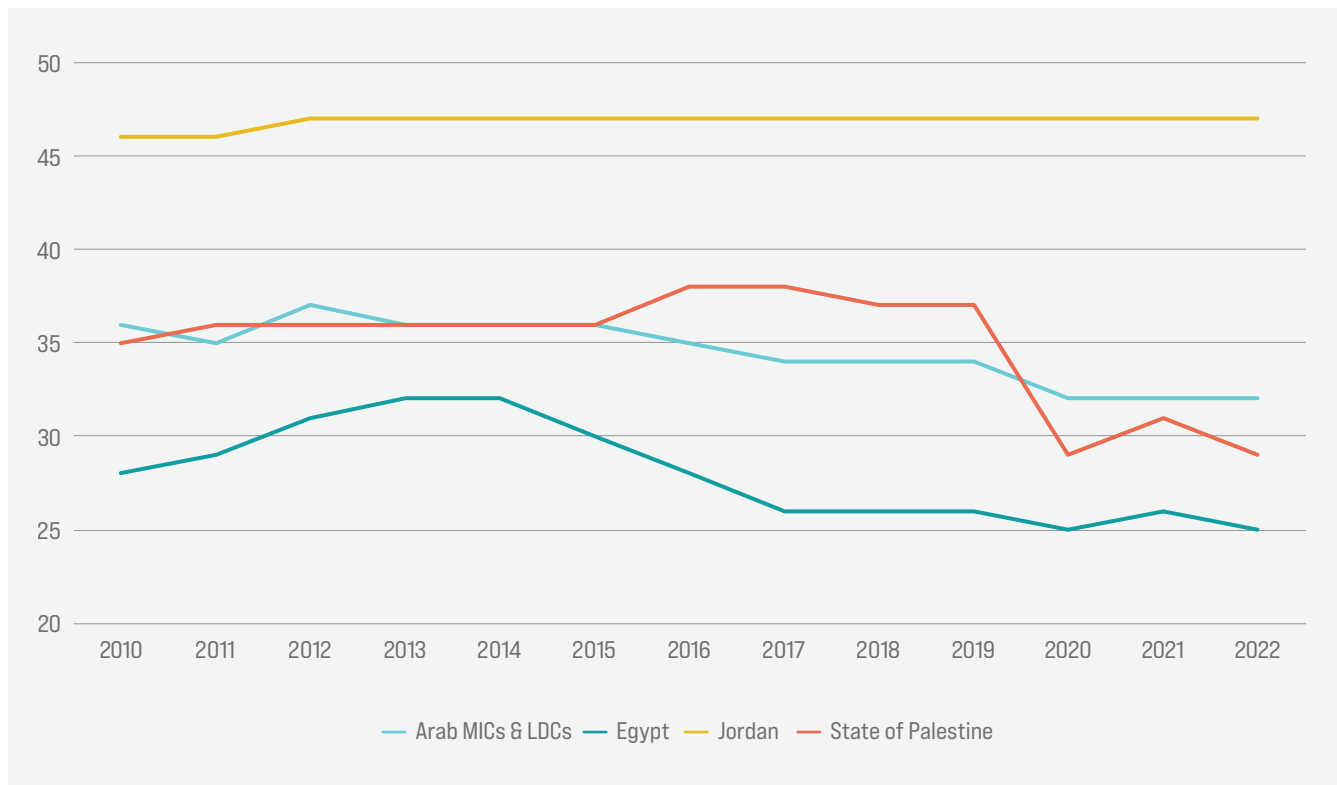
**Note:** The “middle 40 per cent” are those individuals between the fiftieth and ninetieth percentiles of the wealth distribution curve. Arab middle-income and least developed countries include Algeria, Comoros, Djibouti, Egypt, Iraq, Jordan, Lebanon, Mauritania, Morocco, the State of Palestine, Somalia, the Sudan, the Syrian Arab Republic, Tunisia and Yemen. MIC stands for middle-income country, and LDC stands for least developed country.

countries, the wealth share of the middle 40 per cent gradually rose during the 2000s to reach 30 per cent, dropped to 28 per cent between 2011 and 2014, and has remained more or less stable since then, although a notable dip in the share of the middle-income group took place in 2020 as a result of the economic shocks associated with the global response to the COVID-19 pandemic.

Figure 12 shows the share of the population earning between the UPL and the UMIL, as drawn from official poverty lines by country or, in the case of the regional total, from the \$3.20 international poverty line (at purchasing power parity in 2011). Between 2010 and 2022, the share of the population earning within the UPL-UMIL range slightly increased in Jordan, from 46 per cent to 47 per cent. The share similarly

stagnated in the State of Palestine between 2010 and 2015 and then picked up slightly to between 37 and 38 per cent between 2016 and 2019, and fell afterwards and in the immediate aftermath of the COVID-19 pandemic. In Egypt, the share of the population earning within the UPL-UMIL range slightly increased between 2010 and 2014 before falling again to approximately 26 per cent. Across the Arab middle-income and least developed countries, the population share earning within the UPL-UMIL range steadily declined from 36 per cent in 2010 to 32 per cent in 2022. Between 2019 and 2020, during shocks related to the COVID-19 pandemic, the share of population earning within the UPL-UMIL range dipped in all of the evaluated States, but fell dramatically in the State of Palestine from 37 per cent to 29 per cent.

**Figure 12.** Share of population earning between UPL and UMIL (Percentage)



**Source:** ESCWA calculations on the basis of World Bank Development Indicators.

**Note:** Arab middle income and least developed countries include Algeria, Comoros, Djibouti, Egypt, Iraq, Jordan, Lebanon, Mauritania, Morocco, the State of Palestine, Somalia, the Sudan, the Syrian Arab Republic, Tunisia and Yemen. MIC stands for middle-income country, and LDC stands for least developed country.

## 2. Limited structural transformation of Arab economies

The low income of the middle class is probably a result of weak structural transformation and the concentration of labour in low value-added sectors. Despite the observable shift of labour from agriculture in the last few decades, for the most part, the movement has been towards low value-added sectors.<sup>65</sup> This is mostly due to inadequate development of the manufacturing or modern high value-added sectors and the absorption of the middle class by the “other services” sector. It is evident from figure 4 in chapter 2 that the working class remains concentrated in agriculture, construction and trade and transportation. Meanwhile, the middle class primarily works in the “other services” and trade and transportation sectors in Jordan and Egypt, while in the State of Palestine, the public administration and defence sector is the largest employer of the middle class. As a result, the middle class is mainly employed in relatively low-productivity sectors and performs low value-added work.

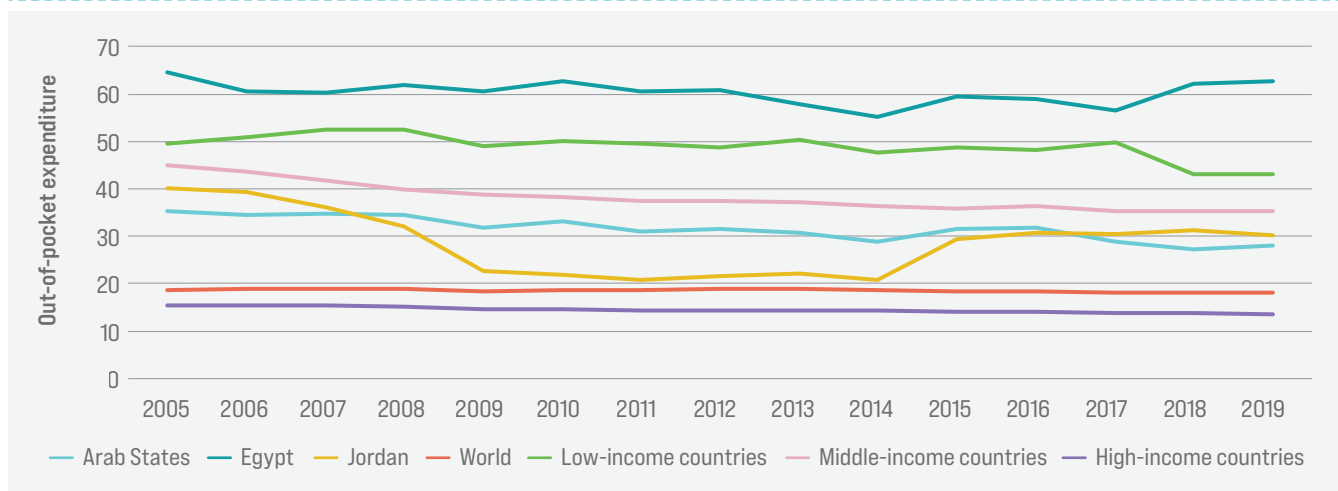
Thus, economic growth in the region has failed to translate into robust per capita income growth

and the generation of decent employment for the educated middle class. Poor growth knock-on effects, and persistent disparities between the middle class and the owning class, underscore the less than rewarding nature of many of the jobs that have been generated. In addition to weak structural transformation, other fiscal and governance challenges, fluctuations in the price of oil and other commodities, and political instability mean that a large portion of the middle class has now been reduced to poverty or remains vulnerable.

## 3. Out-of-pocket expenses for the middle class remain high

The middle class is, in many ways, victim to Government policies that have resulted in reductions in public spending and the implementation of austerity. Many middle-class households devote most of their non-food expenditure on basic necessities, including health care and education. Out-of-pocket expenditure on costly private education and health services has only increased the tendency of the middle class to fall into poverty. According to the World Bank, social expenditure and financial protection mechanisms

**Figure 13.** Out-of-pocket expenditure on health care in selected countries and country groups (Percentage of current health expenditure)



**Source:** World Health Organization Global Health Expenditure database.

**Note:** Available at <http://apps.who.int/nha/database>. The data used in this figure were retrieved on 30 January 2022.

can prevent the vulnerable from slipping into poverty, as such mechanisms help reduce out-of-pocket spending on health care. Such out-of-pocket health payments push around 100 million people into poverty each year.<sup>66</sup> In some cases, people are forced to sell their assets or borrow to pay for critical health-care services that they simply cannot afford. In addition, a common observation is that many people are pursuing precautionary saving and cutting their expenditures on other goods and services in order to prepare for potential increases in the cost of medical treatment. Action by Governments to reduce out-of-pocket payments on health care can, therefore, have a significant impact on poverty and vulnerability.

As illustrated in figure 13, the populations of Arab States are compelled to cover a much larger share of health-care expenditure as out-of-pocket expenses than the world average or the average of high-income countries. Out-of-pocket expenditure on health care in Egypt (55 per cent of current health expenditure) is the highest in the region and even exceeds that of low-income countries. Those observations confirm the large burden that the poor and the vulnerable must bear in the Arab region due to inadequate Government expenditure on education and health.

## D. Conclusion

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In Egypt and the State of Palestine, about one third of the middle class is poor, while in Jordan a large share is vulnerable and at risk of falling into poverty. The markedly disadvantaged status of the middle class compared with the owning class can, in part, be explained by high wealth and income disparities stemming from many years of non-inclusive growth in the Arab region. Another contributor is limited public spending, which has fallen in many countries in the region as a result of significant financial constraints on public budgets and the implementation of austerity measures. Those measures have meant that many middle-class households have been

forced to increase their expenditure on what many consider to be basic services. Moreover, it may be argued that the key challenges facing many countries in the region stem from a failure to implement structural economic reforms and the fact that a high proportion of the workforce is employed in unproductive, low value-added sectors. Policy interventions directed toward enhancing the economic status of the middle class and protecting their purchasing power are, therefore, necessary, particularly as the middle class can be a strong driver of economic growth, improved accountability and better governance.



# Informal middle class workers: the missing middle

04



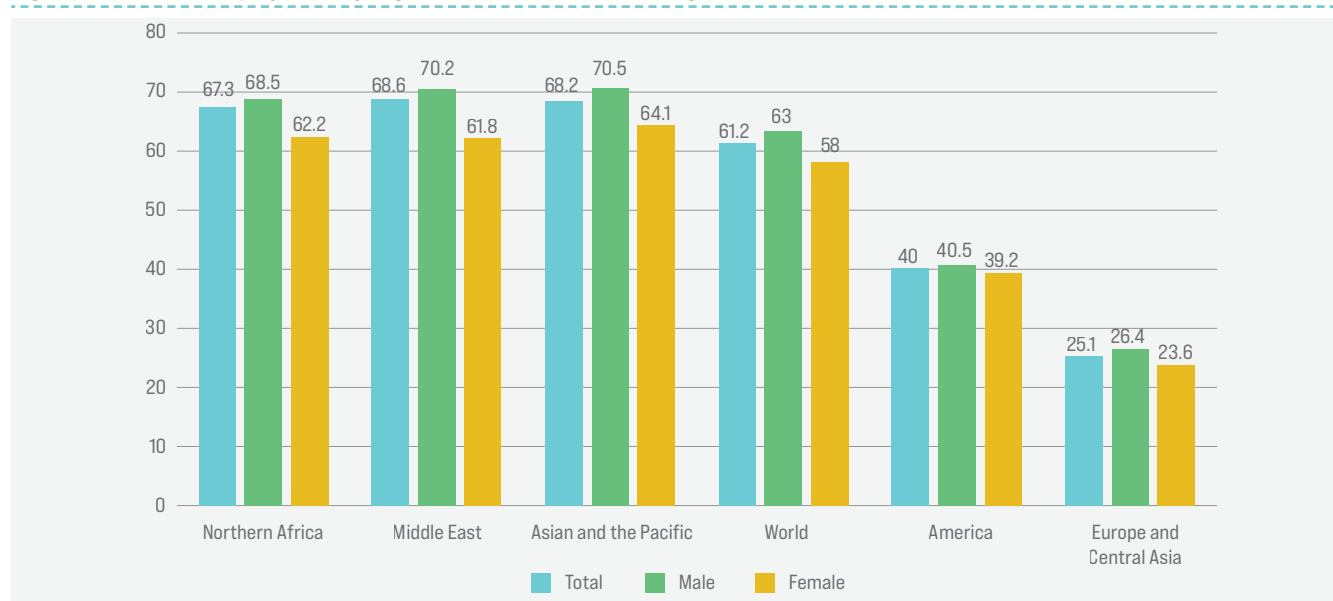
Informal employment is a worldwide phenomenon that is often considered a factor for several vulnerabilities, including poverty, marginalization and indecent work conditions. According to the ILO Nineteenth International Conference of Labour Statisticians (ICLS) resolution I definition of informal employment and the underlying concept of informal productive activities, “informal employment includes those productive activities carried out for pay or profit that are not – in law or practice – effectively covered by formal arrangements.” In 2018, the Twentieth ICLS highlighted three indicators that are required to understand the dynamics of informal employment and social protection coverage, including but not limited to job-dependent social protection, access to paid annual leave and access to paid sick leave.<sup>67</sup>

Informal employment is characterized by absent or low levels of decent work conditions, low productivity and lower-skilled labour.<sup>68</sup> Many scholars argue that political instability, weak economic governance and weak development within a State play key roles in increasing unregistered employment activities.<sup>69</sup> Arab States have the highest overall unemployment rate and

one of the highest youth unemployment rates (26 per cent) in the world, and they are experiencing a deterioration in job quality; hence, the informal sector is expanding.<sup>70</sup>

Recent research indicates that 68 per cent of the labour force in most Arab countries work informally.<sup>71</sup> As shown in figure 14, the Arab region has the highest level of informal employment among all regions globally, with a higher percentage of males than females engaged in informality. When each country in the Arab region is examined individually, countries with the lowest level of gross domestic product (GDP) per capita tend to have the highest levels of informality. Estimates suggest that one third of GDP in the region is produced through informal work.<sup>72</sup> The COVID-19 pandemic has also led to a rise in informal employment, particularly in countries with weak labour law enforcement and low economic growth. Additionally, ongoing political instability in Iraq, Libya, the State of Palestine, the Syrian Arab Republic, and Yemen has pushed more workers into the informal sector,<sup>73</sup> resulting in a decline in their existing work skills due to the prolonged nature of conflicts in the Arab region.

**Figure 14.** Informal employment by region and sex, 2016 (Percentage)



**Source:** International Labour Organization.

**Note:** ECA stands for Economic Commission for Africa.

**This chapter uncovers the degree of informality among middle-class workers in Arab countries and describes its characteristics. That analysis lays the foundation for a discussion of social protection schemes to support the marginalized middle class, which has not received meaningful social protection coverage in the past, beyond defunct or substantially reduced general subsidy schemes. For the purposes of this chapter, middle-class informal employees are referred to as the “missing middle”**

## **A. High informality among the lower middle class**

Prior studies identified a number of social and economic factors that can explain the prevalence of informality, including failure to promote the benefits of registration (if such benefits exist), and a weak formal private sector.<sup>74</sup> An increase in labour supply and the stagnation of labour demand have forced many of working age to seek any type of job rather than insist on finding employment with decent labour conditions.<sup>75</sup> Furthermore, institutions play a key role in formal sector growth. Researchers have shown correlations between corruption and the growth of a shadow economy,<sup>76</sup> as well as the links between the size of a government and the prevalence of informality.<sup>77</sup>

Table 8 shows a high prevalence of informal employment among the working class, a group with the most precarious working conditions as

compared with other classes. Surprisingly, the owning class also has a significantly elevated level of informality. This could be because the owning class includes a large segment of business owners and high-income self-employed workers operating in the informal sector. As discussed in chapter 2, more than 65 per cent of the owning class works in microenterprises, which are characterized by high informality rates.<sup>78</sup> Although middle-class workers have lower rates of informality compared with other social classes, informality rates among those in the lower middle class are more than double the rates of the upper middle class. This finding implies that lower middle-class workers are more vulnerable and, therefore, prone to falling below the poverty line unless adequate social protection programmes are put in place.

**Table 8:** Middle-class informality rates in selected Arab countries

Class	Egypt	Jordan	Lebanon	State of Palestine	Tunisia
Owning	65.2	74.7	50.9	82.3	38.4
Middle	49.7	37.6	51.1	49.0	36.2
Upper middle	19.9	16.1	32.8	22.9	8.9
Lower middle	54.3	43.7	55.6	56.5	39.9
Working	79.5	56.2	67.9	84.8	50.8
Total (n)	5 898	2 937	26 358	15 355	1 499

Source: ESCWA calculations, 2023.

The State of Palestine records the highest informality rates relative to the other countries among its lower and upper middle-class workers, followed by Lebanon, Egypt, Jordan, and Tunisia. For the upper middle class, Lebanon has the highest informality rate compared with the other countries, indicating that a share of high-level professionals

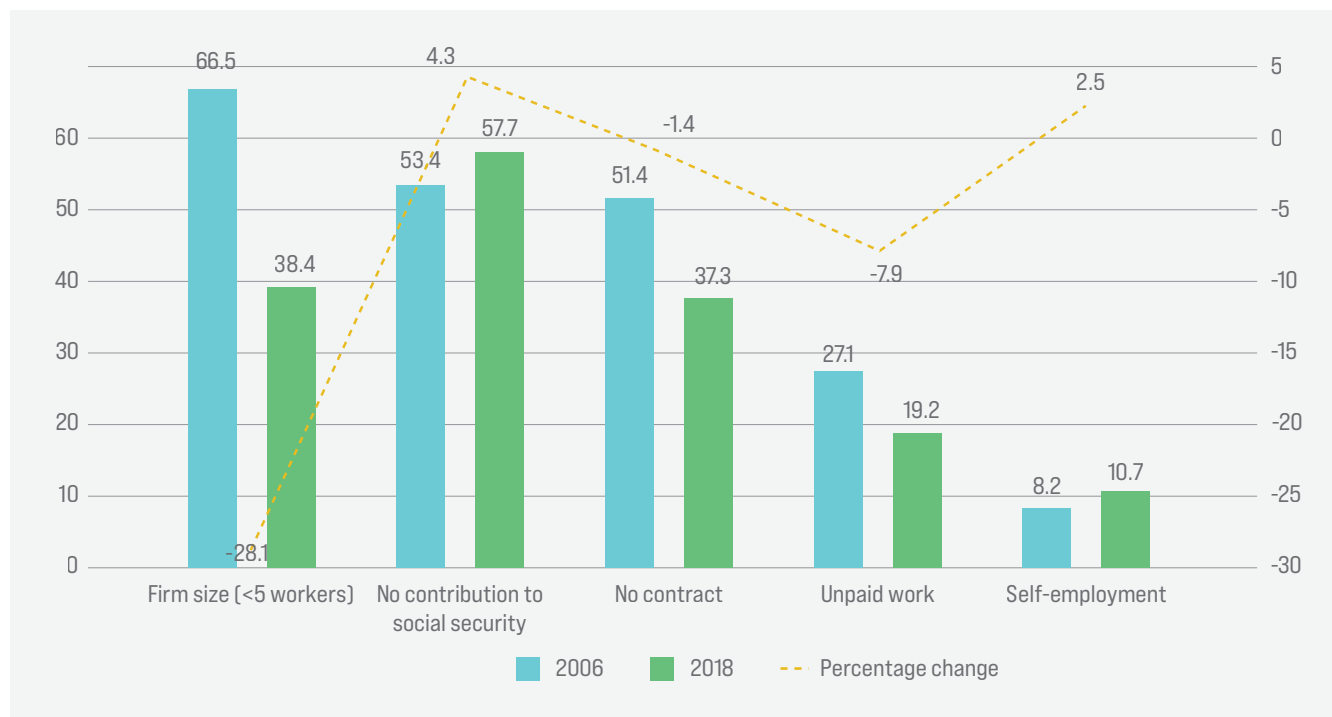
is contending with informal employment vulnerabilities. The relatively low informality among the owning and upper middle classes in Tunisia is an anomaly in the analysis, and could be due to small sample size in the Tunisian data.

## B. Decreased informality in the Egyptian middle class

Figure 15 shows the percentage change in informality indicators using Labor Market Panel Survey (LMPS) data from Egypt for the years 2006 and 2018. Generally speaking, the Egyptian middle class experienced decreased rates of informality between 2006 and 2018. However, certain informal employment indicators, including not contributing to social security, rose by 4 per cent, and the share of self-employed middle-class workers increased by around 3 per cent in the time period between surveys. Those two observations indicate

increased vulnerability during shocks, which, in fact, occurred during the COVID-19 pandemic. Although the percentage of middle-class workers who are employed without a formal work contract has decreased over the past few years, it is still very possible that many workers are on temporary assignments that include verbal agreements rather than legally binding contracts that secure their rights and ensure they are not subject to precarious working conditions.

**Figure 15.** Change in middle-class informality rates in Egypt between 2006 and 2018 (Percentage)



Source: Escwa calculations, 2023.

Note: The dotted line represents the percentage change in each informality indicator between 2006 and 2018.

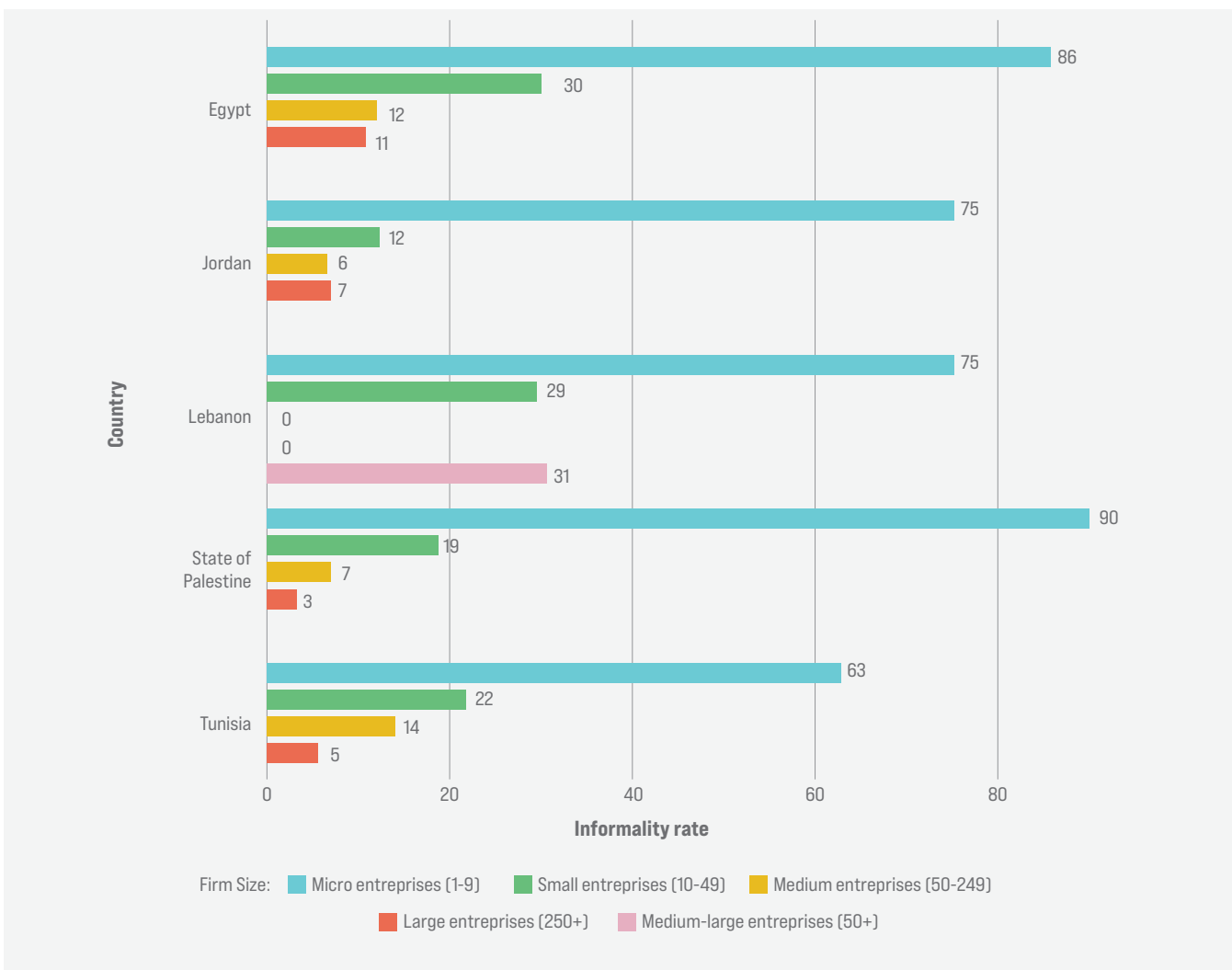
## C. Aspects of the missing middle -----

### 1. Informal middle class mostly operates in microenterprises

Generally, Governments are primarily focused on reducing poverty rates through social assistance programmes. However, policymakers assume that the so-called “missing middle” workers, who are informally employed, are not necessarily poor and usually work in jobs that provide security and stability for themselves and their families. The assumption is that these missing middle workers

enjoy a level of security equivalent to most formal employees. Informally employed middle-class workers are involved in private and public businesses across all economic sectors and at all firm sizes. However, they are heavily concentrated in private microenterprises, including those with fewer than ten employees, as shown in figure 16. Those results underline the vulnerability of members of the middle class, particularly as microenterprises were hard hit during the COVID-19 pandemic and had minimal access to Government support.

Figure 16. Middle-class informality rates by enterprise size (Percentage)



Source: ESCWA calculations, 2023.

## 2. Agriculture, trade and transportation hubs for informal middle-class workers

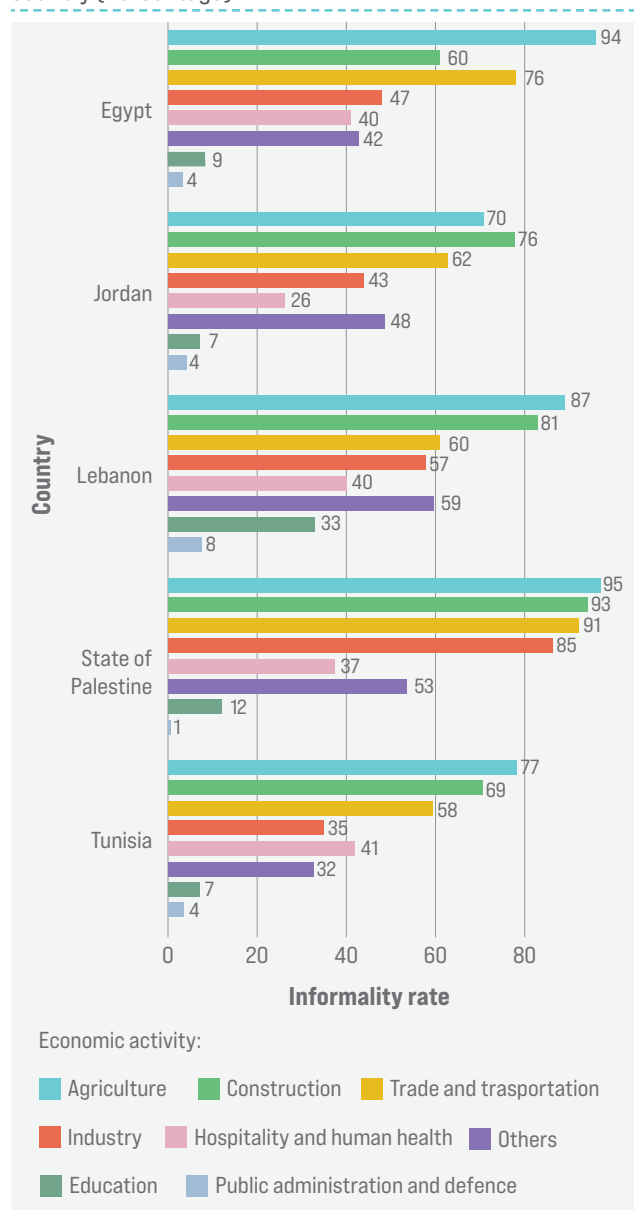
Figure 17 highlights the informality of middle-class workers in different economic sectors. The agriculture, trade and transportation sectors have the highest levels of informal employment in all countries except for Jordan. Formally employed middle-class workers in agriculture make up less than 10 per cent of the total in Egypt and the State of Palestine, and this share does not exceed 30 per cent in the other countries. The percentage of formally employed trade and transport workers is also quite small, and informal employment among the middle class in trade and transport ranges from 58 to 91 per cent of total employment. Employment in industry is nearly an even split between formal and informal work. Not surprisingly, public administration, defence, health, and education are the areas with the highest levels of formal employment, as most of these services in the Arab world are in the public sector. The education sector in Lebanon has a significant number of middle-class workers engaged in informal employment, accounting for 33 per cent compared with the average of 9 per cent in other countries. This high rate of informality is mainly due to the prevalence of contracted teachers and workers with temporary, non-fixed-term contracts, with more than two fifths of Lebanese workers in informal contracts working in the education sector according to the Arab NGO Network for Development in 2016.

## 3. Less education, more informality

One of the salient features of shadow economies in Arab countries is a low level of education in middle-income, oil-poor economies, implying that informality could be inversely related to educational levels.<sup>79</sup> Figure 18 shows the association between educational attainment and informality in Egypt, Jordan, Lebanon, the State of Palestine, and Tunisia. The more education a

person has, the less likely he or she is to work informally. However, the relationship between education and informality may not be causal or straightforward. The findings by Pedersen<sup>80</sup> on education and informality are also confirmed by figure 18 in that the highest levels of informality exist for those with no education, and this decreases to its lowest level for those with postgraduate education levels.<sup>81</sup>

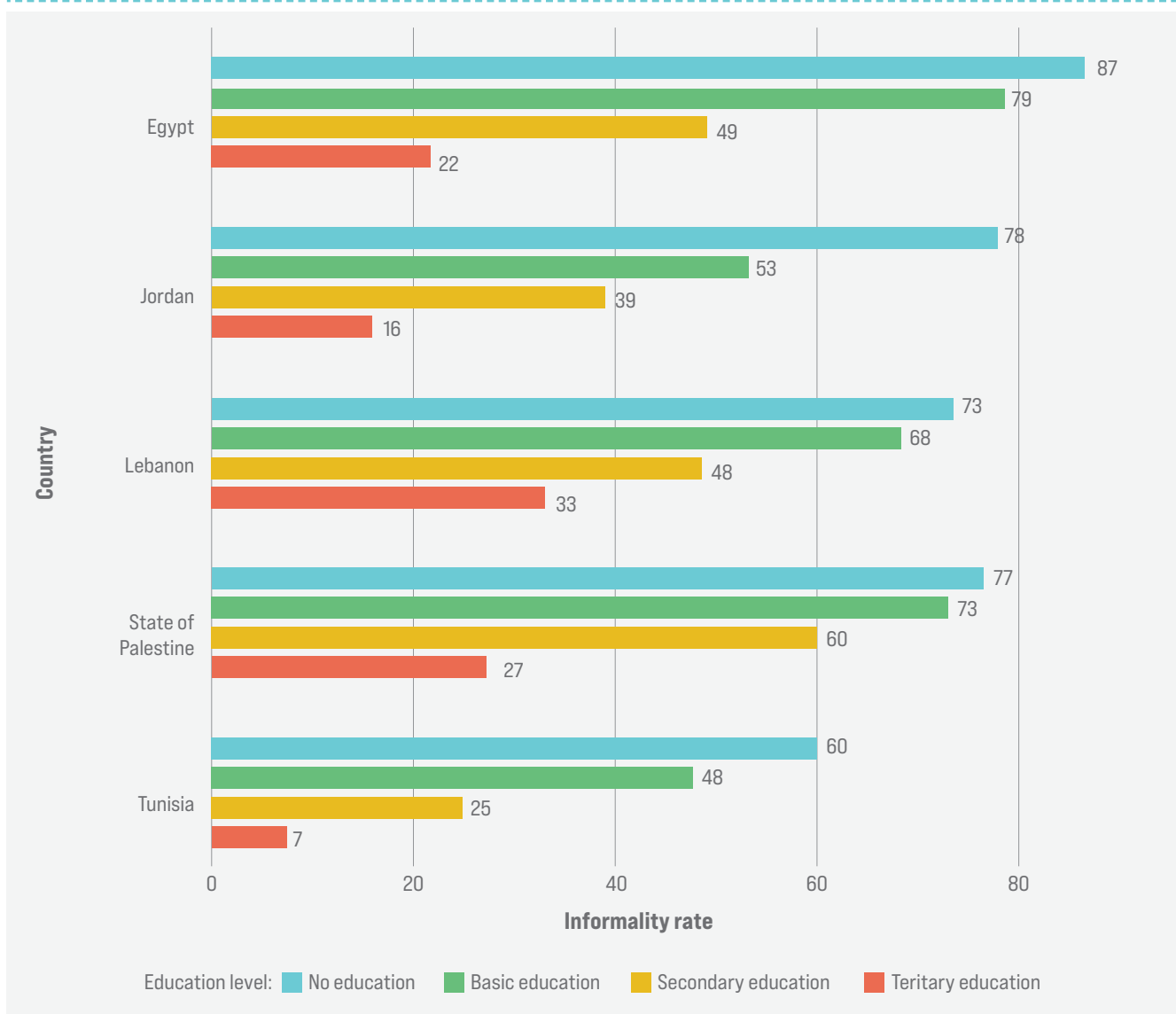
**Figure 17. Middle-class informality by economic activity and country (Percentage)**



Source: ESCWA calculations, 2023.



**Figure 18.** Middle-class informality rates by educational attainment level (Percentage)



Source: ESCWA calculations, 2023.

#### 4. More men in informal employment, except in agriculture

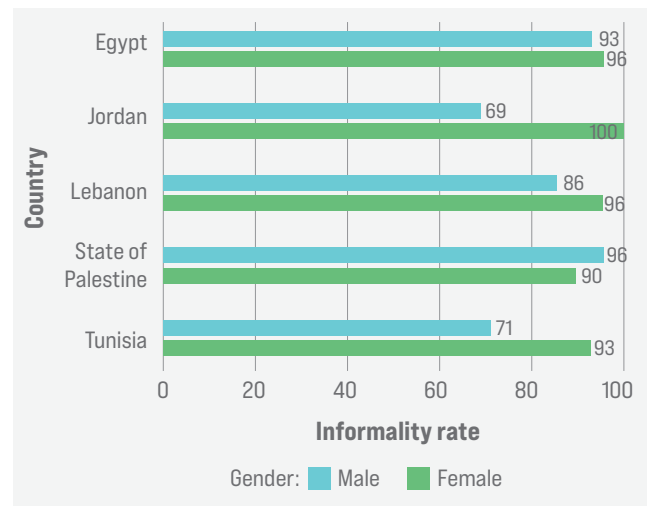
Women are less likely to work in the informal economy than men, except in the agriculture sector, as shown in figure 19. The State of Palestine is an exception in this case. Informal employment for women includes street vending; selling goods and services at local markets, bazaars or stalls; precarious self-employment;

and forming a family business without a specific legal framework. The sizeable gender difference in informal employment (figure 14) may be due to two key factors. First, female unemployment in the Arab world is three times that of males, and the labour force participation rate of females is 14 per cent the rate of males. Second, females tend to look for formal public sector employment as compared with males as decent work conditions and less precarious working situations tend to prevail in the public sector.



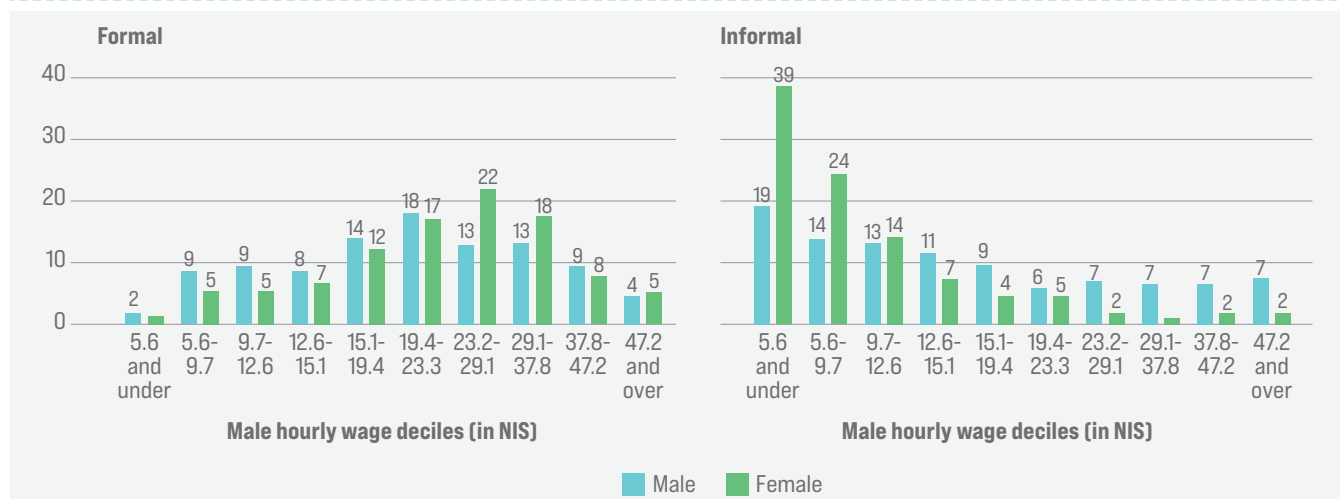
Figure 20 shows the difference in hourly wages between middle-class men and women for formal and informal work in the State of Palestine. Examining the gender wage differential in informal employment is of particular importance because the State of Palestine has one of the highest gender wage gaps in the industry and service sector, a sector that employs a large number of middle-class workers.<sup>82</sup> Figure 20 shows a clear gender pay gap that is more evident among those in informal employment. For those in informal employment, 39 per cent of middle-class women are in the lowest hourly wage decile compared with 19 per cent of middle-class men. These percentages show an inverse relationship, as many more men are in the top hourly wage decile compared with women working informally.

**Figure 19.** Middle-class informality rates in agriculture by gender (Percentage)



Source: ESCWA calculations, 2023.

**Figure 20.** Hourly pay of middle-class working males and females by formality status (Percentage)



Source: ESCWA calculations, 2023.

Note: NIS stands for Israeli New Shekel, the currency primarily used in the State of Palestine.

## D. Conclusion

The analysis presented in this chapter provides evidence that workers in the lower middle class face greater challenges in terms of informality than the highly educated upper middle class. One finding is that informality correlates negatively with education across all social classes. With

regard to firm size, middle-class workers who are employed by or own microenterprises record the highest shares of informality. There is also evidence of middle-class gender disparities in employment and pay that are even larger in informal than formal jobs. Middle-class females

tend to receive wages within the lowest wage deciles in the informal economy.

The COVID-19 pandemic led Governments to introduce new social protection programmes and reform existing ones. These changes have had a significant impact on private sector development. Furthermore, subsidy reforms can provide a much-needed resource for cash transfer programmes that aim to assist both the poor and the missing middle. Previous attempts at

subsidy reform have mostly left the lower middle class worse off, and budget surpluses have tended to be only partially redirected to support programmes to alleviate poverty. Redesigning the redistribution schemes to cover the missing middle is an important area of reform, particularly as those of working age have the potential to make a productive contribution to the economy if they are supported through periods of vulnerability.





# Social protection and the middle class: evidence from Egypt, Jordan and Tunisia

# 05



Public sector employment, pension schemes, free education and health care, food and fuel subsidies, and subsidized housing were cornerstones of the social contract for the middle class under the so-called “authoritarian bargain”.<sup>83</sup> However, that social contract has eroded and a new type of social contract has emerged since the macroeconomic reforms of the 1980s and 1990s. Those reforms included austerity cuts, a reduction in public sector hiring in most of the Arab region and significant reductions in subsidies.<sup>84</sup>

The economic transformations that occurred as a result of structural reforms affected middle-class access to decent jobs and social protection. The pace and pattern of economic growth and a sectoral transformation towards relatively low value-added economic sectors and non-tradable goods resulted in a more precarious labour market in several Arab countries.<sup>85</sup> Private sector formal wage employment has played a limited role in job creation and has not made up for the substantial decline in public sector employment.<sup>86</sup> Private sector informal wage employment is among the most rapidly expanding types of employment.<sup>87</sup> This implies that a growing share of workers has no social insurance coverage and no access to health insurance or family/child benefits.

An important question to ask is: to what extent are middle-class households covered by social protection schemes, compared with owning- and working-class households? Furthermore, what are the main forms of social protection that they can rely on? Has their access to social protection

coverage declined over time, and how is that related to labour market developments? This chapter investigates those questions in three countries of the Arab region, namely, Egypt, Jordan and Tunisia, and focuses on four social protection indicators for which data are available, as follows:

1. Contribution to social insurance schemes: the share of households with at least one working individual actively contributing to social insurance schemes in their primary job.
2. Receipt of cash benefits from contributory social insurance schemes: the share of households with at least one member receiving a retirement, or employment-related, pension during the last 12 months.
3. Receipt of non-contributory social assistance cash transfers: the share of households that received at least one type of non-contributory social assistance payment during the last 12 months.
4. Health insurance coverage: the share of individuals who have health insurance coverage and the types of available health insurance.

This chapter uses nationally representative household- and individual-level data for Egypt, Jordan and Tunisia, with data taken from the Egypt Labor Market Panel Surveys (ELMPS), the Jordan Labor Market Panel Surveys (JLMPS) and the Tunisia Labor Market Panel Surveys (TLMPS).

## **| A. Middle-class access to different forms of social protection -----**

### **1. Highest effective coverage rates are among the middle class, yet those rates are low -----**

It is appropriate to measure social protection coverage at the household level rather than at the individual level, because the size and structure of households differ among classes: any inference made with regard to coverage at the individual

level may, therefore, have a bias due to household differences. This chapter uses the aggregate effective coverage indicator on social protection coverage as defined by the ILO and measures it at the household level. A household is effectively covered if it benefits from any of the following three social protection schemes: (a) receipt of a non-contributory social assistance transfer; (b) receipt of a contributory employment-related pension; or (c) has at least one family member who works in a job that provides social insurance coverage and, thus, is actively contributing to a social insurance scheme.<sup>88</sup>

Households in the middle class have the highest effective coverage rates compared with other classes, reaching an average of 64 per cent in Egypt, 66 per cent in Jordan and 69 per cent in Tunisia (figure 21). However, those rates mean that one third of middle-class households is entirely left out of the purview of social protection coverage,

making them vulnerable in times of economic crisis or periods of high inflation caused by structural/stabilization reforms or austerity cuts. Although, on average, middle-class households have the highest effective social protection rates, there is great disparity between upper and lower middle-class households. In all three countries, upper middle-class households are 1.2 to 1.3 times more likely than lower middle-class households to be effectively covered by at least one social protection scheme. This is mainly because lower middle-class households are considerably less likely than upper middle-class households to have a household member who works in a formal job. Assuming that job creation and labour market conditions remain the same and a lack of other forms of social protection for lower middle-class households continues, many households will be increasingly vulnerable to the economic impact of life cycle risks, causing further downward social mobility.

**Figure 21.** Household social protection coverage by type of social protection benefit and household class in Egypt, Jordan and Tunisia (Percentage)



Source: Authors calculations using ELMPs, 2018; JLMPS, 2016; and TLMPs, 2014.



## 2. Social insurance coverage is a primary form of social protection, highlighting middle-class reliance on formal jobs

---

Effective coverage rates are highest among middle-class households due to a higher propensity for having at least one household member contributing to a social insurance scheme (figure 21). Social insurance coverage is the most important form of social protection among middle-class households, highlighting the vital role that formal employment plays in securing effective social protection for households.<sup>89</sup> More than half of middle-class households in Jordan and Tunisia have at least one working member who is currently socially insured. This insured rate falls to 43 per cent in Egypt, ranking it last in social insurance coverage for the three countries; this is likely due to the rapid expansion of employment with no social security coverage, including informal and irregular wage work.<sup>90</sup> The pattern of precarious job creation and an expansion of low-quality jobs has had a greater effect on new workers from the middle class than workers from other classes in the three countries (figure 21).

## 3. Receipt of contributory retirement pensions is the second most important form of protection for middle-class households

---

The second most important social protection area for middle-class households under indicator 1.3.1 of the Sustainable Development Goals is the receipt of retirement pensions. Pensions are employment-related and based on previous social security contributions. Retired living household members receive pensions if they contributed during their working years and are eligible to

claim them. Households may also be entitled to those pensions even if no member is a retiree, such as in the case of a death of a contributing working member.<sup>91</sup>

Among the three countries, the proportion of middle-class households receiving retirement pensions is highest in Egypt. In total, some 24 per cent of Egyptian middle-class households have at least one member who receives a retirement pension, followed by 22 per cent in Jordan and 19 per cent in Tunisia. Fewer working-class households receive retirement pensions because they are less likely to have worked in public sector jobs due to the eroded social contract,<sup>92</sup> or because they are excluded due to social insurance regulations, as in the case of agricultural and domestic workers.

## 4. Access to non-contributory social assistance cash transfers is low, but varies substantially among countries

---

The middle class receives fewer social assistance transfers as compared with retirement pension payments or social insurance scheme benefits. However, there are important variations among countries. Egypt has the highest proportion of middle-class households that receive non-contributory social assistance transfers, with 9–10 per cent of upper and lower middle-class households receiving such transfers. The middle class in Egypt is 1.5 times less likely than working-class households to receive non-contributory social assistance transfers. In Tunisia, rates of non-contributory social assistance transfers are 4 per cent among upper middle-class households, 7 per cent among lower middle-class households, and 10 per cent among working-class households. The middle class in Jordan has the smallest share of households who receive social assistance transfers, with only 1–3 per cent of upper and lower middle- and lower-class households receiving them.

## B. Evolution of social protection coverage over time and associations with labour market development

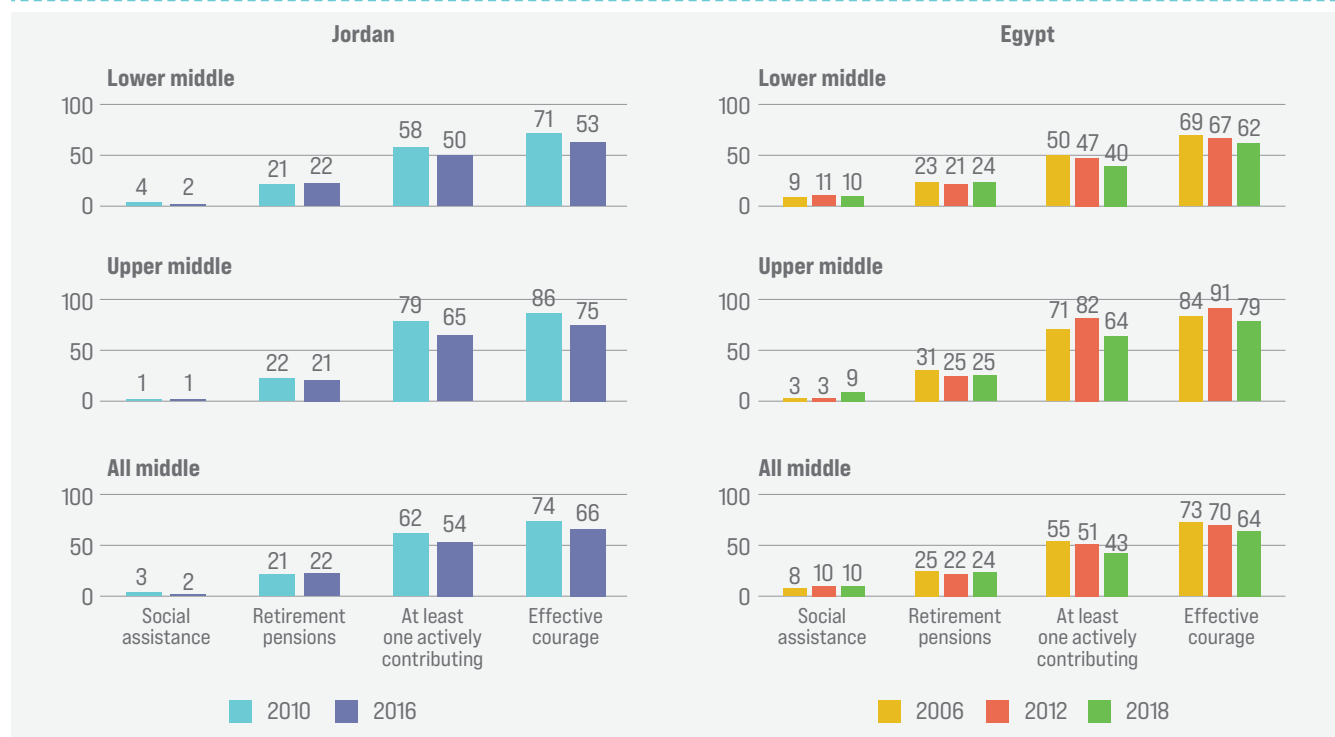
### 1. Effective social protection coverage has fallen over time

In Egypt and in Jordan,<sup>93</sup> middle-class households have become less likely over time to include at least one worker contributing to mandatory social insurance schemes. Figure 22 shows that the decline in effective coverage was around 8 percentage points in Jordan over the six years between 2010 and 2016, and about 9 percentage points in Egypt over the 12 years between 2006 and 2018. The decrease in effective social protection coverage is due to increased informality and a significant reduction in the

percentage of households with at least one socially insured worker in the family.

Access to non-contributory social assistance transfers increased in Egypt from 8 per cent in 2006 to 10 per cent in 2018 but declined in Jordan from 3 to 2 per cent over the same time period. The increase in access to non-contributory schemes in Egypt may reflect the introduction of the *Takaful and Karama* conditional cash transfer programmes, which, although targeting the poorest households, also reached some of the higher wealth quintiles.<sup>94</sup> Access to retirement pensions did not change over time in either country.

Figure 22. Evolution in effective social protection coverage rates among middle-class households over time in Egypt and Jordan (Percentage)



Source: Authors calculations using ELMPS waves 2006, 2012 and 2018, and JLMPS waves 2010 and 2016.



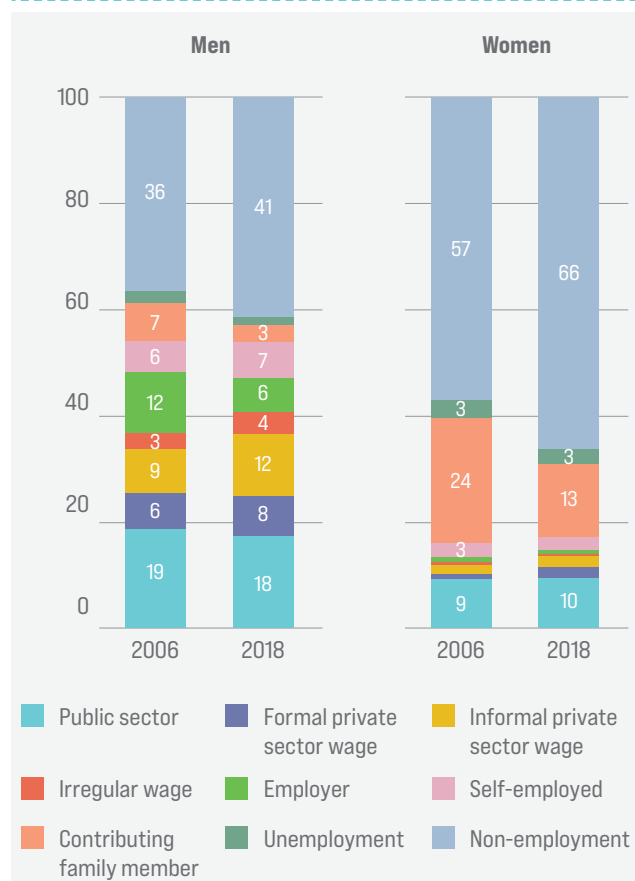
## 2. Limited social insurance coverage in private sector wage employment

With the decline in public sector employment as the main source of contributory social insurance coverage, the emerging social contract relies on access to Government-regulated social insurance schemes via private sector employment.<sup>95</sup>

Figure 23 shows the distribution of employment statuses for middle-class individuals between the working ages of 15 and 64 years in Egypt. Results indicate that the types of wage employment that are growing for the middle class are largely forms of private sector informal wage employment, which is associated with lack of access to mandatory social insurance coverage. Thus, there is a need to redesign social insurance policies to accommodate small firms and their employees, making contributions paid by firms and employees more affordable. Subsidizing social insurance contributions has led to positive results in some countries, as have efforts to raise awareness of the benefits of formality for firms and workers.<sup>96</sup>

Figure 23 also illustrates an accelerating trend of women not participating in the labour market. In Egypt, this is reflected in an increased proportion of unemployed women of working age, reaching 66 per cent in 2018, up from 57 per cent in 2006. Women are disproportionately deprived of social protection coverage because of their low rates of participation in the labour force. In addition, households with higher proportions of women have reduced access to social insurance coverage, making them more vulnerable than households with lower proportions of women.<sup>97</sup> To address that issue, Jordan launched reforms by changing the social insurance law to include inactive persons,<sup>98</sup> but the impact of those reforms on women and other inactive groups is not yet known.

Figure 23. Employment distribution of working-age individuals (15–64) from middle-class households in Egypt by sex (Percentage)



Source: Authors calculations using ELMPS waves 2006 and 2018.

## 3. Entry into first jobs is increasingly challenging, more so for the middle class

Due to the limited capacity of the formal private sector to absorb the supply of new labour market participants in the region, younger generations in the middle class have experienced a significant erosion of upward social mobility. Figure 24 presents the evolution of first jobs for new entrants to the labour market since 2000. It shows that first jobs, especially after 2011, are increasingly concentrated in private sector wage work without social protections, and this is more so for the middle class as compared with other classes. Previous studies show that new

labour market participants who start in informal employment without social insurance coverage are unlikely to move into formal employment.<sup>99</sup> Therefore, with new workers increasingly lacking social insurance coverage in their first jobs, the reliance of the middle class on social insurance coverage as a primary means of social protection is expected to decrease further.

## C. Gender patterns of social protection among middle-class households -----

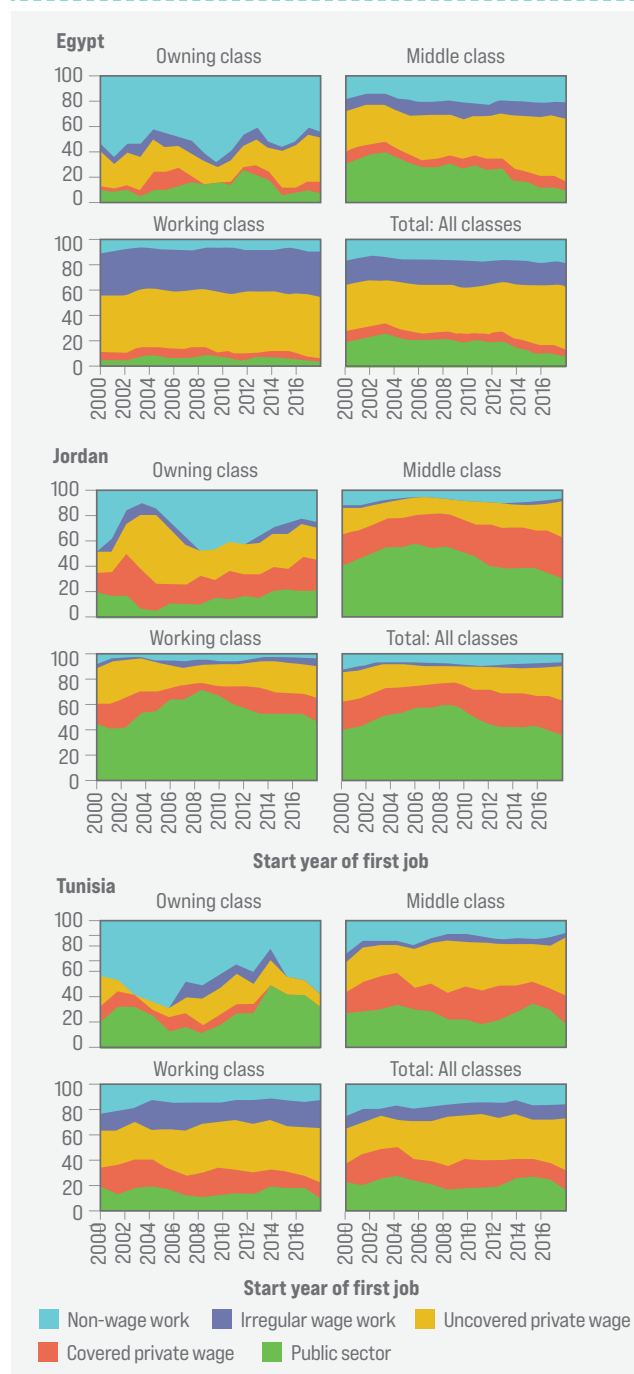
### 1. Similar effective coverage by headship but differing social protection instruments

Generally, female-headed, middle-class households are more likely than male-headed households in Egypt, and equally as likely as male-headed households in Tunisia, to be effectively covered by at least one social protection instrument (figure 25). Effective social protection coverage rates in Egypt stand at 70 per cent for female-headed, middle-class households and 63 per cent for male-headed ones. In Tunisia, effective coverage rates reach approximately 69 per cent of households overall. However, in Jordan, female-headed households are slightly less likely to be effectively covered, with figures of 60 per cent and 66 per cent, respectively, for female- and male-headed households.

The results do not mean that female-headed households, or individual women, are more protected than their male counterparts. Each household type shows quite different coverage

patterns for the three separate social protection indicators used to calculate the effective coverage rate.

**Figure 24.** Evolution of first jobs for new entrants to the labour market by household class in Egypt, 2018; Jordan, 2016; and Tunisia, 2014 (Percentage distribution)



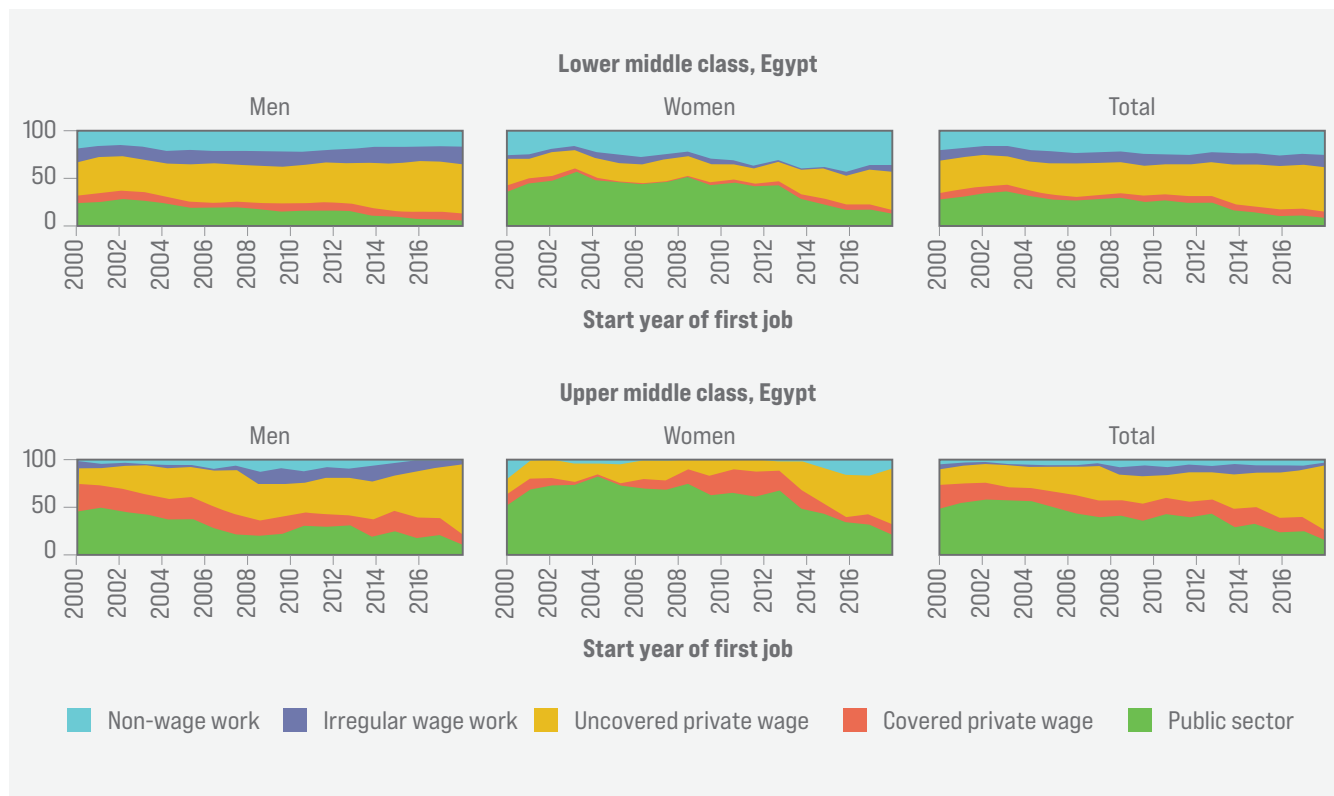
**Source:** Authors calculations using retrospective data from ELMPS, 2018; JLMPS, 2016; and TLMPS, 2014.

## 2. Although female-headed households have higher effective coverage rates, access to contributory social insurance schemes is limited

Figure 25 illustrates that female-headed households have a high reliance on retirement pensions because those households are mostly headed by widows who are likely receiving survivor retirement pensions. For example, in Egypt, the receipt of retirement pensions among female-headed, middle-class households is more than three times that of male-headed households and is the highest of the three countries examined. Other factors contributing to this difference include women self-selecting to work in public sector jobs, a tendency to retire early and longer life expectancy.

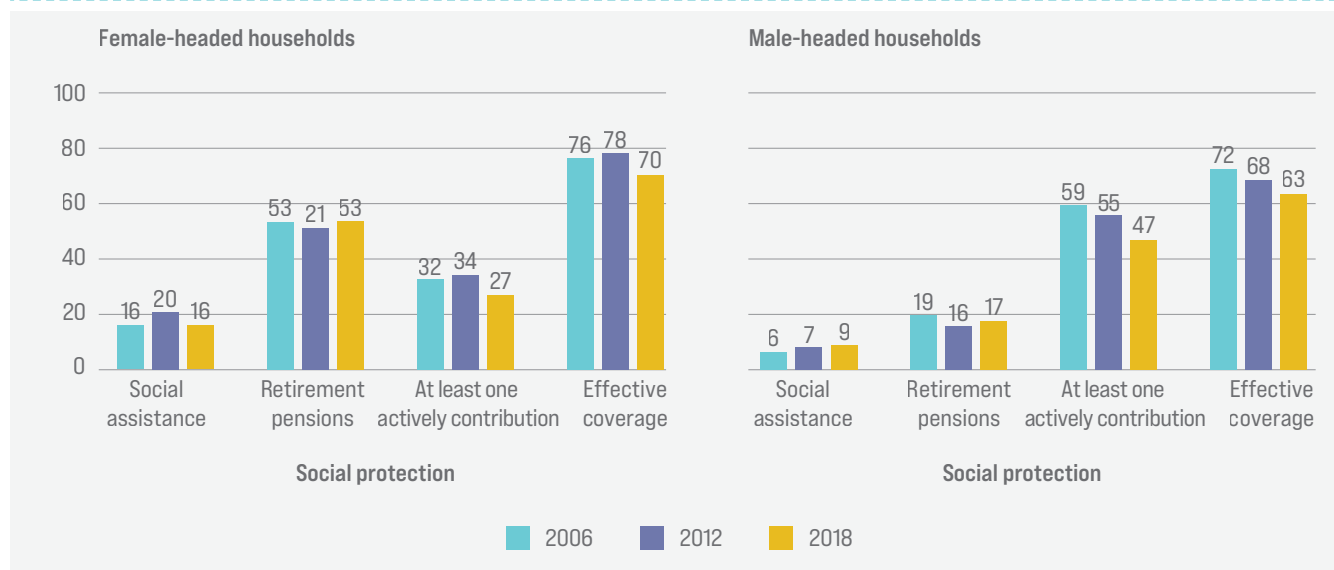
Despite the small proportion of middle-class households receiving non-contributory social assistance transfers, female-headed households are considerably more likely than male-headed households to receive them. That pattern is consistent in the three countries. Tunisia had the highest receipt rate for non-contributory social assistance transfers among female-headed households, at 26 per cent. Egypt had the second-highest rates, with female-headed, middle-class households at almost double the rate for male-headed households. Of female-headed households in Jordan, 8 per cent receive social assistance pensions, making them the lowest receiving group among the three countries with the largest gender gap across the three countries. That gap can be potentially explained because of the fact that social assistance programmes in Jordan have historically been targeted toward female-headed households, and widows in particular.

**Figure 25.** Evolution of first jobs for new labour market entrants – lower- and upper-middle class in Egypt, 2018 (Percentage)



**Source:** Authors calculations using retrospective data from ELMPS, 2018; JLMPS, 2016; and TLMPS, 2014.

**Figure 26.** Evolution of social protection coverage for middle-class households in Egypt by gender of head of household (Percentage)



Source: Authors calculations using ELMPS waves, 2006, 2012 and 2018.

### 3. Effective coverage rates fell faster for male-headed households, but for a different reason than for female-headed households

In Egypt, male-headed households in the middle class experienced a drop of about 8 percentage points between 2006 and 2018 (figure 26), primarily due to the limited number of working household members with access to social insurance coverage. Female-headed households also experienced a decrease in effective coverage rates (with 6 percentage points), also due to a falling number of socially insured workers in their households.

However, the reasons behind the drop in social insurance coverage rates at the household level differ between women and men. For women in Egypt, for example, the increasing lack of social insurance coverage could be due to high rates of women leaving the labour force in the past two decades.<sup>100</sup> For male-headed households, the drop is primarily attributed to the rapid expansion of informal and precarious employment rather than to a drop in labour force participation. In Jordan, the effective coverage rate of female-headed households remained stable between 2010 and 2016, largely because of increased access to retirement pensions.

## D. Access to health insurance among the middle class

This section explores patterns of health insurance coverage for the middle class. These patterns are measured at the individual level because, unlike

transfers, health insurance cannot be shared among household members.

## 1. Health insurance coverage is highest among the middle class, especially the upper middle class

Health insurance rates, as shown in figure 27, are highest in Tunisia. Approximately 80 per cent of the middle class and owning class have health insurance, while 76 per cent of the working class have coverage. Jordan is the exception across the three countries for health insurance rates among the middle class since 64 per cent of the working class have coverage, a higher rate than among the middle class. Egypt has the lowest health insurance coverage rates in the region across the three classes, as only about 50 per cent of middle-class Egyptians have health insurance. However, the middle class in Egypt still enjoys greater access to health insurance than other classes in the country, given that only 41 per cent of the owning and 36 per cent of the working class have access. In all three countries, members of the upper middle class have higher rates of

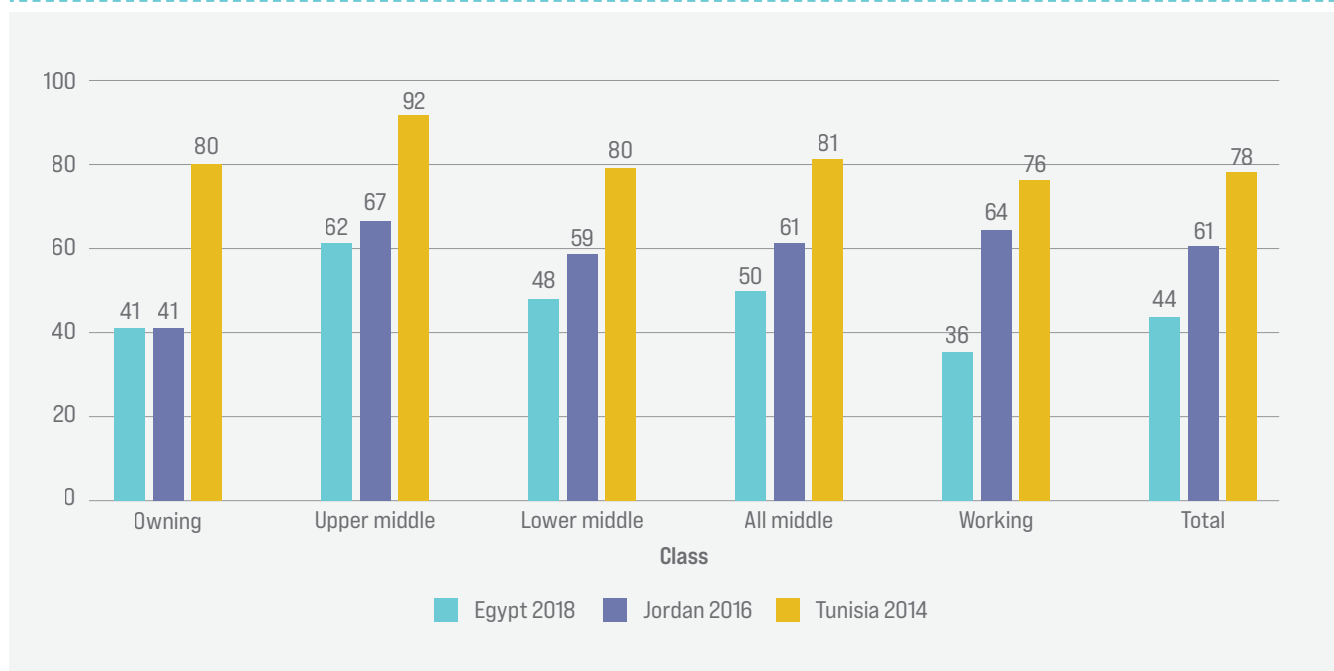
health insurance than those in the lower middle class, maybe due to higher private health insurance provision through their employers.

## 2. Public health providers are a key insurance source for the middle class

Figure 28 shows that, in all three countries, health-insured individuals in the middle class are slightly more likely than the insured from other classes to rely on public health insurance.

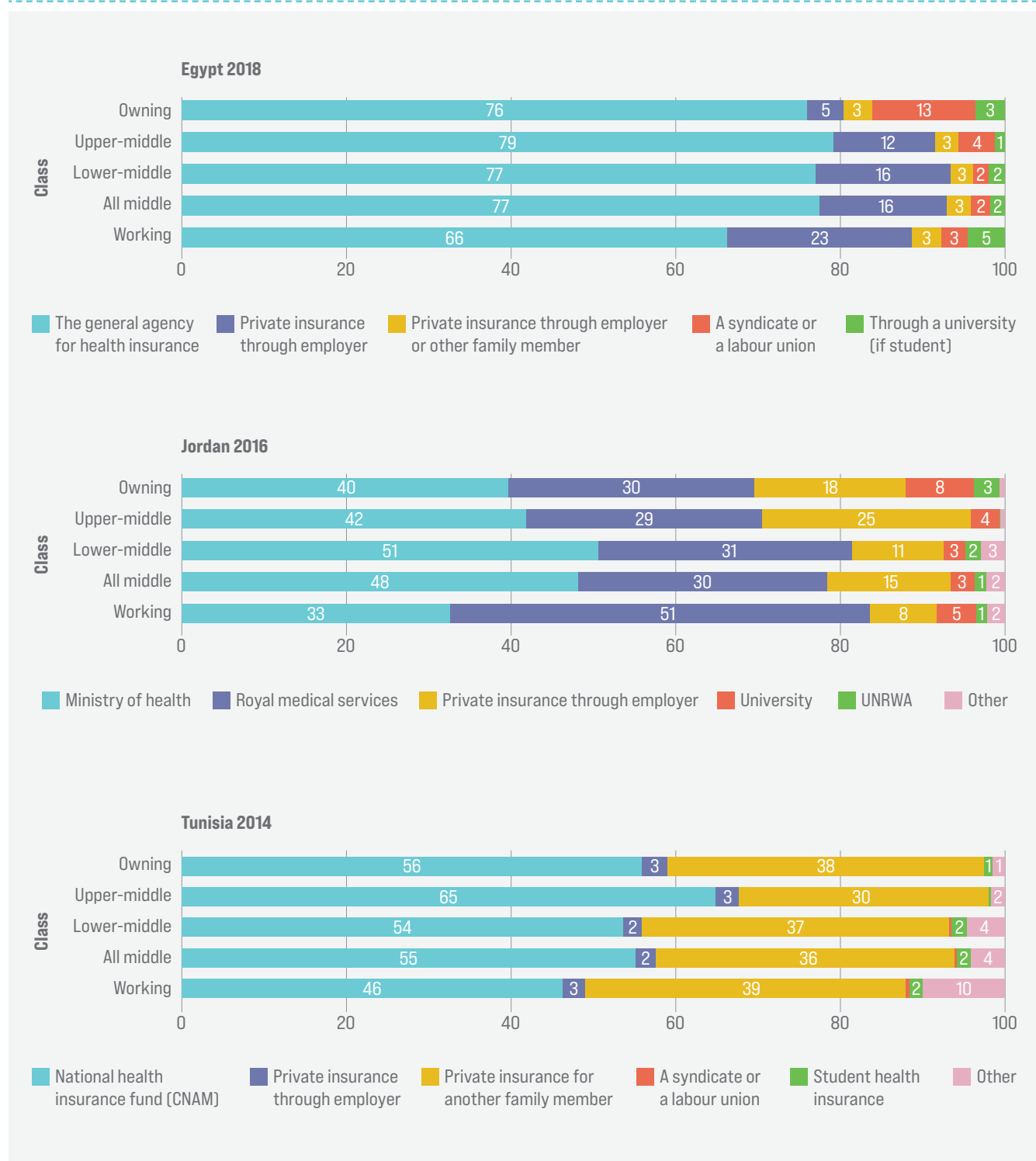
In Egypt, public insurance covers 78 per cent of health-insured individuals in the middle class. In Jordan, about 48 per cent of the middle class report that their main source of health insurance is through the Ministry of Health, and 31 per cent receive insurance coverage through the Jordanian Royal Medical Services. In Tunisia, national health insurance covers 55 per cent of health-insured individuals in the middle class, including workers' spouses and dependents.<sup>101</sup>

**Figure 27.** Health insurance rates at the individual level in Egypt, Jordan and Tunisia by household class (Percentage)



**Source:** Authors calculations using ELMPS, 2018; JLMPS, 2016; and TLMPS, 2014.

**Figure 28.** Distribution of health insurance types for individuals with health insurance coverage in Egypt (non-students), Jordan and Tunisia by household class (Percentage)



**Source:** Authors calculations using ELMPS, 2018; JLMPS, 2016; and TLMPS, 2014.

**Note:** UNRWA stands for United Nations Relief and Works Agency for Palestine Refugees in the Near East. The small percentage of individuals in Egypt who are not currently enrolled as students, but still possess health insurance through a university, could potentially be attributed to either maintaining valid insurance coverage from their university or could be due to misreporting.

Since middle-class households mostly rely on public providers of health insurance, the quality of public health services and provisions is a key factor in ensuring the social welfare of those households. Previous research on the Arab region documents deteriorating quality of public health services, meaning that middle-class households

have resorted to coverage from the private sector and their out-of-pocket expenditure has increased, as discussed in chapter 3. Those trends signal the need for Governments to restructure the health insurance system to increase spending, inclusion and coverage.

## | E. Conclusion -----

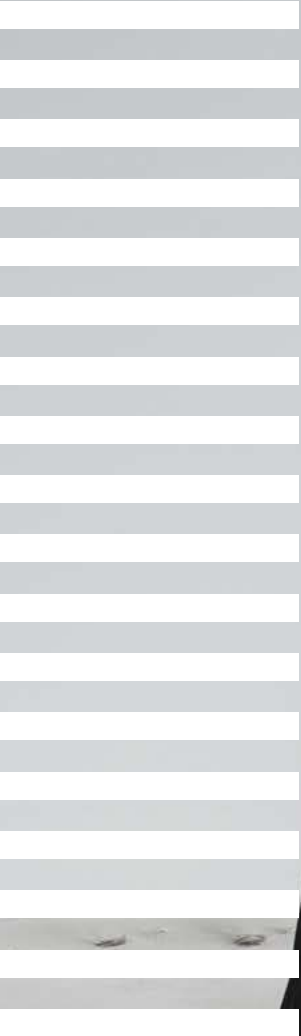

This chapter provides evidence that middle-class households in Egypt, Jordan and Tunisia are most likely to be effectively covered by at least one out of three social protection benefits when compared with other classes. The effective coverage rate for middle-class households is relatively high because those households are most likely to have workers who actively contribute to social insurance schemes.

With the decrease in public sector employment and subsidies, the question is whether the private sector has succeeded in providing an alternative channel for middle-class employment, with the possibility of social insurance coverage and retirement pensions. This chapter concludes that the formal private sector has only limited capacity for creating a sufficient number of decent jobs, which has made continuity of access to social insurance coverage for the middle class difficult. Additionally, increasing inequality, political turmoil and recent economic shocks have all contributed to a shrinking middle class in the Arab region, as discussed in chapter 2. The existence of adequate social protections is crucial for buffering the effects of those crises and preventing middle-class households from falling into poverty. This chapter also provides evidence that a lack of social protection mechanisms contributes to increased vulnerability and can be a driver for downward mobility.

Enabling access to social protection for individuals performing all types of work, including those in non-standard forms of employment and self-employment, together with effective coordination and a combination of contributory and non-contributory schemes, are key components for maintaining the social and economic stability of the middle class in all three countries discussed here. Contributory social insurance schemes exclusively available to paid workers may also reinforce gender inequality given that women's labour market participation in the region is the lowest in the world.<sup>102</sup> Adapting social protection systems to the realities that men and women in the region face in the labour market and in society is a crucial step towards establishing more inclusive social protection systems and maintaining social stability.<sup>103</sup>







# The impact of fiscal policies on poverty and vulnerability levels among the middle class in Egypt

# 06



In the past decade, public social expenditure in the Arab region has remained inadequate and has been used inefficiently, impeding the delivery of essential social services, including to middle-class households.<sup>104</sup> More recently, limited fiscal space has been apparent in the inability of the Arab region to respond effectively to the repercussions of the COVID-19 pandemic,<sup>105</sup> which has adversely affected the pace and equity of recovery.

The past decade has also witnessed a decline in growth in the Arab region and reduced Government revenue. This has impeded the financing of development and efforts to achieve the Sustainable Development Goals. The need to increase tax revenues has remained a major challenge for most countries in the region and, to address that challenge, several countries have implemented tax reforms in the past decade. For a number of reasons, however, improvements to taxation systems have often failed to result in the desired increase in public revenue. More importantly, taxation systems have largely failed to improve tax equity.<sup>106</sup> Indeed, many tax reforms have significantly increased the tax burden

on the middle class and the poor, as Governments have increased their reliance on taxes on goods and services, while tax leakages and inefficiencies, including in individual and corporate taxation, have tended to benefit the rich.

While macro-level data confirm such findings, there is insufficient micro-level information or research to draw conclusions about the distributional consequences of fiscal policy choices across countries in the region. This chapter illustrates how fiscal policy reforms can help promote equity at the macro level and provides household-level data from Egypt as an example to assess the effectiveness of fiscal policy reforms in addressing poverty and vulnerability among middle-class households. The analysis particularly focuses on the impact of direct transfers to households to augment their income and the indirect taxes paid by households on their consumption. The overall aim of the chapter is to help policymakers and other relevant stakeholders understand the effectiveness of fiscal policy choices on different social classes.

## | A. How equitable are taxes and transfers?

### The case of Egypt -----

The reference points for the following analysis are the 2012/2013 and 2017/2018 Household Income, Expenditure and Consumption Surveys (HIECS) of Egypt. We use the data provided by the Economic Research Forum of Egypt to assess the redistributive impact of taxes and transfers on different social classes.<sup>107</sup>

Sufficiently detailed occupation codes are not available in the Economic Research Forum version of HIECS, so the social class of households is

imputed into HIECS by matching households with the most likely households in the LMPS. Details concerning the methodology for imputation are provided in the Middle Class series Working paper No. 6.



## Methodology – impact of taxes and transfers on the middle class

The analysis in this chapter assesses the impact of fiscal policy choices (taxes and transfers) on the middle class in Egypt at two points in time, 2012/2013 and 2017/2018, using household survey data. Various methodologies can be used to assess the impact of taxation and transfers on household welfare.<sup>166</sup> We follow the most recent methodology developed by Lustig and Higgins. That methodology considers a comprehensive list of adjustment to income concepts and combines micro- and macro data in order to assess the impact of fiscal policy on poverty and inequality.

In terms of notations, the concepts are as follows:

Market income:  $Y^m = W + IC + SC + IR + RT + P$

Net market income:  $Y^n = Y^m - DT - SS$

Disposable income:  $Y^d = Y^n + T$

Post-fiscal income:  $Y^{pf} = Y^d + IS - IT$

Where,

W = gross (pre-tax) wages and salaries

IC = income from capital

SC = self-consumption from own production

IR = imputed rent for owner occupied housing

RT = remittances

P = pensions from contributory social security system

DT = direct taxes on all income sources

SS = contributions to social security

T = direct transfers from government

IS = indirect subsidies (food, fuel prices and so on)

IT = indirect taxes

In order to arrive at income concepts, a number of adjustments were made to the harmonized HIECS data set. Market income data were not available in HIESs. The data set provides a net market income ( $Y^n$ ) variable, which includes all incomes excluding direct taxes and social security contributions. The amount of direct taxes and social security contributions are not available in the data set. We obtained the disposable income ( $Y^d$ ) for each household by adding direct transfers received by households to net market income ( $Y^n$ ). However, data on transfers covered all Government and private transfers, including those provided through social insurance, assistance, inter-household transfers, charities, remittances, disability pensions, allowance benefits, and child/family benefits. According to our income definition, remittances from abroad and pensions should be treated as part of regular income. These are not public transfers. Therefore, foreign remittances and pensions were deducted from transfers for those households that receive such incomes, and augmented to net market income ( $Y^n$ ).

The post-fiscal income ( $Y^{pf}$ ) captures income net of indirect taxes paid through consumption, but not indirect subsidies received. The computation of indirect subsidies received by households through subsidies on food, energy and other essential provisions was not possible due to a lack of adequate data on the volume and type of food and fuel consumed. For taxes, we applied commodity tax rates to consumption expenditure in order to compute the total indirect taxes paid for consumption of all items, which was then deducted from disposable income to arrive at post-fiscal income. A limitation of this variable is that it tends to lower the post-fiscal income for those households that consume a significant proportion of the subsidized items. In theory, many of the subsidized items are intended for poor and low-income households. However, many of the fuel subsidies are enjoyed by wealthier households (IMF, 2014).<sup>167</sup> Food subsidies apply to all households. Therefore, it can be argued that the downward bias of post-fiscal income is applicable to all households in the sample and not just poor households.

National poverty estimates are based on consumption expenditure per capita. According to the national definition, the poverty rate in Egypt was 32.5 per cent in 2017/2018 and 26.3 per cent in 2012/2013 (Central Agency for Public Mobilization and Statistics (CAPMAS)), 2018).<sup>168</sup> For disposable income, the threshold of income that corresponds to exactly the same poverty rate was used. That ensures that the poverty rates are the same regardless of whether the consumption or income-based definition is used.

Note: <sup>a</sup> The Economic Research Forum data cover 50 per cent of the sample households assessed in the national surveys, but the estimates based on the data are representative at the national level.

<sup>b</sup> Item-specific indirect tax rates are obtained from the Official Gazette of Egypt, available at <http://manshurat.org>.

## B. Impact of taxes and transfers on poverty and the vulnerability of middle-class households -----

### 1. Lower middle-class households are key consumers and vulnerable to adverse fiscal or inflationary pressures

As illustrated in figure 29, the consumption expenditure of middle-class households constituted more than half of total consumption expenditure in both 2012 and 2017. The consumption expenditure of lower middle-class

households constituted the largest share of total consumption expenditure in the country, with average per capita annual consumption at 12,152 Egyptian pounds (LE) (equivalent to \$683) in 2017 (only 1.4 times above the national poverty line). As shown in figure 30, the average per capita consumption of upper middle-class households was double that of lower middle-class households, at LE 24,575 (equivalent to \$1,382). However, upper middle-class households constituted only 7 per cent of all households in 2012 and 6 per cent of all households in 2017.

The savings of lower middle-class households are negligible, with spending constituting 91 per cent of their disposable income in 2017. Therefore, any fluctuation in income streams or price increases tend to increase the vulnerability of working-class and lower middle-class households more than that of households in other social classes. To cope, working-class and lower middle-class households tend to adjust their consumption or increase their household debt. For instance, a 10 per cent increase in consumption expenditure, when pushed by inflationary pressures, would force lower middle-class households to lower their spending or increase their borrowing, while a mere 3 per cent increase in the consumption expenditure of working-class households would force them to borrow or lower their spending. This finding is particularly significant: the inflation rate in Egypt has been over 10 per cent since March 2022, making the working and lower middle classes particularly vulnerable to deprivation or increased indebtedness.

## 2. Fiscal policy choices had a stronger poverty-reducing effect in 2017 than in 2012, although overall effect remain muted

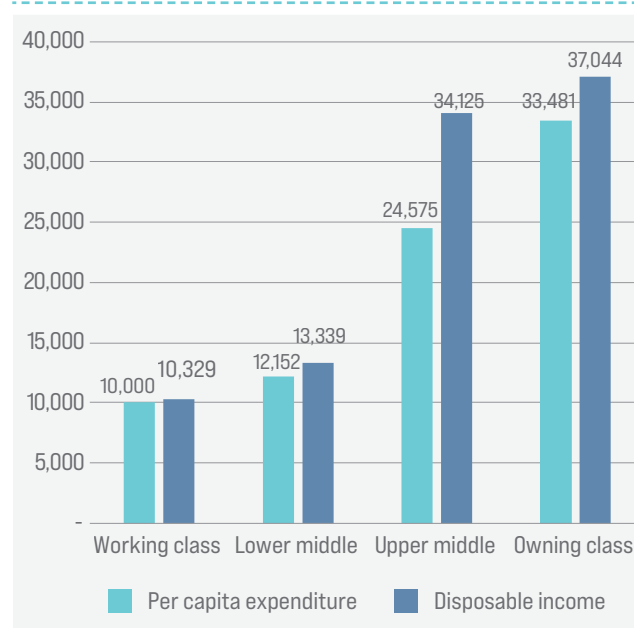
Figures 31 and 32 show poverty rates in Egypt over time, as measured using a range of income indicators. Those figures capture the estimated change in poverty rates due to direct transfers received through various Government programmes and the impact of indirect taxes on consumption patterns.<sup>108</sup> The poverty rate in Egypt stood at 26.3 per cent in 2012 but increased to 32.5 per cent in 2017, according to the disposable income threshold. The poverty rate by net market income (before households received any direct transfer payments) was 42.5 per cent in 2017. The poverty rate in 2017 was 39.5 per cent as measured using post-fiscal income, clearly showing the effect of indirect

**Figure 29.** Share of consumption expenditure of different social classes in Egypt, 2012 and 2017 (Percentage)



**Source:** Authors' calculations based on data compiled through the HIECS of Egypt with data provided by the Economic Research Forum.

**Figure 30.** Expenditure and disposable income per capita of different social classes in Egypt, 2017 (Egyptian pounds)



**Source:** Authors' calculations based on data compiled through the HIECS of Egypt with data provided by the Economic Research Forum.

taxes, which increased poverty rates by almost 7 percentage points. Therefore, the net effect was only a 3 percentage point reduction in poverty. In 2012, indirect taxes more than offset the poverty-reducing effect of transfers, leading to an increase in poverty of 0.4 percentage points.

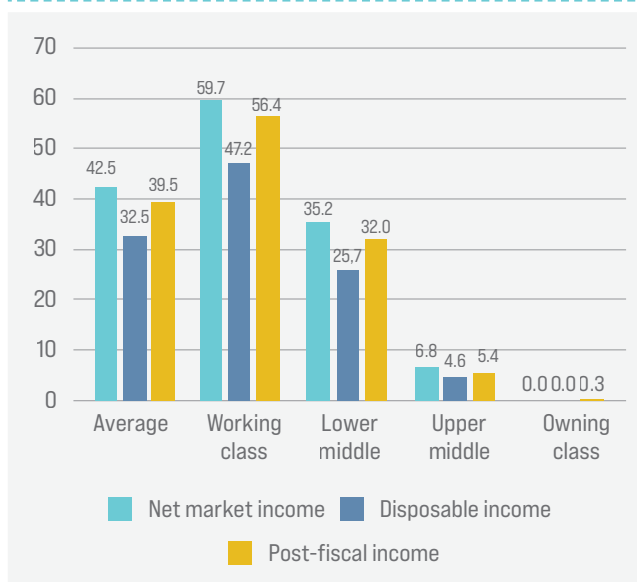
### 3. Indirect taxes mostly offset the benefits of direct transfers

As shown in figures 31 and 32, all social classes except for the owning class reported poverty, and poverty rates were highest among the working class. In 2017, while the national poverty rate was 32.5 per cent, the poverty rate among working-class households stood at 47 per cent.<sup>109</sup> Similarly, the poverty rate was 25.7 per cent among the lower middle class, 4.6 per cent among the upper middle class,<sup>110</sup> and zero for the owning class. As compared with 2012, poverty rates increased across all social classes by 2017, with the sharpest increase occurring among working-class households.

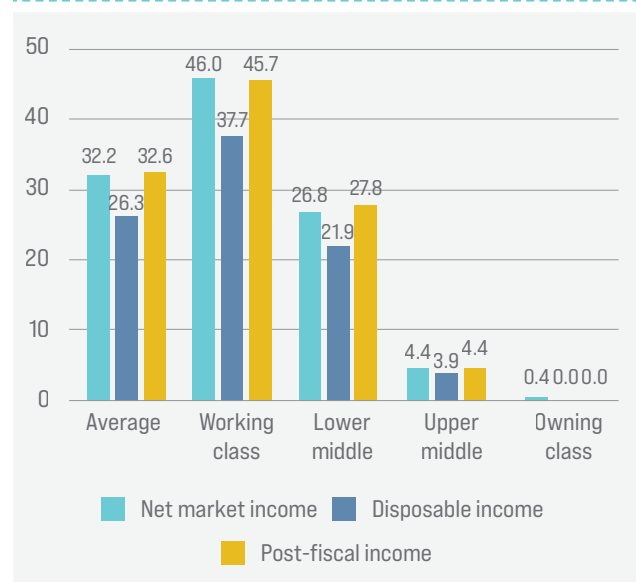
Among the lower middle class, figure 31 shows that direct transfers contributed to a 9.5 percentage point reduction in poverty rates in 2017, while indirect taxes contributed to a 6.3 percentage point increase in poverty, resulting in a net 3.2 percentage point reduction in poverty. In 2012, indirect taxes not only offset the benefits of transfers but also led to an increase in the poverty rate of 1 percentage point.

Outcomes were more muted among upper middle-class households. In 2017, the upper middle class experienced a 2.2 percentage point reduction in poverty due to direct transfers, while indirect taxes led to an increase in poverty of 0.8 percentage points. In 2012, the stronger impact of indirect taxes resulted in an increase in poverty among the upper middle class that more than offset the benefits stemming from the direct transfers those households received. It is, however, important to analyse the type of transfers received by upper middle households and the reasons for those transfers.

**Figure 31.** Impact of fiscal policy choices on poverty rates across different social classes, 2017 (Percentage)



**Figure 32.** Impact of fiscal policy choices on poverty rates across different social classes, 2012 (Percentage)



**Source:** Authors' calculations based on data compiled through the HIECS of Egypt with data provided by the Economic Research Forum.

**Note:** Net market income (gross income excluding direct taxes) is defined as income before households receive transfers.

Disposable income includes net income and income from transfers. Post-fiscal income, in this case, equals disposable income minus indirect taxes paid by households on their consumption of goods and services, as noted in the relevant survey.

An examination of the responsiveness of poverty rates to transfers reveals that for the working and lower middle class, a 1 per cent increase in income due to transfers is associated with about a 1 percentage point reduction in poverty. Analysing the data from 2017, we find that transfers accounted for 11.8 per cent of disposable income for the working class, resulting in a significant 12.5 percentage point reduction in poverty within this group. Similarly, for the lower middle class, transfers contributed to a 9.6 per cent increase in income and a 9.5 percentage point reduction in poverty. A significant part of transfers also goes to the upper middle class, contributing to an increase in their income by 6.7 per cent, and a reduction in their poverty rate by 2.2 percentage points. Comparing these findings to those of 2012, we observe a consistent trend.

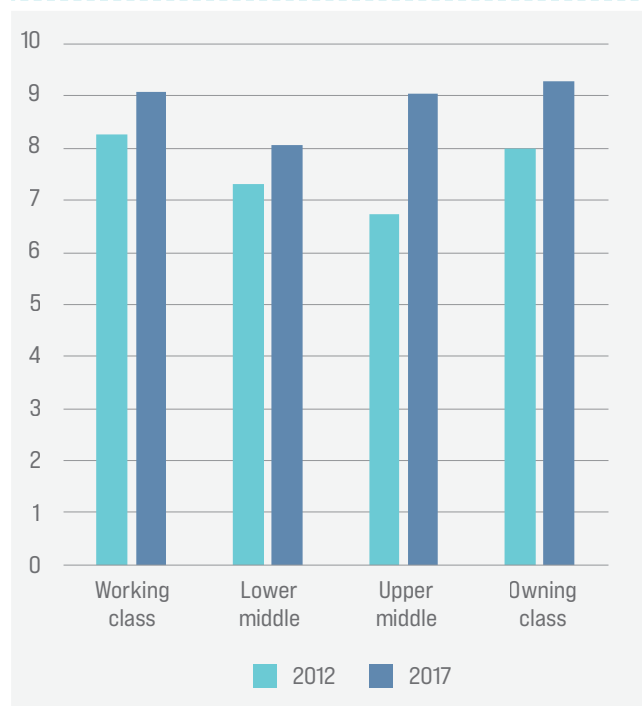
Importantly, and as illustrated in figure 33, the share of indirect taxes in total consumption expenditure of working-class and lower middle-class households increased in 2017 as compared

with 2012. The tax share of expenditure for the upper middle and owning class also increased. However, the tax burden is felt more acutely by the working class and lower middle class because of their higher share of consumption relative to their share of disposable income as compared with that of other social classes (figure 34). Indeed, despite improvements in the progressivity of indirect taxation regimes in Arab countries in 2017 compared with those in 2012, the burden of indirect taxes remains particularly high for working-class and lower middle-class households.

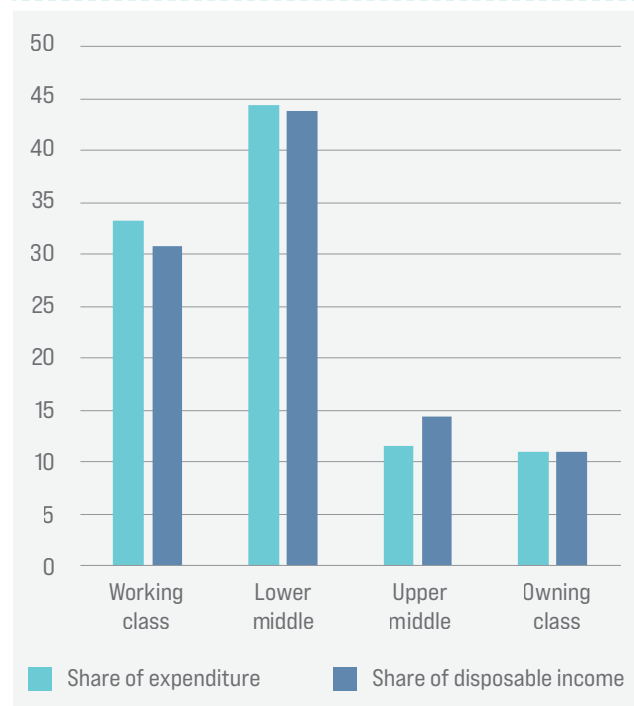
#### 4. Owning and upper middle classes reap transfer progressivity benefits

Figures 35 and 36 show the incidence of transfers and indirect taxes across the social classes, expressed as a percentage of disposable income. The incidence of transfers shows a progressive pattern in both 2012 and 2017, as the working class and lower middle class received a higher share of

**Figure 33.** Indirect taxes (share of total expenditure), 2017 and 2012



**Figure 34.** Share of total expenditure and share of disposable income, 2017



**Source:** Authors' calculations based on data compiled through the HIECS of Egypt with data provided by the Economic Research Forum.



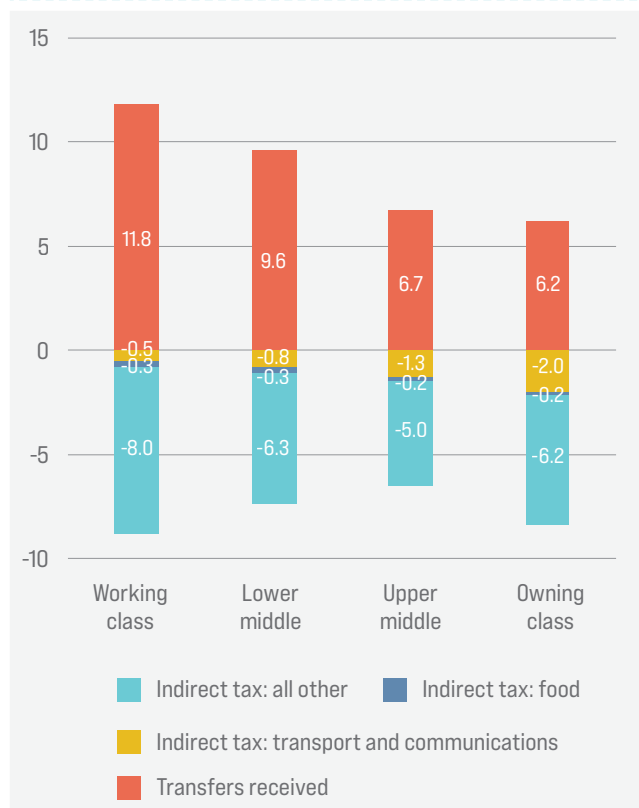
income from transfers than the upper middle and owning classes. The share of disposable income provided by transfers for the upper middle and owning classes is significantly smaller; however, further research is required to fully understand why those households are often eligible to receive direct transfers. Despite a significant proportion of direct transfers going to the upper middle and owning classes, which indicates that there is considerable scope for improving the targeting of financial assistance, transfers are still helping to improve equity in Egypt.

## 5. Indirect taxes tend to be regressive and adversely affect the working and lower middle classes

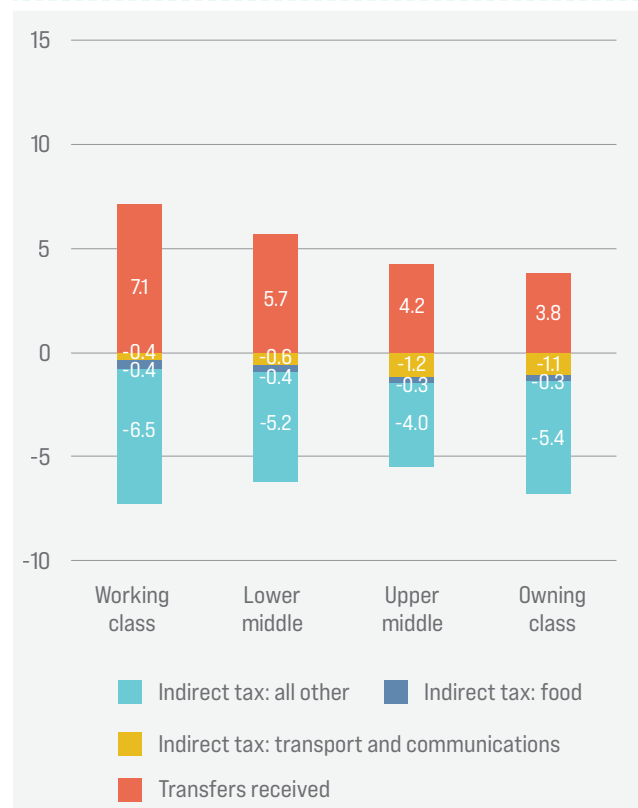
The working and lower middle classes paid a higher proportion of their disposable income

in indirect taxes in both 2012 and 2017. In fact, the burden of indirect taxes increased over the period in question: in 2012, indirect taxes were, on average, the equivalent of 7.4 per cent of disposable income for the working class, 6.3 per cent for the lower middle class, 5.5 per cent for the upper middle class, and 6.8 per cent for the owning class, whereas in 2017, indirect taxes on average accounted for 8.8 per cent, 7.3 per cent, 6.5 per cent and 8.4 per cent of disposable income across the four social classes, respectively. Notably, in the 2016/2017 fiscal year, Egypt transitioned from a goods and services tax system with a standard rate of 10 per cent to a value-added tax (VAT)-based taxation system. VAT was set at 13 per cent, but increased to 14 per cent the following year. This explains why all social classes paid higher indirect taxes in 2017 as compared with 2012.

**Figure 35.** Incidence of transfers and indirect taxes across the various social classes, 2017 (Percentage)



**Figure 36.** Incidence of transfers and indirect taxes across the various social classes, 2012 (Percentage)



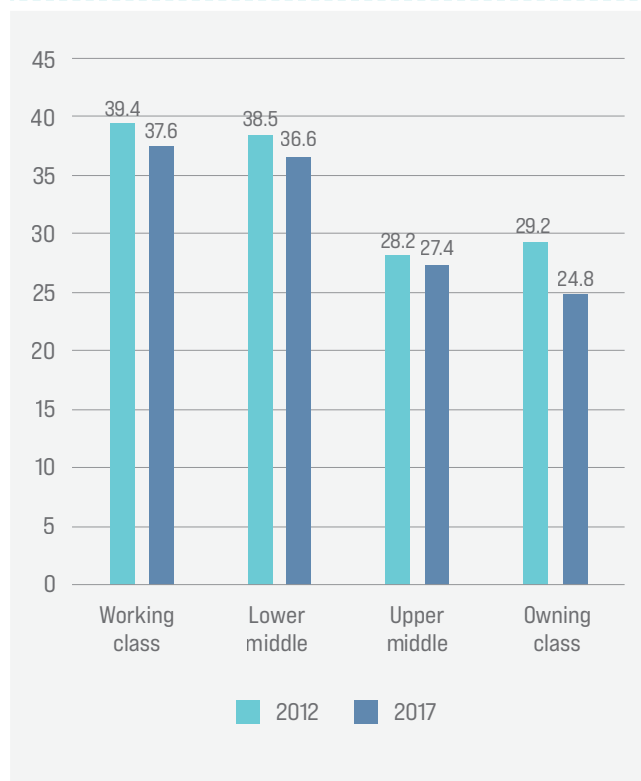
Source: Authors' calculations based on data compiled through the HIECS of Egypt (data provided by the Economic Research Forum).

## 6. The tax exemptions and tax rates on food and non-food items tend to reduce regressivity

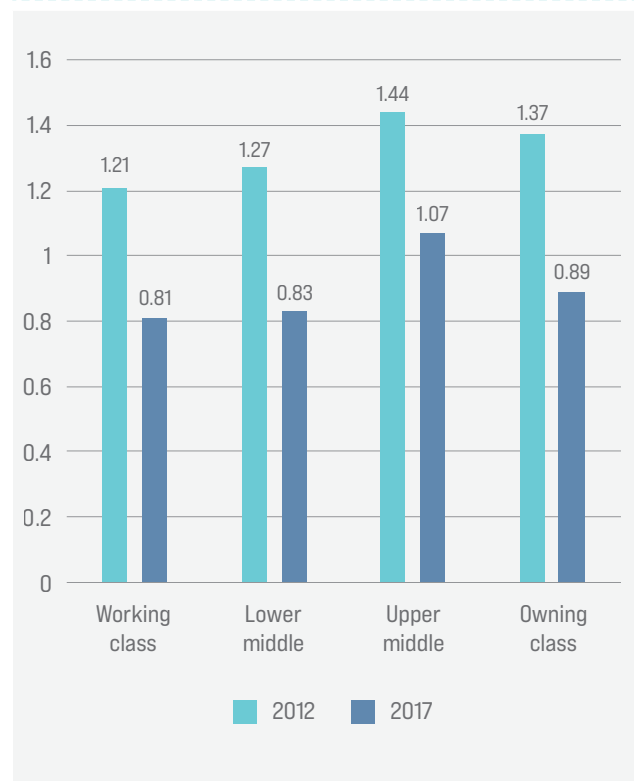
Most staple food products are exempt from indirect tax in Egypt, which explains the small share of indirect taxes paid in that category. The pattern also suggests that the burden of taxes on food and beverages is slightly lower for the working and lower middle classes than the upper middle and owning classes. In 2017, food expenditure accounted for roughly 37 per cent of total expenditure for the working and lower middle classes but only one quarter of total expenditure for the owning class. Taxes accounted for 0.81 and 0.83 per cent of food expenditures for the working and lower middle classes, respectively, as compared with 1.07 and 0.89 per cent for the upper middle and owning

classes, respectively. In 2012, the pattern was similar across social classes but the taxes on food constituted a higher share of total food expenditure. However, on non-food items, the working and lower middle classes pay a much larger share of their expenditure as taxes as compared with the upper middle and owning classes. In 2017, taxes accounted for about 14 per cent of non-food expenditure for the working class and more than 11 per cent for the lower middle class, while it constituted about 9 per cent for the upper middle class and less than 11 per cent for the owning class. These findings highlight the regressivity of taxes on non-food items, which adversely affects the working and lower middle classes more than other social classes. The exemptions on food items tend to reduce the regressivity but the impact is much smaller.

**Figure 37.** Food expenditures as a share of total expenditures (Percentage)

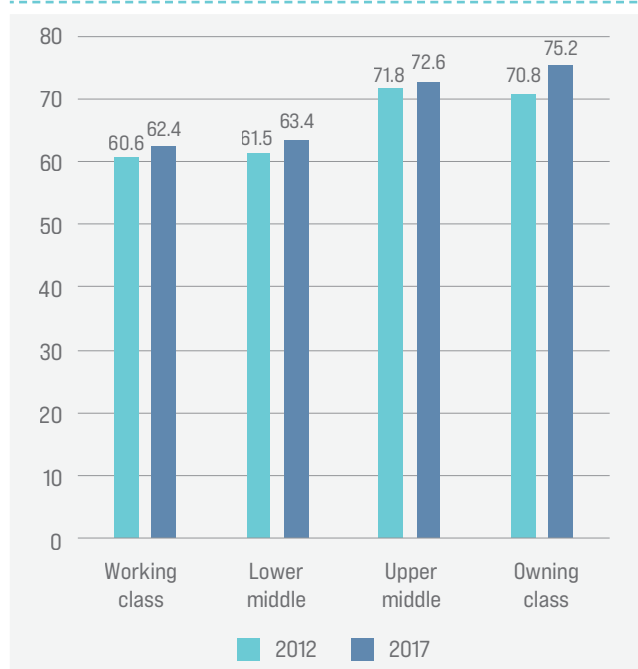


**Figure 38.** Taxes on food expenditures as a share of total food expenditures (Percentage)

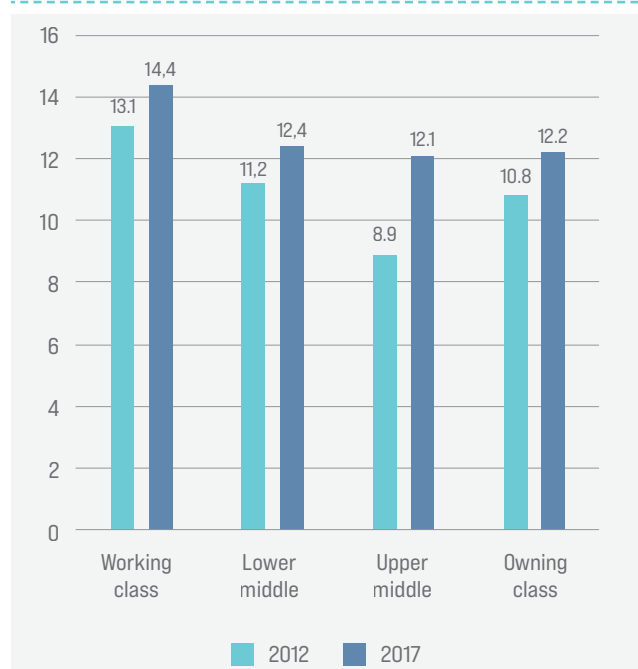


Source: Authors' calculations based on data compiled through the HIECS of Egypt with data provided by the Economic Research Forum.

**Figure 39.** Non-food expenditures as a share of total expenditures (Percentage)



**Figure 40.** Taxes on non-food expenditures as a share of total non-food expenditures (Percentage)



Source: Authors' calculations based on data compiled through the HIECS of Egypt with data provided by the Economic Research Forum.

## C. Conclusion

Arab countries continue to strive to formulate and adopt appropriate fiscal policies that promote equity and enhance progressivity. This chapter shows that fiscal policies have tended to have disparate effects on poverty and vulnerability across social classes in Egypt. The lower middle-class households are major consumers and are vulnerable to adverse fiscal or inflationary pressure. Estimates suggest that a 10 per cent increase in consumer prices will force most lower middle-class households to lower their spending or increase their borrowing, while a mere 3 per cent increase in consumer prices will force working-class households to borrow more or lower their spending, often signifying a reduction in expenditures on essential goods and services.

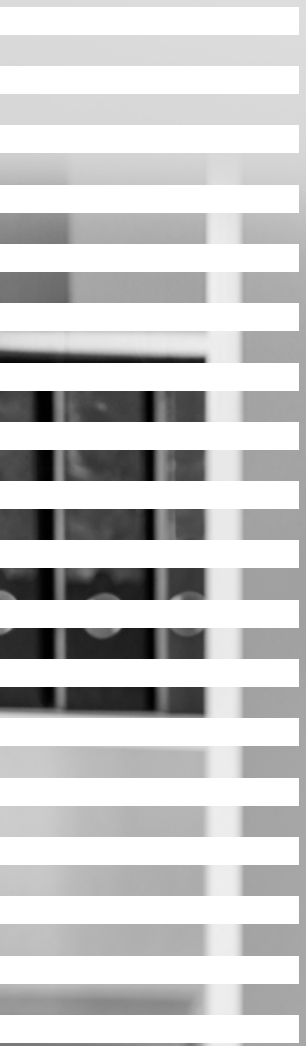
Fiscal policy choices had a stronger poverty-reducing effect in 2017 than in 2012, but the overall effect remained muted due to the indirect tax burden on poor families. Direct transfers

can have a strong poverty-reducing effect for working and lower middle-class households and the impact is particularly great on working-class households. However, indirect taxes tend to offset most of the poverty-reducing impact of those transfers. In 2017, the net impact was only about a 3 percentage point decrease in poverty among the working-class and lower middle-class households.

Transfers have supported progressivity over the years but a significant share of those transfers goes to the upper middle class. Indirect taxes have had a regressive impact on Egyptian society and have had a particularly adverse impact on the working and lower middle classes, even though tax policies on food and non-food items have tended to reduce regressivity. It is clear that without the current tax exemptions on food and the relatively progressive indirect taxes on transport and communications, the Egyptian tax system would be even more regressive.

# The skills of the middle class in Arab countries

# 07



This chapter aims to determine whether the skills required in middle-class professions in the Arab region align with global trends, or whether they lag behind, as noted in other research on the future of work.<sup>111</sup> In terms of global trends, the hard skills that are increasingly in demand in developed countries include skills in the areas of automation, artificial intelligence (AI) and data science. Recent research raises concerns about the prevailing paths of technological advancements in the Arab region. These developments have the potential to significantly replace skills and labor, especially within manufacturing and service-oriented occupations. Yusuf notes that certain countries in the Arab region may encounter a further erosion of the middle class with an increase in digital technologies and automation, and that workers with lower levels of education and wages, specifically the lower middle class, will be those most adversely affected.<sup>112</sup> This chapter draws on the findings of the chapter “The Arab region may be missing the Fourth Industrial Revolution: Arab skills are still stuck in the past”<sup>113</sup> and addresses arguments made in “Digital technology and inequality: the impact on Arab countries.”<sup>114</sup>

Using LFSs from five Arab countries, specifically Egypt, Jordan, Kuwait, the State of Palestine and Tunisia, we have identified the hard and soft skills

that middle-class workers should strive to acquire. Hard skills are defined as specialized, technical skills used for specific job tasks. Examples of hard skills include computer coding and financial analysis, and any skill that is considered technical rather than interpersonal. Soft skills are defined as skills prevalent across many occupations and industries, including personal attributes and learned skills. This chapter will help decision makers formulate employment policies that can enhance the stability and growth of the middle class in a fast-paced labour market environment.

While this chapter aims to provide an empirical perspective on what skills are needed in the current labour market, the driving forces behind skills generation, such as education, cannot be overlooked. The Arab region, as pointed out by ESCWA and ILO,<sup>115</sup> is suffering from a structural skill mismatch between the supply and the demand sides of the market. This structural mismatch implies that the skills demanded in the market are not aligned with the supplied skills generated by the education system and other outlets, which further implies that the market will not be able to match job candidates with vacancies, leaving a share of the middle class unemployed. At the same time, there are job vacancies that remain unfilled.

## **A. Middle-class skills are mainly traditional in nature** -----

In this section, we discuss what skills are demanded in middle-class jobs in the Arab region, as set out in the ESCWA Skills Monitor. Specifically, we assess linkages between the middle-class jobs observed on the supply side, using the occupations identified in LFSs, and the demand for skills as identified in the ESCWA Skills Monitor. The Skills Monitor provides up-

to-date information about the demand for skills in the virtual market of the Arab region. The objective of the Skills Monitor is to highlight the composition of the in-demand skills in each job, rather than to quantify the demand for jobs. From the in-demand skills, we highlight the following two key issues:

1. The most in-demand (hard and soft) skills in specific middle-class jobs.
2. The prospects for the survival of middle-class jobs, evaluated by the proportion of tasks undertaken in those jobs that are at risk for automation.

The first issue focuses on the composition of in-demand skills in the countries studied. To facilitate accurate and interpretable analysis, we have split job skills into hard and soft skills, using the definition provided by Lightcast, a labour market analytics company.<sup>116</sup> The second issue focuses on the tasks and skills required in individual middle-class jobs, and we have attempted to understand if those jobs are subject to automation. To that end, we have scored jobs on the basis of their potential for AI augmentation (hereafter their AI score), namely the potential that AI can either replace or facilitate the performance of the tasks required in each occupation.<sup>117,118</sup> The AI score is calculated on the basis of the number of registered patents or technologies that help automate, augment or replace tasks that involve human participation. The AI score for a given job type is calculated by measuring the percentage of tasks an existing AI patent could augment in that job type. Specifically, the percentage is determined by machine analysis of descriptions of each job posting, and checking the tasks mentioned to see if they can be automated by any registered AI patent.

The analysis begins by defining a list of “middle-class occupations” using LFSs from Egypt, Jordan, the State of Palestine, and Tunisia. Although we use similar LFS data from Kuwait, it is reported separately from the other four countries throughout the chapter. This is because of the particular economic and social context of Kuwait, as a GCC member State, compared with the four other non-GCC States.<sup>119</sup>

Table 9 shows the top 10 in-demand hard skills in middle-class occupations by country.<sup>120</sup> The table shows that many of the skills required in middle-

class occupations are appropriate for mid-skill occupations but not for high-skill occupations.

The review of middle-class skills in high demand in the five countries revealed both a number of differences<sup>121</sup> and many similarities. The in-demand skills in Egypt are particularly interesting. For example, computer science and programming-relevant skills, such as knowledge of Java, are in high demand in Egypt, together with traditional hard skills, such as sales techniques, invoicing and business development. According to data provided in the ESCWA Skills Monitor, Egypt has a more diversified set of skills among their middle-class workers than other countries in the Arab region, signalling that economic activity is relatively more diverse. Those results show that the middle class in Egypt has the potential to catch up with the increasing global demand for digital economy skills.<sup>122</sup>

For other countries, knowledge of accounting, finance and general computer science are consistently the most in-demand skills. The skills most in demand in the middle-class job market in Jordan are all, to a certain extent, related to the social sciences. Even though a decent number of coding and programming skills are in demand in all five countries, the top 10 in-demand skills in middle-class jobs in Kuwait, the State of Palestine and Tunisia are less closely related to the digital economy compared with the top in-demand skills in Egypt or Jordan.

## 1. Communication, sales and management are the soft skills most in demand in middle-class jobs

In-demand soft skills in middle-class occupations were also analysed. Table 10 shows the top 10 in-demand soft skills for middle-class occupations in the five countries.

**Table 9.** Top-10 in-demand hard skills in middle-class jobs

Top-10 in-demand hard skills (in decreasing importance)	Egypt	Jordan	Kuwait	State of Palestine	Tunisia
1	Knowledge of computer science	Knowledge of finance	Restaurant operations	Knowledge of finance	Knowledge of marketing
2	Accounting	Accounting	Accounting	Accounting	Bilingualism (French/English)
3	Finance	Social work	Finance	Computer science	Finance
4	Knowledge of key performance indicators	Computer science	Computer science	Financial statements	Computer science
5	JavaScript	Financial statements	Marketing	Computer engineering	Knowledge of key performance indicators
6	Sales	Data analysis	Mechanical engineering	Data collection	Agile methodology
7	Business development	Economics	Invoice processing	Social science	Corrective and preventive action
8	Structured Query Language	Data collection	Business development	Economics	Restaurant operations
9	Invoice processing	Project management	AutoCAD (computer-aided design)	Structured Query Language	Scrum (software development)
10	Agile methodology	Social science	Auditing	Debugging	Accounting

**Source:** ESCWA analysis and production based on data from the ESCWA Skills Monitor and country LFSs.

**Note:** Country-unique skills are highlighted in red.

The most in-demand soft skills for middle-class occupations are similar across the region, although there are a number of anomalies. For example, the Tunisian labour market has a unique demand for French, while the State of Palestine has three unique skills among the top 10 requested soft skills. The most frequently demanded soft skills across all five countries are communications, sales and management. When comparing the most in-demand skills for middle-class workers with those required of members of the owning class, it becomes clear that those skills are broadly applicable and are not class-dependent.

## 2. Middle-class hard skills are more industry-specific than soft skills

Using LFS data, the distribution of occupations was generated for 20 different industries. The top 10 hard and soft skills observed for each industry were then extracted from the Skills Monitor database. Three representative industries from the LFS data were selected to simplify the analysis. The selected industries were: information and communications; finance and insurance activities; and construction. We limited the analysis to Egypt, Jordan, the State of Palestine, and Tunisia due to aggregation limitations.



**Table 10.** Top-10 in-demand soft skills in middle-class jobs

Top-10 in-demand soft skills (in decreasing importance)	Egypt	Jordan	Kuwait	State of Palestine	Tunisia
1	Communications	Communications	Communications	Communications	Communications
2	Management	Management	English language	English language	Management
3	English language	English language	Arabic language	Arabic language	English language
4	Problem solving	Arabic language	Management	Management	Innovation
5	Planning	Planning	Planning	Planning	French language
6	Customer service	Coordinating	Customer service	Coordinating	Operations
7	Operations	Operations	Operations	Detail-oriented skills	Planning
8	Leadership	Leadership	Leadership	Computer literacy	Leadership
9	Presentations	Accountability	Problem solving	Interpersonal communication	Problem solving
10	Microsoft Word	Problem solving	Microsoft® Office	Problem solving	Customer service

**Source:** ESCWA analysis and production based on data from the ESCWA Skills Monitor and country LFSs.

**Note:** Country-unique skills are shown in red.

Tables 11 and 12 show the dominant hard and soft skills demanded in the three industries mentioned above for middle-class occupations. Table 11 shows that the top in-demand hard skills are largely dependent on the industry in question. Programming, computer systems and coding-relevant skills dominate the information and communication industry, while business-relevant skills dominate the finance and insurance

industries. Several engineering-relevant hard skills are in high demand in the construction industry.

Table 12 illustrates that the top in-demand soft skills in the three industries are very similar. Information technology skills are particularly in demand in the information and communications industry, while knowledge of Microsoft Office is in demand in the finance and insurance industry.

**Table 11.** Top-10 in-demand hard skills in the three selected industries (Analysed countries excluding Kuwait)

Top-10 in-demand hard skills (in decreasing importance)	Information and communications	Financial and insurance activities	Construction
1	Computer science	Accounting	Computer science
2	JavaScript	Finance	Finance
3	Cascading Style Sheets	Financial statements	Accounting
4	Application programming interface	Computer science	Mechanical engineering
5	Structured Query Language	Auditing	AutoCAD
6	HyperText Markup Language [HTML]	Key performance indicators	Electrical engineering
7	Git version control system	Invoicing	Software development
8	Agile methodology	Business development	Agile methodology
9	JavaScript	Sales	Software engineering
10	Software development	Financial analysis	Key performance indicators

Source: ESCWA analysis and production based on data from the ESCWA Skills Monitor and country LFSs.

**Table 12.** Top-10 in-demand soft skills in the three selected industries (Analysed countries excluding Kuwait)

Top-10 in-demand soft skills (in decreasing importance)	Information and communications	Financial and insurance activities	Construction
1	Communications	Communications	Communications
2	Management	Management	Management
3	Problem solving	English language	English language
4	English language	Planning	Planning
5	Planning	Arabic language	Problem solving
6	Information technology	Customer service	Operations
7	Operations	Problem solving	Leadership
8	Leadership	Operations	Arabic language
9	Customer service	Leadership	Customer service
10	Arabic language	Microsoft Office	Innovation

Source: ESCWA analysis and production based on data from the ESCWA Skills Monitor and country LFSs.

## B. Large gender disparities apparent among in-demand skills in middle-class occupations -----

The gender composition of each occupation can be ascertained by looking at LFS data. For each middle-class occupation, the number of males and females employed in each job type was extracted.<sup>123</sup> The aggregate results for the gender analysis are presented in table 13, while the findings from Kuwait are shown in table 14. The aggregate analysis, excluding Kuwait, shows that the skills demanded for both genders were similar for the top in-demand skills. When looking at the top 30 in-demand hard skills by gender, the skill sets for males and females overlap. In fact, the top 15 skills are almost identical for males and females, with the exception of AutoCAD (computer aided design), which appears only for males.

However, when looking at skills below the top 15, some diverging patterns are seen. While a certain amount of overlap is observed, including for digital marketing, which ranks 22<sup>nd</sup> and 17<sup>th</sup> in the male and female skill lists, respectively, other skills vary greatly by gender. For the in-demand skills list for males, economics, software development, SAP applications, and Java were ranked near digital marketing; while for the in-demand list for females, strategic planning, curriculum development, economics, and project management were ranked near digital marketing. Furthermore, strategic planning, curriculum development and project management were not present in the top 30 skills expected for males. The results of the findings are summarized in table 13.

**Table 13.** Top in-demand skills with high gender disparities (Analysed countries excluding Kuwait)

Skill name	Skill type	Ranking for males	Ranking for females
AutoCAD	Hard	15	66
Software development	Hard	21	37
Electrical engineering	Hard	25	77
Software engineering	Hard	27	59
Curriculum development	Hard	107	20
Lesson planning	Hard	126	22
Office management	Hard	88	25
Student engagement	Hard	144	28
Behaviour management	Hard	150	30

**Source:** ESCWA analysis and production based on data from the ESCWA Skills Monitor and country LFSs.

**Note:** Colour designations: green = male dominant; red = female dominant.

**Table 14.** Top in-demand skills with high gender disparities (Kuwait)

Skill name	Skill type	Ranking for males	Ranking for females
Troubleshooting	Soft	7	35
Lifting ability	Soft	17	50
Low voltage	Hard	14	63
Electrical systems	Hard	15	65
Machinery	Hard	17	80
Teaching	Soft	34	6
Lesson planning	Hard	64	5
Travel arrangements	Hard	66	7
Office supply management	Hard	68	9

**Source:** ESCWA analysis and production based on data from the ESCWA Skills Monitor and country LFSs.

**Note:** Colour designations: green = male dominant; red = female dominant.

The second column of table 14 shows that high gender differentials are prevalent in both hard and soft skills in Kuwait. Furthermore, the skill ranking differentials are more pronounced in Kuwait as compared with the aggregate data for the other four countries analysed.

The data shown in tables 13 and 14 indicate that in-demand skills for males and females tend to be different: while unique male-demanded skills are likely to be related to the technical and engineering fields, unique female-demanded skills are more likely to be related to education and management.

## C. Middle-class occupations likely to be impacted by artificial intelligence -----

To analyse whether AI is likely to affect or render unnecessary the skill sets used in middle-class occupations, the AI augmentation scoring methodology was used. AI augmentation scores were extracted from the ESCWA Skills Monitor database. These scores provide an indication of the percentage of tasks an existing AI patent

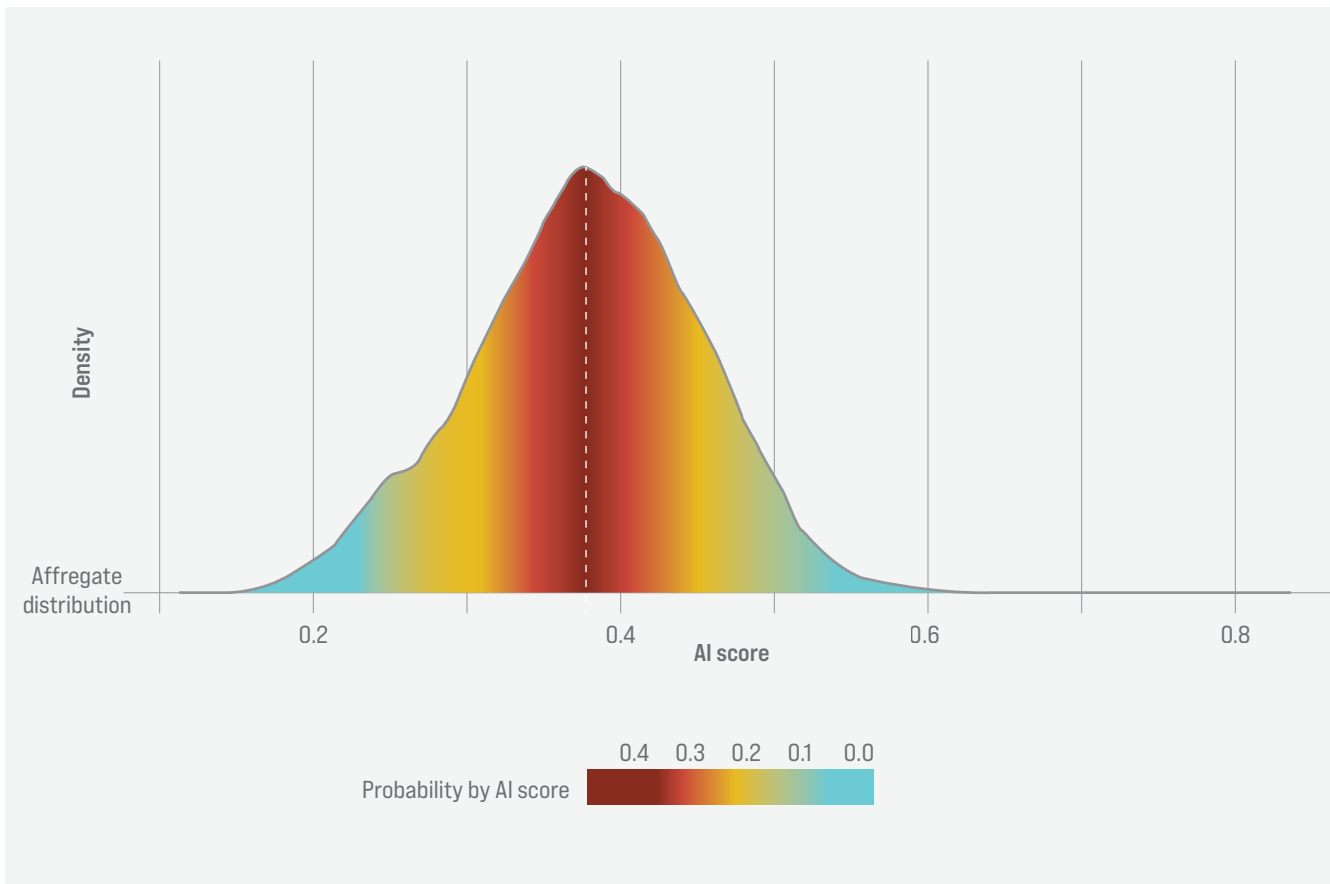
could augment. In simple terms, AI augmentation refers to tasks facilitated by AI. Figure 41 shows the overall distribution of AI scores across middle-class occupations: scores vary from less than 0.2 (less than 20 per cent of tasks in a particular job can be augmented) to more than 0.6 (more than 60 per cent of tasks can be augmented).

Figure 41 uses different colours to represent the density of distribution.<sup>124</sup> Darker colours indicate a condensed distribution of scores, while lighter colours indicate a sparse distribution. The red-dotted line in the middle shows the mean of the distribution, which stands at 0.378. This means that, on average, in middle-class jobs posted on the virtual market, 37.8 per cent of the tasks performed in the context of those jobs are augmentable using current AI technologies.

The job types clustered around the tails of the distribution curve are of particular interest. Those job types have the lowest (left tail) or the highest (right tail) percentage of AI-augmentable tasks. From the distribution, the first and ninety-ninth score percentile were identified. The first percentile lies at 0.21, and the ninety-

ninth percentile lies at 0.54. The first percentile represents the least augmentable 1 per cent of jobs in our data, and the ninety-ninth percentile represents its most augmentable counterpart. From the least augmentable percentile (the left tail), we observe a mix of service, teaching and technical jobs. Those job types include cafe baristas, middle-school teachers and a set of engineering occupations relevant to manufacturing. From the most augmentable percentile (the right tail), we observe analyst, consultant and computer-based occupations. Specifically, we found 204 job postings with the ISCO-normalized title of business consultant clustered on the right-hand tail. This implies that more than 54 per cent of the skills demanded in business consultant positions can be augmented by current AI technologies.

**Figure 41:** Aggregated artificial intelligence-score density plot (Analysed countries excluding Kuwait)



**Source:** ESCWA analysis and production based on data from the ESCWA Skills Monitor and country LFSs.

## D. Conclusion -----

This chapter analyses LFS data on the skills of workers in middle-class occupations in Egypt, Jordan, the State of Palestine, Tunisia, and Kuwait. It highlights the key in-demand skills for middle-class occupations and disaggregates those skills by country, skill type, gender, and industry. The chapter also draws attention to the potential impact of AI augmentation on middle-class occupations by analysing the nature of the tasks associated with those occupations.

Top in-demand middle-class skills in four of the five countries show a strong inclination toward so-called traditional skills and skills of particular relevance in the digital economy. However, this is not the norm in all Arab States, where most skills are traditional skills. While the countries studied show divergences in terms of the top in-demand hard skills, the top in-demand soft skills in middle-class occupations are more homogenous across the five countries. Soft skills such as

communications and management are in strong demand across all countries studied.

Analysing in-demand skills by looking at the proportions of men and women employed, a similar pattern is seen: there is significant divergence in terms of the hard skills demanded for men and women, while soft skills are more homogenous across both genders. With regard to hard skills, the skills that tend to be demanded for men are particularly useful in technical and engineering contexts, and the skills demanded for women are particularly useful in education and management. Disaggregating in-demand skills by industry shows some divergence in terms of the hard skills that are required in the three selected industries. In-demand soft skills, however, are similar across those industries. Finally, many middle-class jobs are characterized by significant automation potential.





# Impact of conflict on the middle class in the Arab region



# 08





The last two decades have been a period of great instability and conflict in the Arab region. The number of people living in countries that are in conflict has more than doubled since 2010, when about 80 million people were living in war-torn countries. Between 2011 and 2022, this number significantly increased to 163 million people.<sup>125</sup> The violent trajectories that several Arab uprisings experienced in 2011 account for this tremendous increase. Several Arab countries that fell into civil wars, and encountered direct foreign military intervention, remain at war to the present day. This adds to the disastrous legacies of the conflicts and wars that took place in previous decades as well as that of the, by now, more than seven decades of Israeli occupation of the State of Palestine and its spillover effects.

The sparks that ignited the Arab uprisings are numerous, yet one of the main causes was an angry middle class. Members of the middle class were angry at worsening living standards due to the scarcity of jobs in formal sectors, poor quality of public services and unaccountability of the Government. “The old social contract of redistribution with limited

voice had stopped working, especially for the middle class, prior to 2011.”<sup>126</sup>

This chapter aims to analyse the impact of conflicts on the middle class. It breaks down conflict into three phases: short-term (conflict onset), medium-term (protracted conflict) and long-term (end of hostilities and power sharing among groups), with each phase impacting the middle class in a particular way. The impact of these phases will be examined from the perspectives of well-being, coping strategies and governance (namely access to essential services). This chapter provides an analytical framework to better understand the impact of conflict on middle classes in the region, with a focus on Iraq, Libya, the State of Palestine, the Sudan, the Syrian Arab Republic and Yemen, in addition to countries that have been indirectly affected such as Jordan and Lebanon. The chapter begins by briefly contextualizing the topic and introducing the conceptual framework. Some evidence of the impact of conflicts on middle classes in the region, especially for the period after the outbreak of the Arab uprisings, will be presented in line with the conceptual framework.

## | A. Conflict in Arab countries -----

Conflict affects all aspects of life at all levels, from individual to household to country, and across all social classes.<sup>127</sup> At the social level, conflict leads to the deterioration of trust in formal institutions, and reliance increases on inner social circles, such as family, tribe, region, ethnicity, or sect, for sustaining livelihood in the initial phase of conflict.<sup>128</sup> Moreover, conflict negatively affects the rule of law and the attainment of social justice, which impedes a stable and sustainable growth of the middle class in terms of access to resources, opportunities and basic services. Because of conflict, resources tend to be concentrated in the hands of the few; these could be warlords or high-

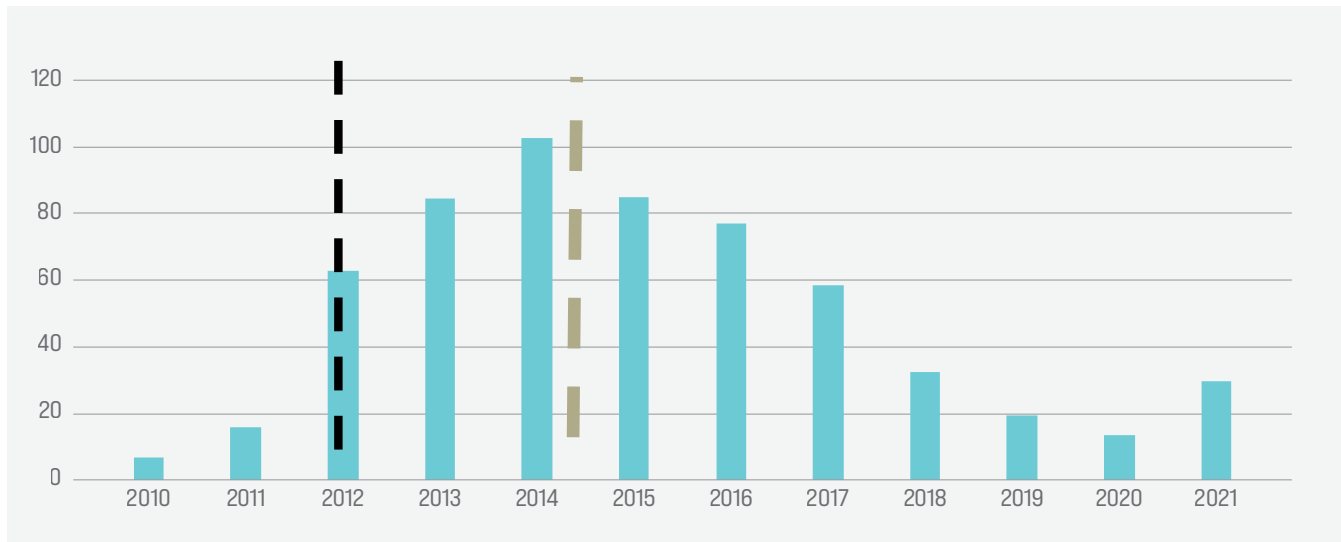
ranking State officials. Middle-class members may lose control over economic and political resources. The lack of functioning institutions to deal with the impact of conflict directly affects the ability of the middle class to sustain itself and its capacity to influence the social and political order. Conflict in affected countries has a significant short-term impact on institutions and governance, resulting in a notable deterioration in such indicators as institutional effectiveness, the rule of law and accountability.<sup>129</sup>

By the early 2010s, the number of countries in conflict<sup>130</sup> increased in the region. Figure 42 shows

the number of fatalities as proxy for the intensity of conflict. An upward trend is recorded with the outbreak of the Arab uprisings, especially in Iraq, Libya, the Syrian Arab Republic, and Yemen. The year 2014 represents the peak of violence in the Arab region. This period is followed by a downward trend until the end of the decade,

when a rebound of the number of fatalities is recorded for 2021, mainly in Yemen. In this chapter, 2010 will be considered a pre-war setting, followed by the peak of violence in 2014. This year is considered the turning point between conflict onset and the protracted crisis period.

**Figure 42.** Fatalities in the Arab region due to violence, from 2010 to 2021 (Thousands)



**Source:** Uppsala Conflict Data Program (UCDP) Georeferenced Event Dataset (GED) Global version 22.1.

**Note:** No data for the State of Palestine is available. The black dotted line refers to 2011 as the initial phase of conflict and the blue dotted line refers to 2014 as the peak of violence and fatality in the region.

## B. Conceptual framework

Here, we present an analytical framework to better understand and identify the impact of conflict on the middle class in the region, as well as the different types of conflicts that have characterized the region during the past decades.

The middle class in many Arab countries is largely employed in public institutions;<sup>131</sup> for more detailed discussion see also chapter 2. This social group is among the most educated and influential; however, their standard of living has been declining, as many Governments implemented reforms that reduced their spending

on essential public services, which the middle class relied upon. As a result of such reforms, the middle class has lost many of the services and goods it used to enjoy.<sup>132</sup> In the Arab context, governance systems play a major role in shaping the dynamics of class relations, including the rise and fall of certain social classes.

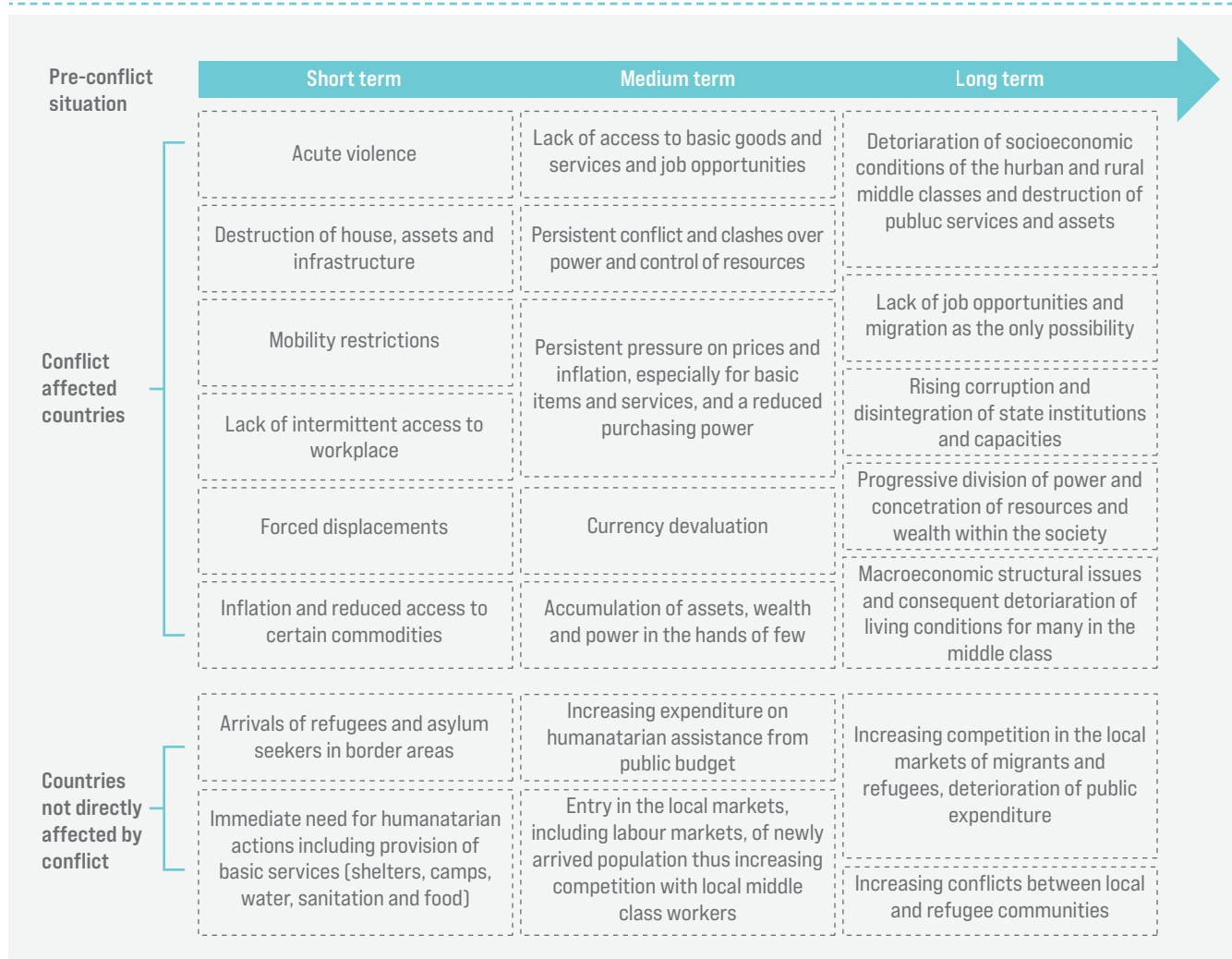
The proposed analytical framework addressing the impact of conflict is divided into three main parts reflecting the three main phases of conflict: (a) the onset of conflict and its impact;<sup>133</sup> (b) medium-term outcomes, when a conflict becomes

protracted with recurrent episodes of violence;<sup>134</sup> and (c) long-term outcomes that are characterized by a reassessment of the previous balances that have been strongly affected by conflict and other forms of violence or by the end of the conflict itself.<sup>135</sup> These three phases of conflict are usually consequential, but they are also context-specific. Middle classes in conflict countries have been and are affected in different ways. Arab States that did not directly face the consequences of conflict in terms of loss of lives and destruction, as is the case of Jordan and Lebanon, experienced its consequences, as a result of the spillover effects of conflict. The war in the Syrian Arab Republic, for instance, had a great impact on the economic, social and health systems of these

countries through, for example, the massive influx of refugees and asylum-seekers as well as other direct and indirect effects.<sup>136</sup>

Figure 43 presents the direct and indirect impacts of conflicts in the Arab region. Starting from left to right and following the timeline arrow, the short-, medium- and long-term effects of conflict on middle classes are examined. The three main dimensions used to build this analytical framework are: (a) livelihood and direct socioeconomic impact on middle classes; (b) coping strategies; and (c) the impact on power sharing and institutions as well as the way they relate to social and economic systems.

**Figure 43.** Impact of conflict on the middle classes in the Arab region

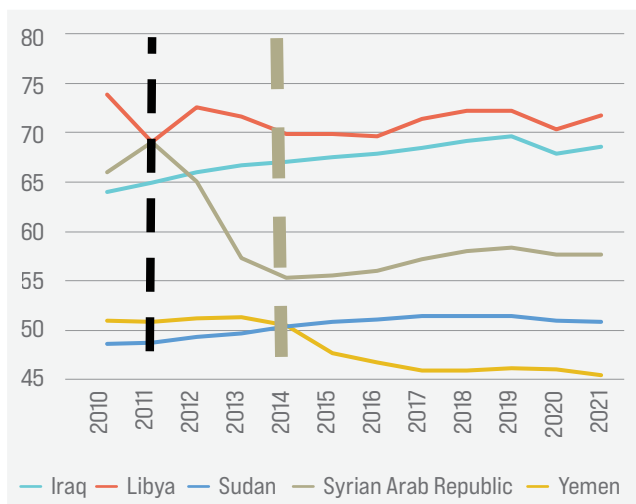


Source: Authors' elaboration.

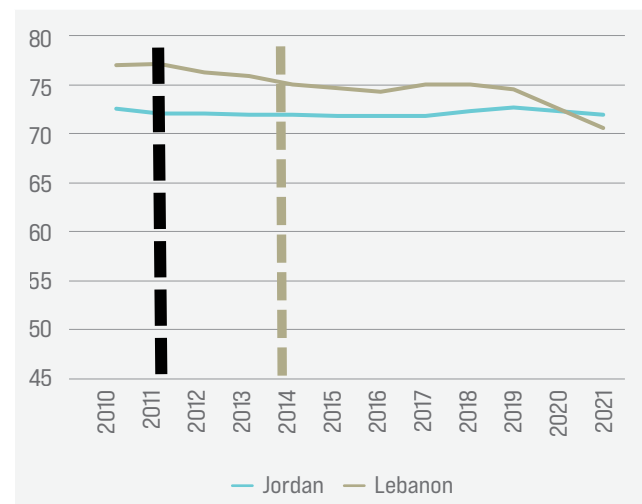
Before looking at the three phases of the conflict, an overview of the impact of conflict on selected Arab countries is presented through the Human Development Index. Figures 44 and 45 show that the selected Arab countries observe an overall declining trend because of conflict outbreak,<sup>137</sup> seen in the dotted black line, and perpetration and its spillover effects in neighbouring countries. In the short to medium term, seen between the two dotted lines, the Human Development Index declines sharply in all the countries in conflict except for Iraq. In the medium and long term, seen after the blue dotted line, the Syrian Arab Republic shows an overall large decrease in the value of the Human Development Index. As an

example of the impact of conflict on inequality, the evidence points to significant effects of the 2003 war in Iraq on income distribution.<sup>138</sup> Survey data from 2007 to 2020 show dramatic changes in the welfare of the three social classes in Iraq. While the middle class represented most of the population in 2007, it experienced a significant reduction during 2014–2020, down to 30 per cent in 2020. However, estimates indicate that the working class expanded steadily during the same period.<sup>139</sup> This downward class mobility did not only happen in the short and medium term but also in the long term as consequence of the limited capacity of the country to cope with increasing challenges.

**Figure 44.** Human Development Index in directly conflict-affected countries



**Figure 45.** Human Development Index in indirectly conflict-affected countries



**Source:** United Nations Development Programme (UNDP) (n.d.). Human Development Index. Available at <https://hdr.undp.org/data-center/human-development-index#/indicies/HDI>. Accessed on 22 October 2022.

**Note:** The black dotted line refers to 2011 as the initial phase of conflict, and the blue dotted line refers to 2014 as the peak of violence and fatality in the region.

## 1. Short term: shock of conflict onset

Conflict onset affects several aspects of middle-class lives in Arab countries. The series of events that characterizes the outbreak of conflict includes the most brutal outcomes such as death, disappearances and injuries. Apart from the effects on life and safety, other relevant ramifications are loss of livelihood,

including different types of assets (durable and non-durable) and access to other assets and infrastructures (physical and otherwise).<sup>140</sup> World Bank data show how during the first period of the conflict, the GDP per capita sharply decreases for affected Arab countries: Libya (2011), the Syrian Arab Republic (2011–2016), Iraq (2014–2015), and Yemen (2015). Conflict also affects provision of such essential services as health, education,

security, water, and sanitation. Considering education, for instance, the school enrolment rate in the Syrian Arab Republic decreased sharply as direct and indirect consequences of the conflict.<sup>141</sup> Conflict also affects health conditions. A proxy for the functioning of the health system is the under-five mortality rate, which increased sharply at the outbreak of the war in the Syrian Arab Republic (2012) and Libya (2011).

A potential coping strategy to address the immediate threat to life by conflict is internal displacement, exile or seeking protection or safety inside or outside of the country. Large numbers of new refugees and internally displaced persons are recorded in countries affected by conflict and in different waves: the Syrian Arab Republic in 2012–2013 and 2016–2017, Libya in 2011, and Iraq in 2014–2017, as shown in figure 46. According to survey analyses,<sup>142</sup> the Syrian refugee community in Lebanon tends to have a slight overrepresentation of urban middle and lower

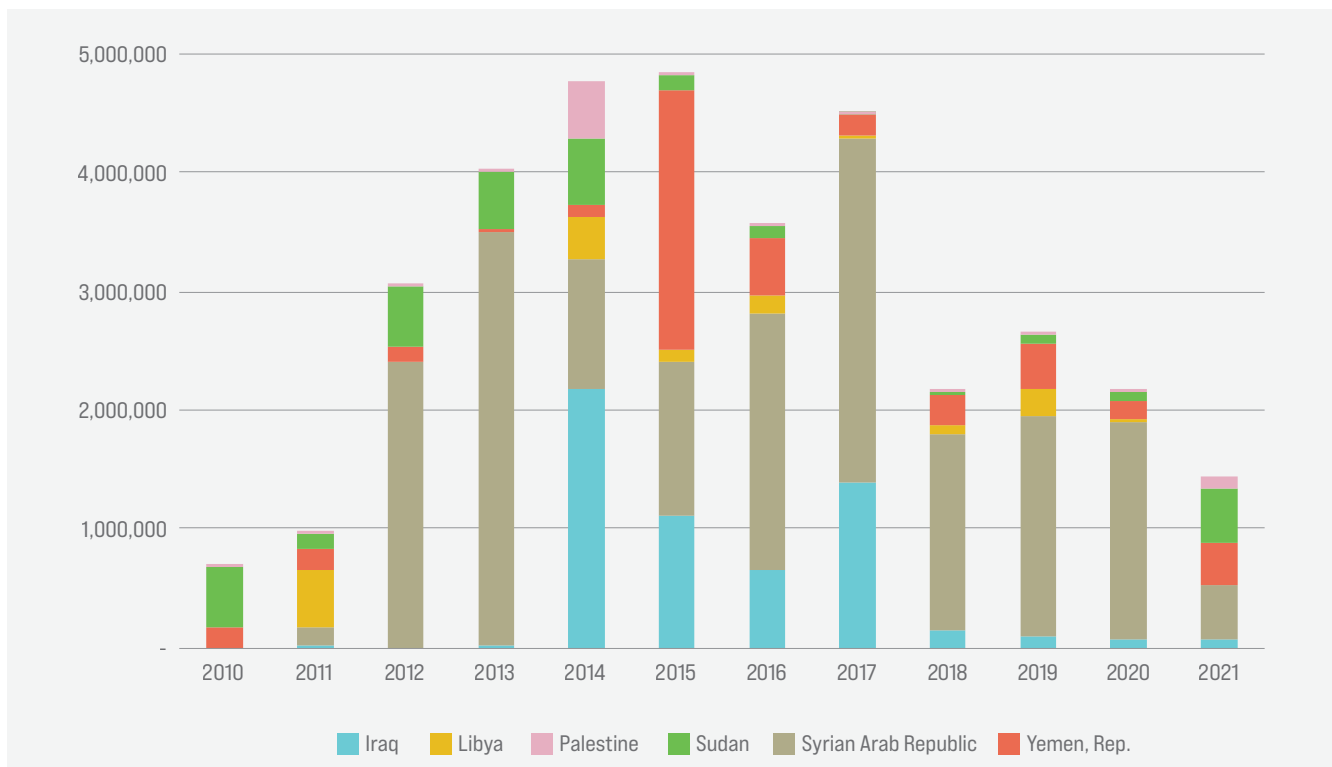
middle class than is typical back in the Syrian Arab Republic, with great variations in terms of personal savings and skills to survive in Lebanon.

## 2. Medium term: protracted conflict

Conflicts in the Arab region tend to be protracted and last for years. This phase is characterized by the persistence of violence, even though intermittent and mostly localized, among State-led forces and rebel groups and often between different rebel groups over the control of territory and its resources.

Destruction of infrastructures and collapse of institutions drastically reduce access to basic services and goods, including health care, education and others. The medium- and long-term effects of conflict on institutional effectiveness, accountability and the rule of law are transmitted through such mechanisms as

**Figure 46.** New internally displaced persons due to conflict by country



**Source:** Internal Displacement Monitoring Centre (IDMC), n. d. Global Internal Displacement Dataset.

Available at [www.internal-displacement.org/database](http://www.internal-displacement.org/database).

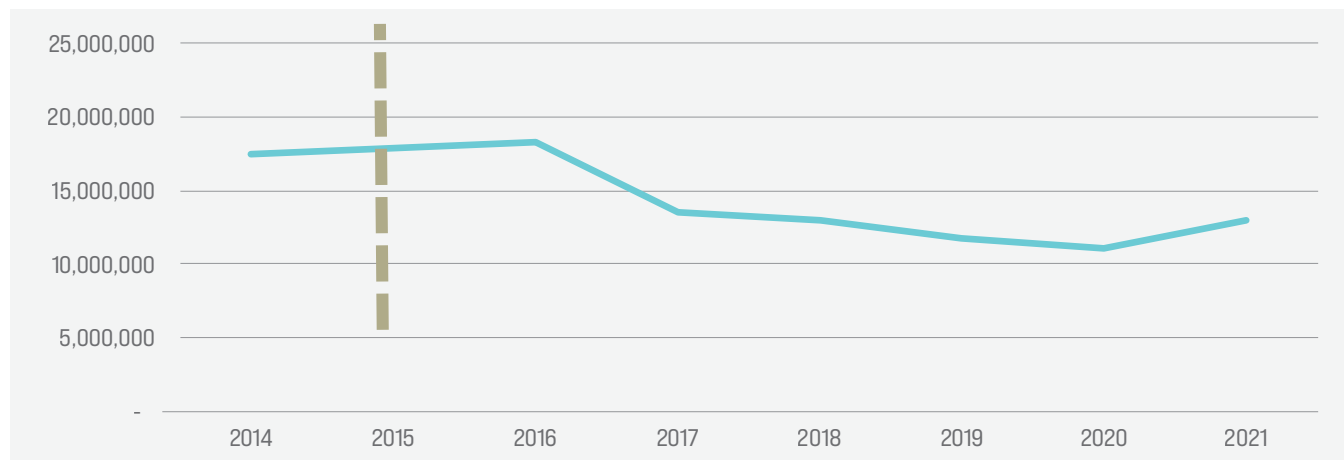
increasing corruption, inefficiency in public service provision and loss of employment opportunities. Indicators of Government effectiveness record a sharp decline in conflict-affected countries.<sup>143</sup> The medium-term socioeconomic consequences of conflict are a sharp reduction in wealth and a more fragile public system,<sup>144</sup> with lower capacity and resources, implying less capability to cope with internal and external shocks.<sup>145</sup> For instance, in the Syrian Arab Republic, the consequences of conflict caused a severe socioeconomic contraction that has led to a sharp decline in the middle class. Millions have been pushed into multidimensional poverty, and vulnerability rates have increased.<sup>146</sup>

Conflict-affected countries experienced an increase in the number of undernourished people in the medium to long term.<sup>147</sup> For instance, after eight years of war, in two out of five Syrian households, more than 65 per cent of expenditure was on food. This spending pattern has squeezed middle-class budgets and is pushing more people into poverty and food insecurity.<sup>148</sup> Data from the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) on the number of people in need of humanitarian assistance for 2021 (figure 47) show how a large share of the Syrian Arab Republic population, including former members of the middle class, is in need of humanitarian assistance.<sup>149</sup> Net official development aid has been increasing in countries directly or

indirectly affected by conflict. This is particularly evident in countries struggling with weak public finances, underperforming internal and external accounts, and deteriorating terms of trade. These trends demonstrate the increasing dependency on international aid and the reduced capacity of these countries to sustain the needs of goods and services of their middle and working classes.<sup>150</sup>

Protracted crisis leads to the deterioration of all macroeconomic indicators, including employment rates, current account balance, inflation, capital account, balance of payment, foreign investments, and reserves to inputs ratios.<sup>151</sup> Moreover, the continuous pressure on prices and inflation and possible devaluation of national currency can lead to (a) reduced purchasing power of salaries; (b) increasing share of the black market for international currencies and progressive dollarization of the economic system;<sup>152</sup> and (c) deterioration of financial assets previously owned by middle-class members, including difficulties in accessing formal banking and financial systems.<sup>153</sup> Finally, this phase is characterized by an increasing level of accumulation of assets (productive or otherwise), wealth and power in the hands of the owning class, impacting the size and welfare of the middle class.<sup>154</sup> Finally, a decrease is observed in data on capital formation in the considered period that is pivotal for the middle class.<sup>155</sup> The main coping strategy to

**Figure 47.** Number of people in need of humanitarian assistance in the Syrian Arab Republic



Source: OCHA, 2022. Multi-Sectoral Needs Assessment, Gaza.

address such a situation includes selling assets and other durable goods. This, however, is not usually a sustainable solution given that personal assets are finite. Income diversification is another frequently adopted strategy at the household

level when pre-existing sources of revenue are no longer available. Use of informal banking and financial systems in the black market is another option to cope with local currency devaluation and the failure of financial and banking systems.<sup>156</sup>

### Box 1: The proletarianization of the Palestinian middle class under occupation

Since 1967, Israeli occupation of the Palestinian territory has constituted a matrix of control, causing the de-development of the Palestinian economy and its dependency on Israel.<sup>a</sup> The erosion of productive capital, chronic trade deficit, chronic budget deficit, high levels of unemployment, and widespread poverty are the trends that have stemmed from the evisceration of the Palestinian economy. The Palestinian economy remains extremely fragile, structurally weak and highly dependent on Israel for trade, wage employment and the provision of basic infrastructure.<sup>b</sup> According to the Palestinian Central Bureau of Statistics,<sup>c</sup> unemployment reached one fourth of the labour force in the third quarter of 2022 with staggering disparities between the Gaza strip (47 per cent) and the West Bank (13 per cent). Those who are employed in the State of Palestine also face heightened vulnerabilities; two thirds of private sector wage employees lack an employment contract while 40 per cent are paid below the minimum wage.<sup>d</sup> Poverty reached almost 53 per cent in the Gaza Strip during 2017,<sup>e</sup> and 2.1 million Palestinians across the occupied territory required some form of humanitarian assistance in 2022, of whom 64 per cent, or 1.3 million people, lived in Gaza.<sup>f</sup> The occupation has also resulted in the proletarianization of the Palestinian middle class.<sup>g</sup> Employment of middle-class members into working wage jobs in the occupied territory, Israel and Israeli settlements is also a reflection of the wage gap between the different areas and sectors. About 17 per cent of Palestinian adults in the West Bank work in Israel or Israeli settlements, and many of them are skilled and educated workers.<sup>h</sup> The prolonged occupation causes a progressive reduction of opportunities for the middle class with higher levels of education. The unemployment rates of this social group, the higher educated middle class, increased more than those with little education, which shows the long-term impact of the Israeli occupation on the Palestinian middle class.<sup>i</sup>

<sup>a</sup> Roy, S., 1999. De-development revisited: Palestinian economy and society since Oslo. *Journal of Palestine Studies*, vol. 28, No. 3, pp. 64–82; Sayigh, Y., 1986. The Palestinian economy under occupation: dependency and pauperization. *Journal of Palestine Studies*, vol. 15, No. 4, pp. 46–67.

<sup>b</sup> ESCWA, 2022. Palestine under occupation III – Mapping Israel's policies and practices and their economic repercussions in the Occupied Palestinian Territory.

<sup>c</sup> Palestinian Central Bureau of Statistics (PCBS), 2022. Press Report on the Labor Force Survey (July–September, 2022). Ramallah.

<sup>d</sup> Ibid.

<sup>e</sup> PCBS, 2017. Available at [https://www.pcbs.gov.ps/site/lang\\_\\_en/507/default.aspx](https://www.pcbs.gov.ps/site/lang__en/507/default.aspx). Accessed on 22 November 2022.

<sup>f</sup> United Nations Office for the Coordination of Humanitarian Affairs (OCHA) (2022a). Multi-Sectoral Needs Assessment, Gaza.

<sup>g</sup> Hilal, J., 2011. The pauperization of Palestinian women, men and children in the West Bank and Gaza Strip. *A Dangerous Decade. Birzeit, State of Palestine: Birzeit University Institute for Women's Studies*; Hilal, Jamil, 2011. The pauperization of Palestinian women, men and children in the West Bank and Gaza Strip. *A Dangerous Decade. Birzeit, State of Palestine: Birzeit University Institute for Women's Studies*.

<sup>h</sup> PCBS, 2022. Press Report on the Labor Force Survey (July–September, 2022). Ramallah.

<sup>i</sup> Hilal, J., 2022. Class formation under settler colonialism. *Anthropology and Ethnology Open Journal*, vol. 5, No. 2; World Bank, 2022a. World Bank Development Indicators: Consumer price index. Available at Inflation, consumer prices (annual %) | Data [worldbank.org].]



### 3. Long term: post-conflict

The main characteristics of the impact of conflict in the long term are related to the deterioration of the socioeconomic conditions of the middle classes and the decline of capacity to provide public services and other assets. Human capital will continue to deteriorate during the post-conflict phase. As observed above, the under-five mortality rate in the Syrian Arab Republic remains higher than in the period before the war, proxying the dramatic conditions of health services in the country. A high unemployment rate at the end of conflict is common. This is also associated with high illiteracy rates among the younger generation, especially in areas directly affected by conflict.<sup>157</sup>

Overall, the absence or lack of the rule of law, governance effectiveness and accountability are some of the final outcomes of the long-term effects of conflict, with implications on the middle class, in particular its members' capacity to support national recovery and future development.<sup>158</sup> A general phenomenon of pauperization of a large part of the middle classes, both in rural and urban areas, has been observed in the Arab region as a consequence of war and of its duration and intensity.<sup>159</sup> Furthermore, a general process of concentration of power in all its political, social and economic dimensions into smaller groups that do not reflect the power and economic distribution present before conflict is another long-term effect of conflict for the middle classes.

## C. Conclusion

Conflicts in the Arab region affected the middle class in many ways, including through changes in the institutional and political-economic setting. Governance systems in the wake of the Arab uprisings have two pathways: (a) centralization with limited or no participation "regime legitimacy is steadily enhanced, and governance outcomes improved to a point where antisystem pressures eventually dissipate"<sup>160</sup>; or (b) the "modernization trap," wherein decision makers or leaders, having built strong States, unleashed dynamic economies, liberated women and tamed religious reaction, will have released the forces essential to the emergence of a participatory governance system. Both scenarios require well-

functioning institutional systems and developed economies. These two pathways might be undertaken during the post-Arab uprising era in several Arab States that have not witnessed war. However, in countries that are facing civil war, such pathways remain difficult given a decimated middle class and the infrastructure that sustains it.

On the one hand, well-functioning institutional mechanisms can positively impact the socioeconomic conditions of the middle class, allowing an inclusive development and promoting private sector initiatives. Non-functioning institutions, on the other hand, exacerbate tensions and conflict.

## Box 2. Impact of the war in Ukraine on the middle class in Arab countries

Escalations of the war in Ukraine in 2022 have caused global supply chain distortions, rising price levels and a drop-off in economic activity which eventually fed into higher levels of food insecurity and malnutrition. The Food Price Index of the Food and Agriculture Organization (FAO) skyrocketed to reach unprecedented levels in real and nominal terms during the first quarter of 2022, recording an all-time high value of 156.3 since the financial crisis of 2007–2008. Figure 48 shows that the index returned to its pre-war levels, indicating that some adjustment has been made, partly due to the Black Sea Grain Import Initiative as well as other supply chain adjustments. Nevertheless, the initial unprecedented spikes in food prices have put additional inflationary pressures after the COVID-19 pandemic, threatening low- and middle-income countries to sustain the purchasing power of those who are poor and vulnerable. The Middle East and North African region faces heightened risks from a series of overlapping crises that have pushed inflation to reach 14.8 per cent in the region excluding countries of the Gulf Cooperation Council (GCC), 60 per cent of which is attributed to spiraling food prices.<sup>a</sup> In fact, a significant number of Arab countries is reliant on Ukraine and Russia to satisfy their cereal demand, particularly wheat, which makes them more vulnerable to shocks. Figure 49 shows wheat import dependency of Arab countries on the wheat stocks of Russia and Ukraine. It reveals that Egypt, Lebanon and Somalia are heavily reliant on wheat imports from the two war-affected countries, which raises concerns about inflation and food insecurity in the upcoming period.

The ramifications of the war in Ukraine not only hurt the poor and vulnerable, but also the middle class as its members have started encountering adverse effects from rising costs of living and loss of purchasing power. In chapter 3, we have already seen that food expenses represent the largest share of the middle-class total spending, particularly the poor and vulnerable middle class. While wage levels remain rigid to price changes, the middle class can barely cover their non-food expenses, allocating the bulk of their incomes to meet their basic food needs. This squeezes their spending ability on such out-of-pocket expenditures as education and health, which are also affected by inflation spikes due to the rise in energy prices. Allocating a higher portion of middle-class budget to cover out-of-pocket expenditures would make such households search for other income alternatives beyond their current means. Another

implication prevails in terms of higher household debt, which affects lower middle-class households at a higher rate, exacerbating existing inequalities and impeding growth perspectives in the region. One coping mechanism is to seek higher remittance flows which are expected to rise in 2022<sup>b</sup> that would create a safety net for middle-class households to sustain their needs. However, this is highly questionable in the post-pandemic era, where some of the middle-income countries in the region, such as Iraq, Jordan and Lebanon, witnessed a sharp drop in the remittances flow, recording double-digit declines in 2020.<sup>c</sup> In conflict-affected countries, such as the Syrian Arab Republic and Yemen, fuel shortages and lack of electricity already impact severely the delivery of basic services that are essential for a middle class already grappling with multiple shocks. The compounded crisis trends in Lebanon, including the sharp increase in energy prices and inflation rates resulting from the crisis in Ukraine, have the potential to increase the risk of exacerbating economic, social and political crises in the country.<sup>d</sup>

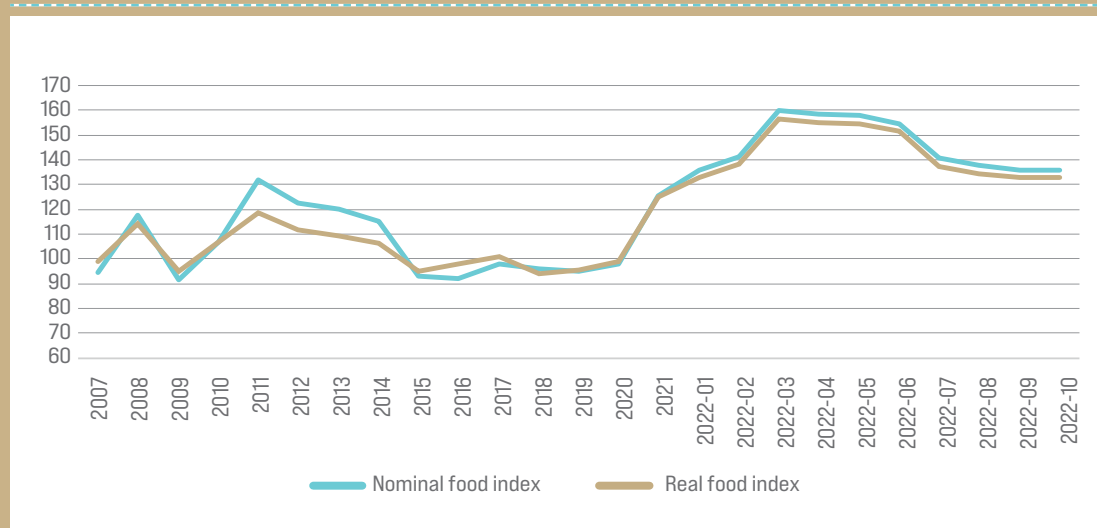
<sup>a</sup> Hasbani, Z., 2022. Global Perspectives on the Food Security Crisis, May 5. Weber Shandwick.

<sup>b</sup> FEWS-NET, 2021. Food Security Outlook June–October 2021. The Famine Early Warning Systems Network.

<sup>c</sup> World Bank, 2021. Defying Predictions, Remittance Flows Remain Strong During COVID-19 Crisis. World Bank Press Release, May 21.

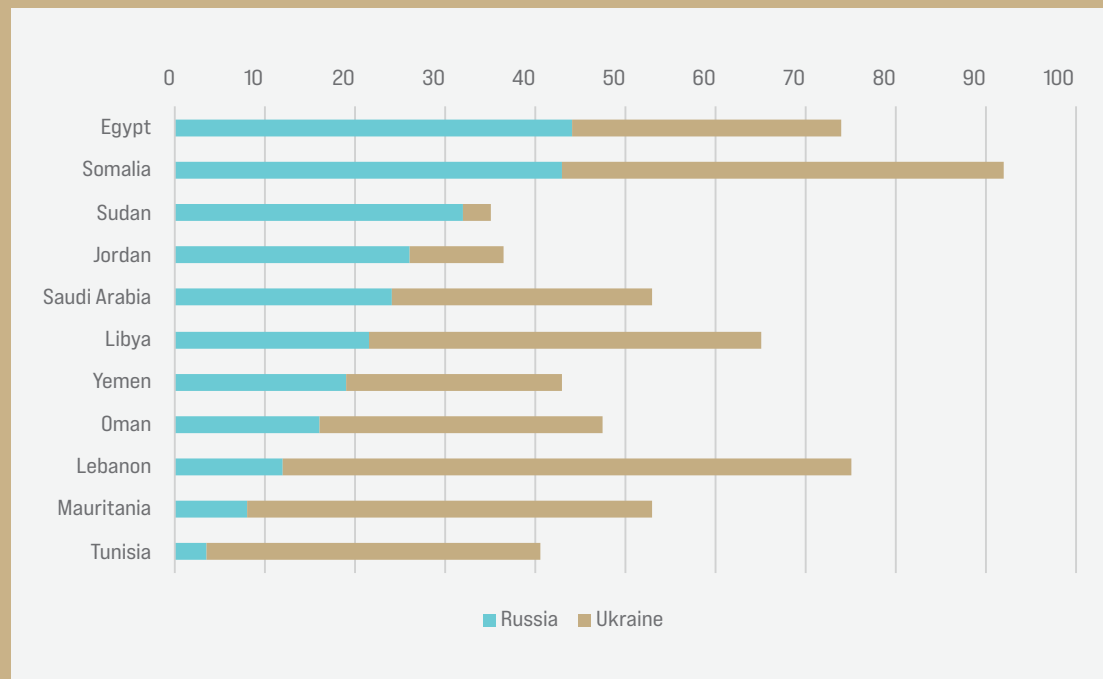
<sup>d</sup> IFRC, 2022. The impact of the conflict in Ukraine as a crisis multiplier in the Middle East and North Africa. IFRC MENA Regional Delegation.

Figure 48. FAO Food Price Index 2007–2022



Source: Author calculations based on data from FAO.

**Figure 49.** Share of wheat imports from Russia and Ukraine out of total wheat purchases in 2021  
[Percentage]



**Source:** ESCWA calculations based on FAO Food Price Index data and Schmidhuber, J. and others, 2022. The war in Ukraine and the risks it poses for global food commodity markets, using Trade Data Monitor data.

# Conclusions and policy recommendations

# 09



This report provides a thorough description of the reality and mounting challenges of middle-class households in six Arab countries, namely Egypt, Jordan, Kuwait, Lebanon, the State of Palestine, and Tunisia. The findings reveal that over half of the households in those Arab countries are classified as middle class except for Tunisia, which records a smaller middle class. The middle-class group has experienced downward social mobility, and its relative size has contracted over time in Egypt, Jordan and the State of Palestine (chapter 2). A similar contraction was likely in other middle-income Arab countries which share common structural, institutional, economic, and political settings. The abandonment of the social contract that was initially established in earlier periods within the region along with the recurrent economic and political shocks have placed the middle class on the verge of vulnerability and hardship, with implications for instability. Protracted crisis, occupation and conflict progressively deteriorate the capacity of institutions to provide basic services that are essential for middle-class livelihood (chapter 8). In Egypt and the State of Palestine, about one third of the middle class is poor, while in Jordan, a large share is vulnerable and at risk of falling into poverty (chapter 3). The consolidation of Government budgets in recent years pushed former employees out of public sector employment, which was not compensated by formal employment creation in the private sector. Consequently, the proportion of upper middle-class households covered by social insurance has been shrinking, while the proportion of uninsured lower middle-class households has been increasing (chapter 5).

Although the Arab middle class enjoys better human capital accumulation than the rest of the social classes, it underperforms in wealth accumulation, particularly the lower middle class which is more susceptible to informality

and precarious working conditions (chapter 4). The anticipated changes in the job market, especially the increasing use of automation, will impact a significant number of professions in the middle-class category. These expected changes have already generated concerns. Our skills analysis in the region shows that the top-demanded middle-class skills display a strong inclination toward the digital economy as well as traditional skills, and there are gender divergences in hard skills (chapter 7).

Meanwhile, many middle-class households are finding it difficult to keep up with rising out-of-pocket expenditures on housing, education and health care, and thus have little room for savings. The lower middle-class households are major consumers and vulnerable to adverse fiscal or inflationary pressures, which becomes more pressing after inflationary shocks of the COVID-19 pandemic and the war in Ukraine. The incidence of indirect taxes is regressive and adversely affects the working and lower middle classes more than other social classes in Egypt, while transfers are mainly channelled to the upper middle class (chapter 6).

The above findings require targeted policy interventions to safeguard the living standards of the middle class and enhance their future prosperity. This is of particular importance as the middle class is portrayed as an engine for a more stable Arab region characterized by inclusive economic growth, social justice and political stability. Policy recommendations for social, fiscal and sectoral areas follow, along with some future research and data recommendations.



## A. Social and fiscal policies -----

### 1. Reforming social protection and taxation policies to reach the lower middle class

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In terms of the social protection policy design, existing social insurance schemes need to be legally and practically made more attractive to informal workers, and thereby achieve universal social protection coverage. This can be done by subsidizing the contributions of low-income individuals, for example via cross-subsidization from high-income contributors or via public – that is, tax-financed – subsidies. Inspiration for the latter can be taken from some Latin American countries such as Chile, which provides a tax-financed solidarity component in conjunction with a saving-count function, should the latter be exhausted, for example in case of extended unemployment. Moreover, policymakers need to consider using tax policies to improve equity and progressiveness, advancing the ongoing reforms in several countries. Complementary to the above scheme for individuals, Governments should consider introducing a so-called monotax, which is a simplified taxation regime targeted at family, small and micro enterprises. The collected taxes – usually a flat rate for the whole enterprise and its employees – are earmarked as social insurance contributions. These small and family-run enterprises are thereby formalized, and their respective contributions to economic development are recognized and recorded. Small and family business owners are expected to feel apprehensive towards taxation, so such a combined taxation and social protection policy reform needs to be embedded into a comprehensive communication strategy that conveys the perceived benefits for those enrolled (for example, in terms of access to banking, loans and other types of insurance).

### 2. Adopting automated enrolment as a social protection delivery scheme

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In terms of social protection delivery mechanisms, outreach, registration and enrolment procedures should be simplified from the perspective of the lower middle-class households or those in non-standard forms of employment aiming for automated enrolment. Compared with voluntary opt-in schemes, automated compulsory enrolment circumvents major pitfalls of the former such as the compromised financial sustainability of voluntary schemes. This could be arranged for example through: (a) harnessing the potential of digital public records and arranging for interoperability of civil registry, social assistance and social insurance databases; (b) unique identifiers provided by social registries with membership and beneficiary databases of social insurance funds and social assistance programmes; and (c) the possibility of opting out by those enrolled in case they are ineligible for statutory social insurance coverage for some reason, such as inaccurate or not up-to-date public records. Efforts to automate enrolment processes are crucial for effectively targeting vulnerable populations during shocks and economic crises, as current reactive systems in the region are inefficient and unsustainable in achieving their goals.

### 3. Targeted public transfers to vulnerable population

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Targeted public transfers to vulnerable populations are an important intervention to support working-class and lower middle-class populations. Of particular concern for targeting is geographic location of households, whether rural or urban, and the extent of their vulnerabilities to assess the amount of transfers. Governments should consider



reducing leakages of transfers and also improve progressivity of the transfers with more evidence-based analysis. Adjusting the amount of transfer to inflationary pressures can provide vulnerable households with buffers to cope with higher prices. Transfers and fiscal policy interventions should be coupled with other instruments such as monetary policy mechanisms which are critical to reducing the risk of vulnerability to indebtedness.

#### **4. Addressing inequality through higher middle-class wealth accumulation**

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Despite significant growth levels, unequal distribution of resources remains a main challenge facing Arab countries. Weak wealth formation is a major force hindering the upward mobility of the lower middle class. The rich remain the main reapers of economic gains due to the high returns to their capital and the poor mobility of other classes. Having the middle class as the primary consumers coupled with stagnated wage levels in the Arab region that are just above the minimum living wages impedes the saving capacity of middle-class households and thus reduces their ability to accumulate wealth. In its roots, the problem is in poor inclusive growth that leaves behind wage workers in some industries and disincentivizes small and medium-sized enterprises, due to favouring politically connected parties. Therefore, redistributive policies that ensure fair revenue generation are necessary, such as introducing progressive taxation, controlling tax evasion, improving tax administration and collection, and creating a solidarity tax fund (as discussed in chapter 6). Moreover, increasing the wealth accumulation capacity of the middle class through education and higher earnings must go hand-in-hand with public social spending to curb savings erosion on out-of-pocket expenditures.

#### **5. Enhancing public social spending to tackle gaps in capabilities**

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Public social spending has gained increased importance with the sweep of the COVID-19 pandemic, macroeconomic uncertainties, political instabilities, and spillover effects of the war in Ukraine. Anaemic public social spending has made the situation worse, especially for low-income groups. The middle class allocates a significant portion of their income to expenditure on basic services, including education and health, which leaves them with a negligible portion to spend on non-essential goods and services. Therefore, States should prioritize public social expenditure that provides quality education and health services and reduces out-of-pocket expenditure, and they should target the most deprived or marginalized groups while keeping in mind household composition and size to ensure a just provision of services. Aside from the budget amounts, expenditure effectiveness is of equal importance to maximize the multiplier effects of social spending with respect to socioeconomic outcomes and economic growth. Therefore, investments with long-term benefits such as quality infrastructure should be prioritized, along with continuous monitoring of expenditures and outcomes. In this sense, assessing the many dimensions of social spending, captured by the Social Expenditure Monitor, is critical for improving allocation of resources.

#### **6. Coordinating monetary and fiscal policies to alleviate inflationary pressures**

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A combination of sound monetary and fiscal policy measures is needed. Controlling inflation through monetary policy mechanisms is critical to reduce the risk of vulnerability to indebtedness for the middle-class households. While inflation control is important, it should also be coordinated with fiscal policy measures to reduce the adverse

impact of monetary tightening on the economy. Increasing transfers to the working and lower middle classes, by adjusting the amount to inflationary pressures, can provide them with buffers to cope with higher inflationary pressures.

Going forward, budgetary, economic and social protection policies need to be discussed and decided upon in tandem and in view of each other to ensure that already existing social protection gaps are not further aggravated.

## **| B. Sectoral policies** -----

### **1. Fostering a new economic model that promotes middle-class revitalization**

A structural transformation toward a more productive and industrial private sector should generate high value-added jobs. As a significant portion of the middle class works in public sector jobs or low value-added ones in the private sector, a new economic growth model that revitalizes industrial sectors and generates a knowledge economy is needed. Addressing current bottlenecks in the private sector by removing restrictions, formalizing firms and making greater provision for resources is of equal importance as enhancing private sector growth to achieve actual gains. This allows Arab countries to escape economic structures that limit productivity, and thus decreases their dependence on remittances or oil revenues, as is the case in Arab middle-income countries or oil-rich countries. It also protects economies from sudden shocks, such as the COVID-19 pandemic and the war in Ukraine. This model requires strengthening the developmental role of the private sector, capitalizing on human capital and increasing the productivity of public investment, which are essential steps to escape the trap of a low-wage/low-productivity equilibrium.

Although Arab States have already missed the chance to catch up with the most recent digital revolution,<sup>161</sup> the region has another chance to catch up with the global north in the fourth industrial revolution, which is heavily annotated by automation. States are encouraged to ride the automation wave without fears of middle-class job

replacements; an up-skilling programme can be facilitated to identify the additional skills needed to help the middle class fill not only existing vacancies in the market but also future ones. While the middle class in various countries exhibits high levels of educational attainment, it remains imperative to prioritize improvements in the quality of education systems in order to effectively support a seamless school-to-work transition. Implementing legislative measures promoting equal opportunity is also necessary to address the gender gap in access to opportunities and career advancement, ensure equal pay for equal work, implement policies for managing gender diversity and provide adequate maternity protection.

### **2. Utilizing information systems to enhance middle-class employment policies**

The six Arab countries analysed in this report exhibit various distinctions in skills demanded for the middle class. The reported distinctions confirm that there is no panacea as an employment policy to address welfare concerns, and any policy targeting the welfare of the middle class needs to consider the nature of the skill demanded and supplied in each country. Hence, it is highly recommended to invest in building (or upgrading) an information system to better monitor supply and demand of skills of members of the middle class to enhance their engagement in the labour market. A live system monitoring skills prevalent in the market has obvious advantages to data provided by household and establishment surveys, including much less time lag in data collection.

### 3. Paving the road towards micro-, small and medium-sized enterprise development for a resilient middle class

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At a time when more than two thirds of the Arab middle class work in MSMEs, only half of these enterprises have access to credit and the rest grapples with heightened financial barriers. Therefore, encouraging and incentivizing MSMEs, subsidizing innovations and providing fair financing mechanisms can effectively promote inclusive growth and create more job opportunities. Although bank credit continues to be the primary way for small and medium-sized enterprises to obtain financing, there are revolutionary alternative funding options, such as fintech, that can address some of the limitations of bank lending and create new funding opportunities. Nevertheless, there is an increasing realization that sound institutional and regulatory reforms should be coupled with efforts to increase the financial inclusion of MSMEs which can help achieve higher transparency and reduced informality, and unlock underutilized capacities. It is in fact time to start amending enterprise and labour legislation in a nuanced and targeted manner that creates actual gains in the formal sector to incentivize firms and individuals to register and formalize their

activities. This will bring the missing middle into the fold with realized social and economic gains. To successfully formalize MSMEs, it is important to go beyond mere registration and instead focus on implementing policy reforms that improve the working conditions of the informal middle class.

### 4. Promoting well-functioning and accountable institutional systems

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Well-functioning institutions, on the one hand, can positively impact the socioeconomic conditions of the middle class. On the other hand, non-functioning institutions exacerbate tensions and conflict. For instance, lack of accountability and capacity of national institutions to respond to the needs of their citizens are among the main drivers of the Arab uprisings. In protracted conflict settings, strengthened ties between humanitarian, development and peace operations in a “nexus” with a collective outcome of supporting essential service delivery should be prioritized by the multilateral system, donors, and international and regional organizations. Linking humanitarian, development and peace efforts in programming can reduce service delivery gaps and duplications, while better tackling root causes of conflict and facilitating the transition from emergency response to recovery and sustainable development.

## C. Data and research

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### 1. Increasing availability and accessibility of household survey data for policy analysis

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Any policy intervention that aims to improve the living standards of the middle class should be data driven to be able to efficiently protect and improve the fortune of the middle class.

Arab Governments and their national statistical offices are encouraged to make their current and future survey data available for public use, and to provide needed details in their occupational data that (a) comply with the most updated ISCO classification from ILO and (b) are at the third or fourth ISCO level. This would improve our measurement of social class and reduce any potential loss of information. While earning

data are generally available, some labour force household surveys lack income/earnings data for the self-employed and employers, which undermines the ability to properly identify these groups as middle or owning class. This is also true when it comes to the lack of skills-related indicators and the need to have strong and reliable data on informality which sheds light on ignored dimensions such as occupation safety, health and working hours. Lack of availability of recent data on household income and expenditures is also a major barrier for policy analysis, particularly for improving social justice and addressing poverty.

## 2. Exploring other approaches for measuring the middle class in the Arab region

Measuring and monitoring the middle class in Arab countries is important for improving knowledge about changes in its relative size, disposition and vulnerabilities. There is value in considering an asset-based approach when studying social classes in future work. Such an approach would move beyond focusing on employment relations and take into account wealth and asset ownership in marking the boundaries of all classes, and not just the owning class.



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Over the past few decades, concerns have escalated about the fate and fortune of the middle class worldwide. The middle class in Arab countries has been grappling with political instability and conflict, rising informality, lack of decent work opportunities, inactive social protection schemes, and unrelenting poverty. Using a social definition of the middle class and data from household surveys, this report conceptualizes and measures the middle class in six Arab countries (Egypt, Jordan, Kuwait, Lebanon, the State of Palestine and Tunisia), offers a descriptive portrait of the middle class while providing evidence of its contraction, and describes some challenges facing the middle class in the region, including poverty, informality, skills endowment, lack of proper social protection schemes, the adverse effects of taxation and fiscal policy, and conflict.

The findings pave the road towards implementing targeted policy interventions to safeguard the living standards of the middle class and enhance its future prosperity. This is particularly vital since the middle class is perceived as a driving force behind a more stable Arab region, marked by inclusive economic growth, social justice and political stability.

