

**Economic and Social Commission for Western Asia (ESCWA)**

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The squeezing of the middle class in the Arab region**Summary**

The middle class in society plays a crucial role in generating sustainable social and economic development, which is increasingly being recognized by policymakers and other stakeholders. In recent years, however, the vulnerability of this group has become evident, especially during the recent COVID-19 pandemic and the subsequent rise in the prices of food and raw materials.

The present document draws on recent research and publications by the Economic and Social Commission for Western Asia (ESCWA), and provides an overview of how the middle class can be defined and its position in Arab countries. It then considers the impact of various crises and shocks on the middle class, including fiscal crises and consequent austerity measures, the COVID-19 crisis, inflation, conflicts and climate change. The document concludes with a number of policy recommendations to strengthen the middle class, and calls for greater attention to integrated fiscal, economic and social policymaking.

The Committee on Social Development is invited to review the content of the present document and provide comments, suggestions and recommendations thereon.

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Introduction

1. Although crises have heterogeneous impacts on different types of national groups, interventions are most commonly focused on their impact on the most vulnerable, such as the poor or extreme poor, and on government policies, especially those related to budget impact and expenditures. More recently, however, broader social groups like the middle class are increasingly becoming vulnerable to the impact of crises and thereby need to be considered in the development of policies in response to a broad range of crises and shocks.
2. The increased attention of analytical work and policymaking on the middle class in the Arab region is justified by an improved understanding of how shocks and crises affect this social group differently from other groups. Given the relevance of the middle class in limiting inequality and accumulating human capital, as well as in innovation and economic development, policymakers are becoming increasingly aware of its function and importance in maintaining social and political order. In other words, policymakers' attention to and consideration of the fate of the middle class in the context of multiple, and at times overlapping, crises is essential for ensuring political and social stability and cohesion.

I. The middle class in the Arab region: why does it matter?

3. The middle class can be defined in different ways. In the context of the present document, a definition along occupational groups, decision-making authority over assets and types of work relationships appears to be meaningful.¹
4. For the purpose of the present document, the middle class is considered to be distinct from the “owning” and the “working” classes. The former consists, for example, of large business owners/employers, high-level managers, and high-level professionals, who have a considerable degree of autonomy over the types of (work) relationships they have with other social classes. The latter include, for instance, blue-collar and unskilled workers, who have a low level of autonomy over the types of (work) relationships that the other social classes have in relation to them. The middle class, in this context, consists of professionals at different levels and self-employed/medium to small business owners, among others. Table 1 shows a classification of the three classes in terms of occupational groups and types of contractual relationships.

Table 1. Social class and labour market relations

Class	Detailed class	Contractual relationship
Owning	Large business employers, high-grade managers and legislators, high-income self-employed	Service
Middle	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	Blue-collar technicians	Both
	Skilled technical workers	Labour
	Non-skilled routine workers	Labour

Source: Economic and Social Commission for Western Asia (ESCWA), [The Middle Class in Arab Countries](#), 2023.

Note: An introductory discussion on the various concepts and definitions of the middle class can be found in chapter 1 on “Conceptualizing and measuring the middle class” of this publication.

¹ Definitions of the middle-class frequently centre around different income brackets, for example the income group that lies between defined percentages below and above the median income of a country's population. Such a definition, however, is not helpful from a policymaking perspective since it does not allow for identifying why and how specific social sub-groups are affected by different types of shocks or crises and how these sub-groups would benefit from different types of interventions in response to crises and shocks.

5. A distinction is frequently made between the upper-middle class and the lower-middle class. This distinction is important from a policy perspective since the former group, in most cases, has access to (public) social insurance schemes, and therefore is protected against life-cycle risks like ill-health, old age etc., while the latter is not. Table 2 indicates the relative population shares of the middle class – subdivided into upper- and lower- middle class – in six Arab countries before 2020 (i.e. before the onset of COVID-19).

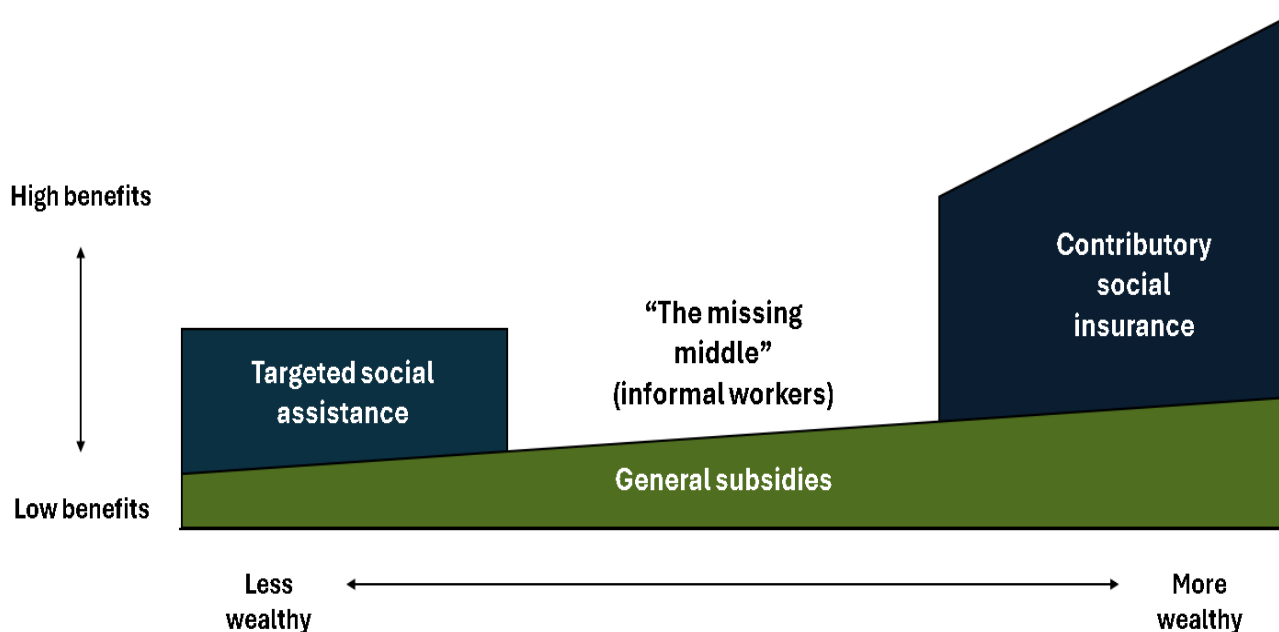
Table 2. Social class distribution in six Arab countries (Percentages of households)

	Egypt	Jordan	Kuwait	Lebanon	State of Palestine	Tunisia
Owning	4.9	6.5	4.2	11.3	4.2	8.2
Middle	52.7	51.3	51.9	58.8	52.7	38.4
Upper-middle	7.0	11.3	16.3	9.4	11.1	5.3
Lower-middle	45.7	40.0	35.6	49.4	41.6	33.2
Working	42.4	42.2	43.9	29.9	43.2	53.4

Source: ESCWA, *The Middle Class in Arab Countries*, 2023.

6. Due to being strongly related to informality, the lower-middle class in this context is frequently equated with the so-called “missing middle”: a social group which is considered to have too high of an income to have access to poverty-targeted social assistance programmes like cash transfers, while at the same time not having access to social insurance schemes, which are, by and large, only available to those who are formally employed. Figure 1 depicts the relationship between income groups and access to different types of social protection coverage.

Figure 1. Types of social protection coverage across the income continuum



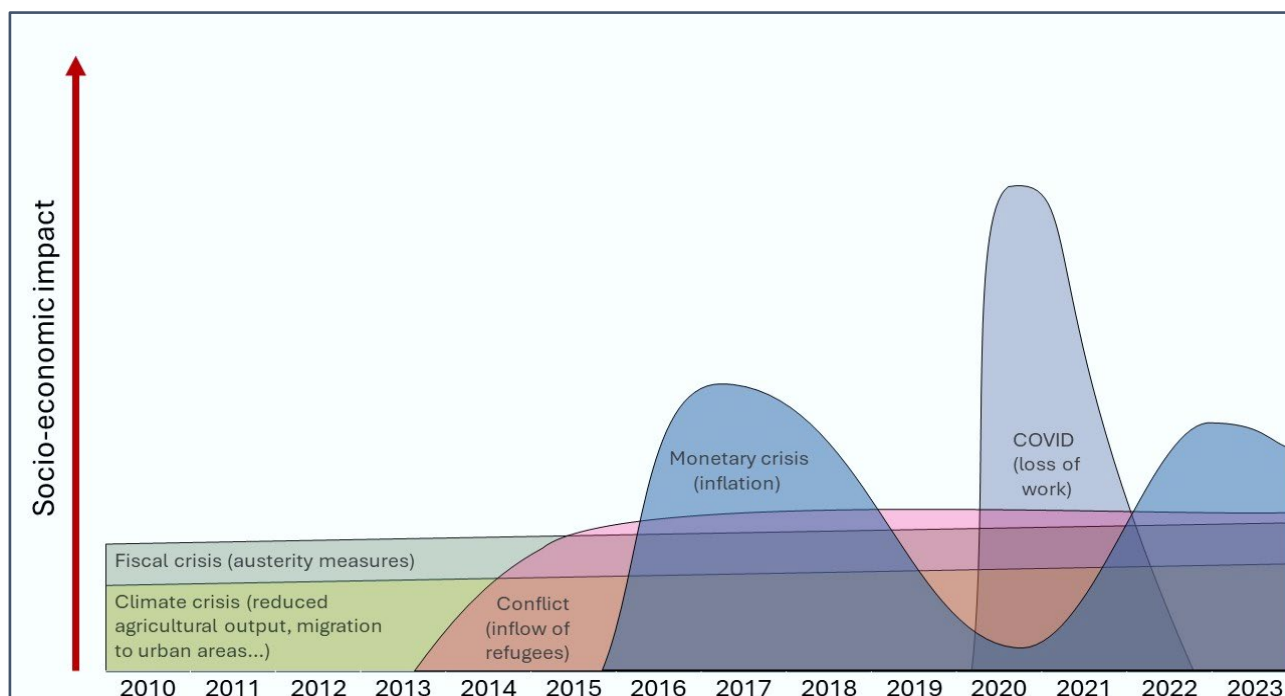
Source: ESCWA.

7. Consequently, an unfortunate social dynamic unfolds, where sections of the upper-middle class descend into the lower-middle class, and some of these eventually slip into the working class. This is especially evident in the region’s middle-income countries due to the compounding effects of multiple crises and shocks.

II. What squeezes the middle class?

8. Multiple crises and shocks, which are at times overlapping and mutually reinforcing, continue to affect the Arab region's societies, including the middle class. These crises and shocks come in a variety of forms and shapes. For example, some crises, like the climate crisis, are rather slow moving (although they have recently been accelerating), while others are marked by a rapid onset and tapering off. Figure 2 illustrates the various slow- and fast-moving crises and shocks layering on each other. Each of these crises/shocks and their respective effect on the middle class will be discussed in turn below.

Figure 2. Compounding crises and shocks affecting socioeconomic status and development in the Arab region



Source: ESCWA.

9. These crises and shocks have multiple, and at times overlapping, effects on the middle class in the Arab region. From the perspective of those affected, the effects materialize in two immediate pathways: they either increase the costs of subsistence and/or they reduce income opportunities. Table 3 sums up the crises' "squeezing" effects on the middle class.

Table 3. The squeezing effects of shocks, crises and related policies

Ballooning costs of living	Shrinking income opportunities
Phasing out of general, consumption-based subsidies	Stagnating private sector-driven economic development
Monetary crises and inflation	Downsizing of public sector employment
Regressive tax regimes	Lockdowns during the COVID-19 pandemic
Conflicts	
Climate crises	

Source: Authors.

10. The sub-sections below illustrate the squeezing effects of the above-mentioned crises, shocks and related policy measures on the middle class.

A. Shrinking income opportunities for the middle class

1. Stagnating private sector-driven economic development

11. While economic growth on its own is not sufficient for the middle class to thrive, lack of economic development can create a stumbling block to upward economic mobility. During the past two decades, economic growth rates across the region have been comparatively modest, especially when comparing the region's high-income, middle-income, and low-income countries with their relative income peers outside the region.² This modest economic growth has not translated into any substantial growth in private sector employment.³ Unfortunately for the region's relatively high-educated and young middle class, the reduction in employment opportunities in the public sector is only partially offset by middle⁴- or low-skilled employment in other sectors. In fact, labour panel surveys in the region's major middle-income countries suggest that new employment opportunities are created mainly in the informal private economy. They include jobs that are developed in the context of mobile application platforms, for example, which requires workers to sign up as self-employed, which only provides them with limited social insurance, if any, against life-cycle risks. This change in the amount and composition of the region's demand for labour creates the economic conditions for downward economic and social mobility of the region's middle class.

2. Austerity measures 1: Downsizing of public sector employment

12. The above-mentioned shortcomings in economic development and (formal) employment cannot be seen independently from other shocks that the region is exposed to. In particular, debt crises in the region's middle-income countries continue to have severe consequences on the respective Governments' abilities to find fiscal space for policies that would benefit the middle class. The mounting imbalance between Governments' expenditures and revenues in the affected countries created fiscal conditions which were at times advised and supported by international financial institutions. These conditions forced Governments to either wind down or abandon policies and programmes that had significantly benefited the region's middle class in the past. According to the middle class, the most consequential austerity measures that affected their decent employment opportunities and prospects was the downsizing of public sector employment.

13. Public sector employment, especially for university graduates, used to be a reliable vehicle for social advancement and access to social insurance against life-cycle risks, as well as an engine for the growth of the middle class, and the upper-middle class, in particular. However, during recent decades, such employment opportunities have dwindled. For example, in 1987, the public sector accounted for 45 per cent of total employment in Jordan. By 1996, this number had fallen to 36 per cent, and by 2021 to 26 per cent.⁵ In Egypt,

² Islam, Asif M., Dalal Moosa, and Federica Saliola, *Jobs Undone. Reshaping the Role of Governments toward Markets and Workers in the Middle East and North Africa*. Washington D.C.: World Bank, 2022.

³ Ibid.

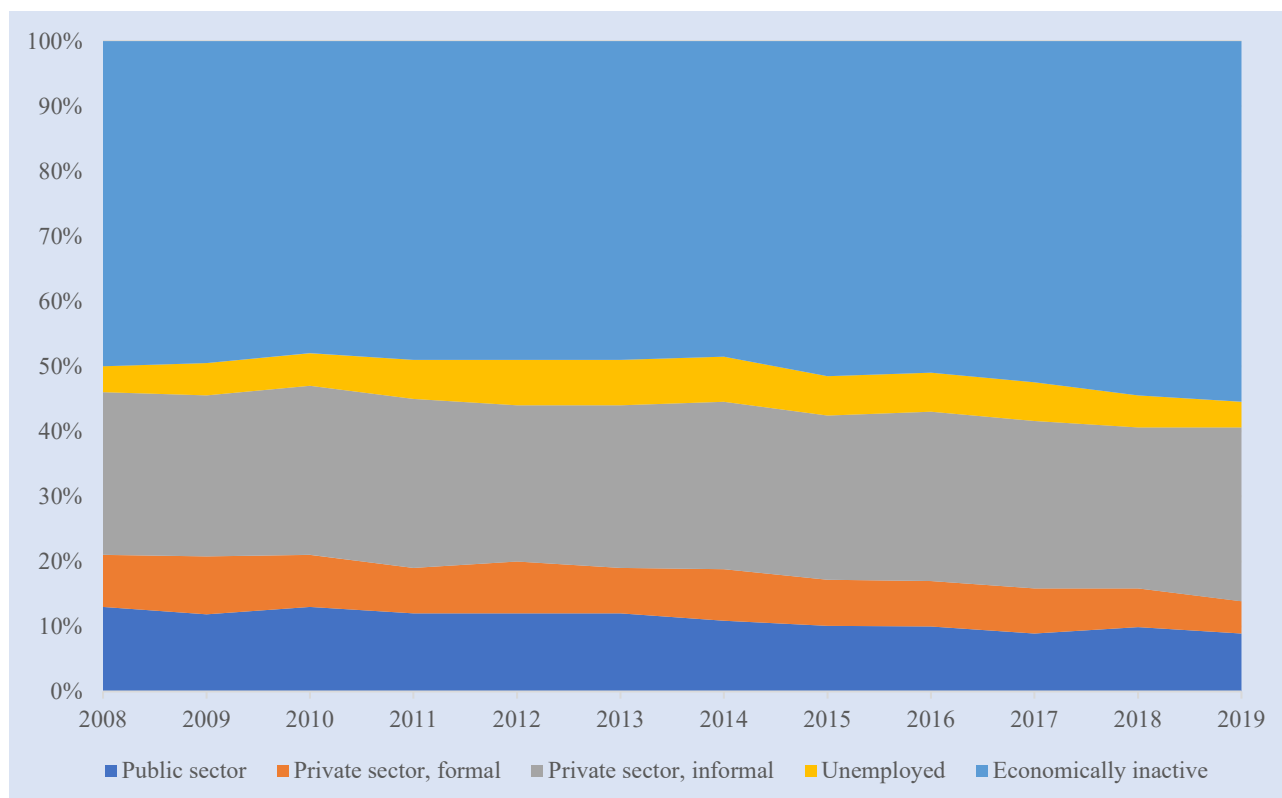
⁴ This is particularly worrisome since middle-skilled employment is frequently marked by a high share of routine administrative tasks, which are particularly prone to getting substituted by technological innovations, leading to the automation and thereby replacement of these jobs.

⁵ World Bank, *Unlocking the Employment Potential in the Middle East and North Africa. Toward a New Social Contract*, 2004; ILOSTAT data. Available at <https://ilostat.ilo.org/>, accessed on 16 February 2024.

as of the late 1990s, nearly 40 per cent of total employment took place in the public sector, but by 2022, its proportion had been almost halved to 20 per cent.⁶

14. Employment in the public sector has been replaced by formal private sector jobs only to a limited extent. Figure 3 illustrates this by showing the evolution of the employment structure in Egypt. In 2008, 28 per cent of total employment among the population aged 15-64 took place in the public sector, and 18 per cent in the formal private sector. By 2019, these proportions had declined to 22 and 12 per cent, respectively. The informality rate consequently increased from 54 per cent to 66 per cent. At the same time, the rate of total employment declined from 46 to 40 per cent.⁷

Figure 3. Evolution of the employment structure in Egypt, total population aged 15-64



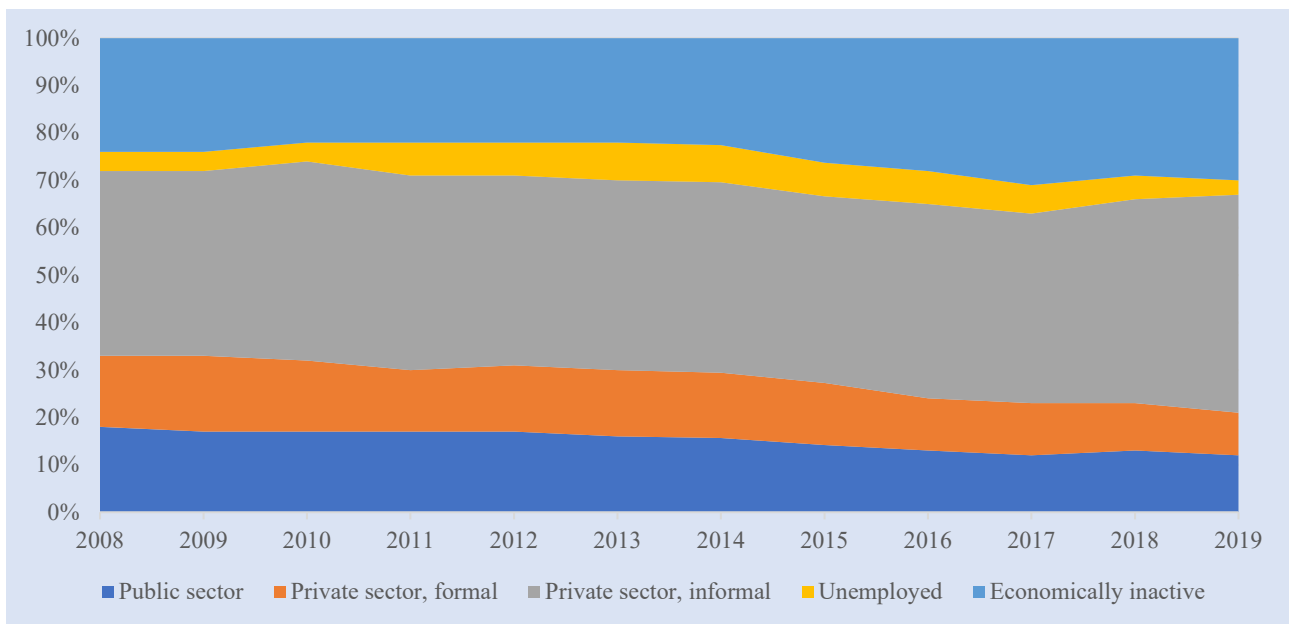
Source: ILOSTAT data. Available at <https://ilostat.ilo.org/>, accessed on 16 February 2024.

15. As shown by figures 4 and 5, the shortage of formal employment opportunities has affected men and women very differently. The increase in informal employment has overwhelmingly occurred among the male population. In fact, the female informality rate declined from 56 per cent to 51 per cent during the period 2008-2019. Meanwhile, the level of women's economic activity, which by global standards was very low to begin with, decreased further: the rate of women's economic inactivity increased from 77 per cent to 84 per cent. In other words, the lack of employment opportunities in the public and formal private sectors tends to push men into informality and women out of the labour market altogether. In both cases, it is detrimental to middle class expansion and consolidation.

⁶ World Bank, *Unlocking the Employment Potential in the Middle East and North Africa. Toward a New Social Contract*, 2004; ILOSTAT data. Available at <https://ilostat.ilo.org/>, accessed on 16 February 2024.

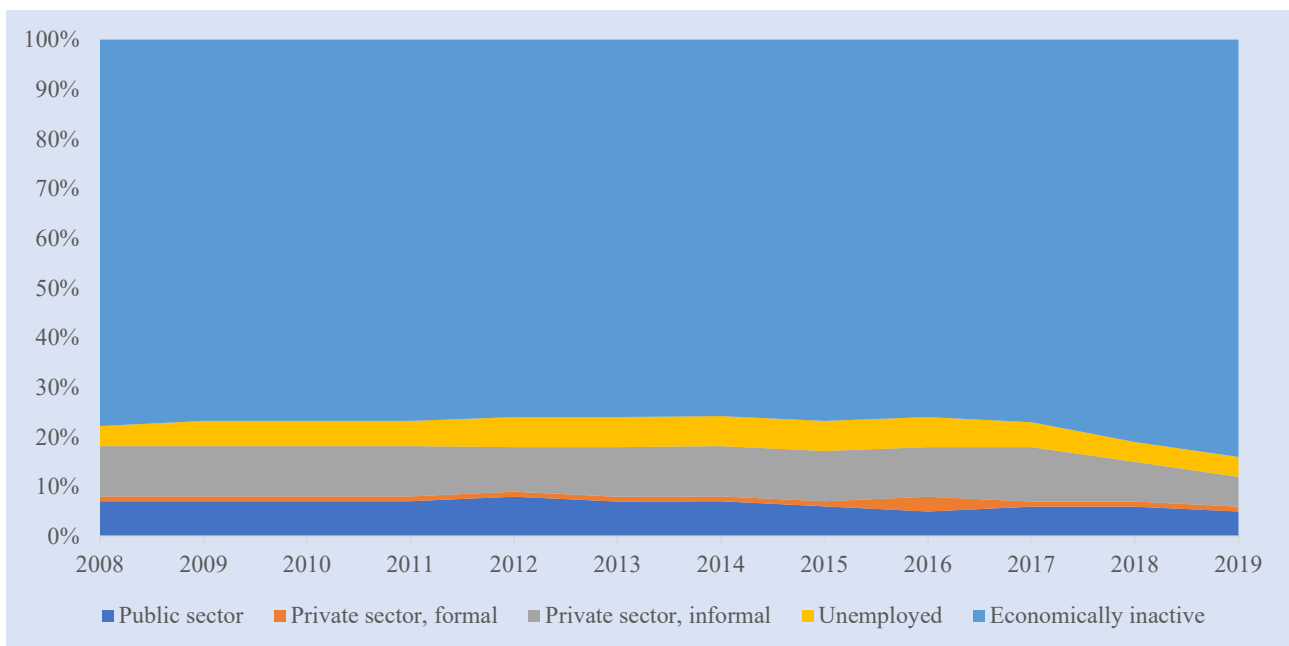
⁷ ILOSTAT data. Available at <https://ilostat.ilo.org/>, accessed on 16 February 2024.

Figure 4. Evolution of employment structure in Egypt, male population aged 15-64



Source: ILOSTAT data. Available at <https://ilostat.ilo.org/>, accessed on 16 February 2024.

Figure 5. Evolution of employment structure in Egypt, female population aged 15-64



Source: ILOSTAT data. Available at <https://ilostat.ilo.org/>, accessed on 16 February 2024.

16. Consequently, increasing informality and economic inactivity have led to lower levels of social insurance coverage among the middle class. In Egypt, the proportion of middle class households with at least one active contributor declined from 55 per cent in 2006 to 43 per cent in 2018, and in Jordan from 62 per cent in 2010 to 54 per cent in 2016.⁸

⁸ ESCWA, *The Middle Class in Arab Countries*, 2023.

3. Lockdowns during the COVID-19 pandemic

17. While the main effect of monetary crises and high inflation on middle class households tends to be a decline in real wages and purchasing power rather than job losses, non-inflationary recessionary crises typically cause the level of employment to decrease. This was witnessed in many Arab countries during the COVID-19 crisis, as employment rates temporarily sank owing to lockdowns and general economic downturn, especially during the second quarter of 2020.⁹ It has been estimated that during that intense phase of the pandemic, 10.6 per cent of hours worked were lost in Arab countries compared to the last quarter of 2019, corresponding to 17 million full time jobs.¹⁰

18. Middle-class households were affected differently depending on their labour market status. Informal and self-employed workers were particularly vulnerable, while employees in the formal private and public sectors were comparatively shielded. For instance, in Jordan, Egypt and Tunisia, layoffs or decreased earnings were reported to a greater extent among informal workers.¹¹

19. During the pandemic, the vulnerability of the “missing middle”¹² manifested. Policymakers implemented several emergency programmes specifically devised for this group. For instance, the National Aid Fund in Jordan provided assistance to 236,000 households of informal workers in 2020, and to 155,000 in 2021.¹³ Similar measures were seen around the region. In Egypt, emergency assistance was provided by the Ministry of Manpower to informal workers affected by the crisis.¹⁴

B. Ballooning costs of living for the middle class

1. Austerity measures 2: Phasing out of general, consumption-based subsidies

20. Within the context of the above-mentioned tightened fiscal policy environment and in view of accelerating debts, Governments took more austerity measures, which were at times in response to recommendations made by international financial institutions. Spending on general subsidies, especially on energy, was for many years strikingly high in the Arab region compared to elsewhere in the world. However, during the last 10-15 years, such spending has drastically declined, given Governments’ efforts to reduce or even abolish subsidies, but also due to falling prices on the global market. Since early 2022, subsidy reductions have to a certain extent been reversed as Governments sought to limit price increases amid global inflation, but the eventual removal of subsidies remains a widely shared objective.

21. There are two main reasons behind the impetus to limit spending on subsidies, namely their high fiscal cost, which at times has approached or even exceeded a tenth of the gross domestic product (GDP), and the

⁹ Krafft, Caroline, and others, [Are labour markets in the Middle East and North Africa recovering from the COVID-19 pandemic?](#), ILO/ERF Working Paper, 2022.

¹⁰ United Nations, [Policy brief: The impact of COVID-19 on the Arab region: an opportunity to build back better](#), 2020.

¹¹ Krafft, Caroline, Ragui Assaad, and Mohamed Ali Marouani, [The impact of COVID-19 on Middle Eastern and North African labor markets: glimmers of progress but persistent problems for vulnerable workers a year into the pandemic](#), 2021.

¹² These are individuals who are not covered by social insurance, but are not deemed poor enough to qualify for targeted social assistance. They are in large part made up of middle-class informal workers.

¹³ Data collected from the National Aid Fund annual reports.

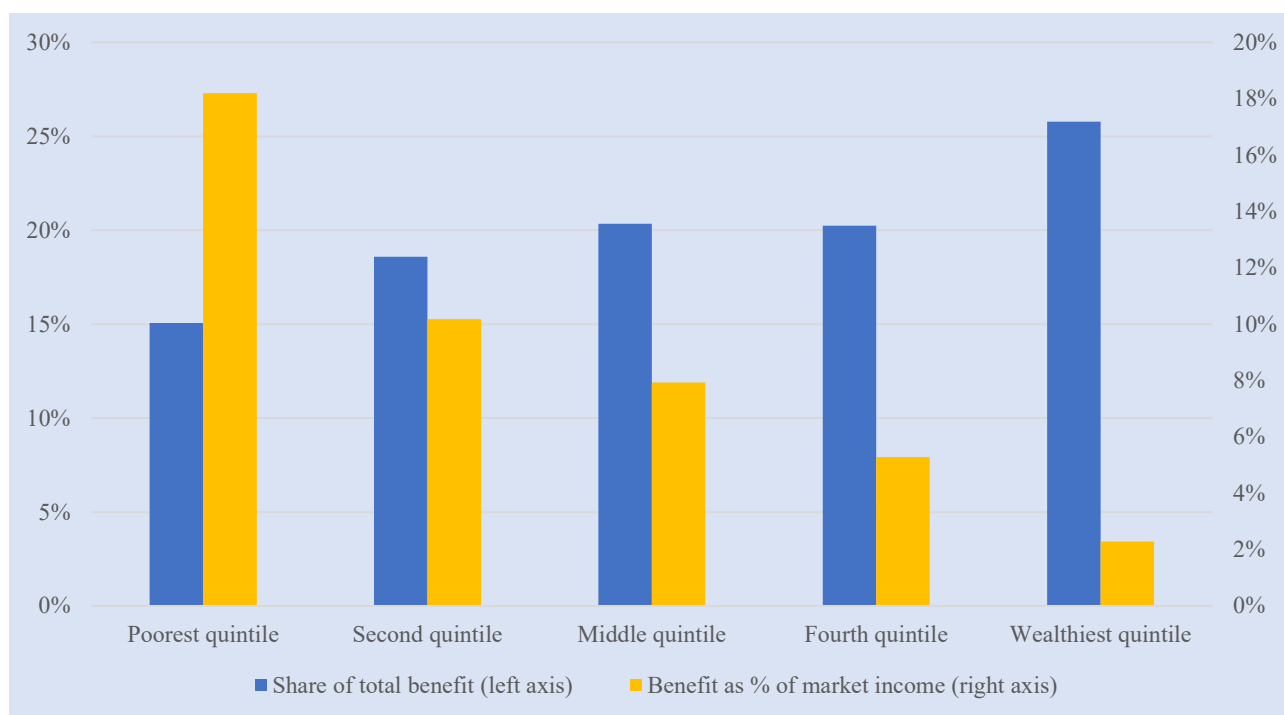
¹⁴ ESCWA, [Targeted social protection in Arav countries before and during the Covid-10 crisis](#), 2021. Despite these efforts, as of late 2020 and 2021, the proportion of households receiving social assistance remained considerably lower in the second lowest income quartile than in the lowest one. See also: Krafft, Caroline, and others, [The Impact of COVID-19 on Middle Eastern and North African Labor Markets: Glimmers of Progress but Persistent Problems for Vulnerable Workers a Year into the Pandemic](#), June 2021.

fact that subsidies are seen as inequitable or regressive since, in absolute terms, the rich tend to draw more advantage from them than the poor.¹⁵

22. There are very significant differences between different types of subsidies. While subsidies on gasoline and diesel tend to benefit the richest parts of the population, this is not equally the case for subsidies on liquified petroleum gas, kerosene and electricity, since spending on these is much more equally divided across income groups. With regard to general subsidies on food, the lower- and middle-income classes often benefit as much or even more than the upper class.¹⁶

23. While the impact of subsidies is often discussed in terms of total spending share accruing to different income groups, the picture changes considerably when considering the benefit from subsidies as a share of market income. For instance, in Morocco in 2012, although more than a quarter of spending on butane gas subsidies benefitted the wealthiest quintile of the population, this represented only 2.3 per cent of their market income. Meanwhile, though the poorest quintile received merely 15 per cent of the total spending, this corresponded to more than a quarter of their market income (figure 6). Consequently, even when a disproportionately large share of general subsidy spending benefits the richest, the non-rich are more affected by subsidy reductions since the subsidies stand for a much larger share of their income.

Figure 6. Distribution and benefit incidence of butane gas subsidy – Morocco, 2012



Source: Touhami, Abdelkhalek, and Ejjanouï Fouzia, *Impact des politiques fiscales sur la pauvreté et les inégalités au Maroc*, Economic Research Forum (ERF) 24th Annual Conference, 2017.

24. The reduction of general subsidies has been accompanied to a certain extent by an increase in other social spending. However, this has often represented only a minor part of the amounts previously spent on general subsidies. For instance, between the financial years 2012/2013 and 2021/2022, subsidy spending in Egypt, measured as a percentage of GDP, went down by 7 percentage points, from 9.3 to 2.3 per cent (figure 7). Meanwhile, spending on other social benefits increased by a comparatively modest 0.8 percentage points,

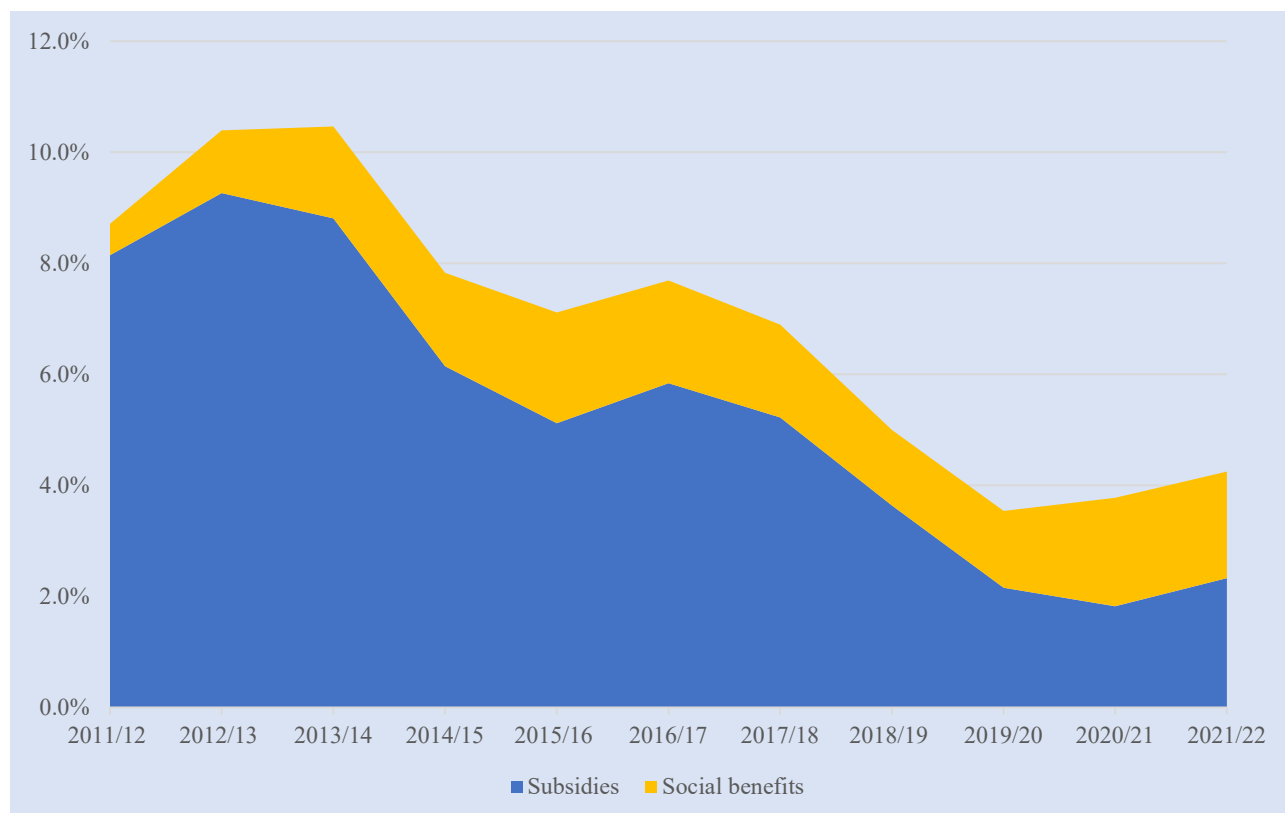
¹⁵ ESCWA, *The social impacts of energy subsidy reform in the Arab region*, 2017.

¹⁶ International Monetary Fund (IMF), *Subsidy reform in the Middle East and North Africa: recent progress and challenges ahead*, 2014.

from 1.1 to 1.9 per cent. Total spending on general subsidies and social benefits thus declined from 10.4 to 4.2 per cent of GDP. Given the relevance of gas and electricity, for example, especially for middle-class households, the phasing out or reduction of the respective subsidies leaves this group exposed to higher expenditures, which – in contrast to the poorest quintile – is not compensated by any other social benefits.

25. The social protection programmes introduced to cushion the impact of subsidy reductions have frequently taken the form of targeted cash transfer programmes. The value of benefits provided through such schemes tends to be modest, and is sometimes further eroded by inflation. Additionally, non-contributory cash transfer programmes frequently target the poorest sections, meaning that the middle class is excluded.¹⁷

Figure 7. Government spending on subsidies and social benefits - Egypt (Percentage of GDP)

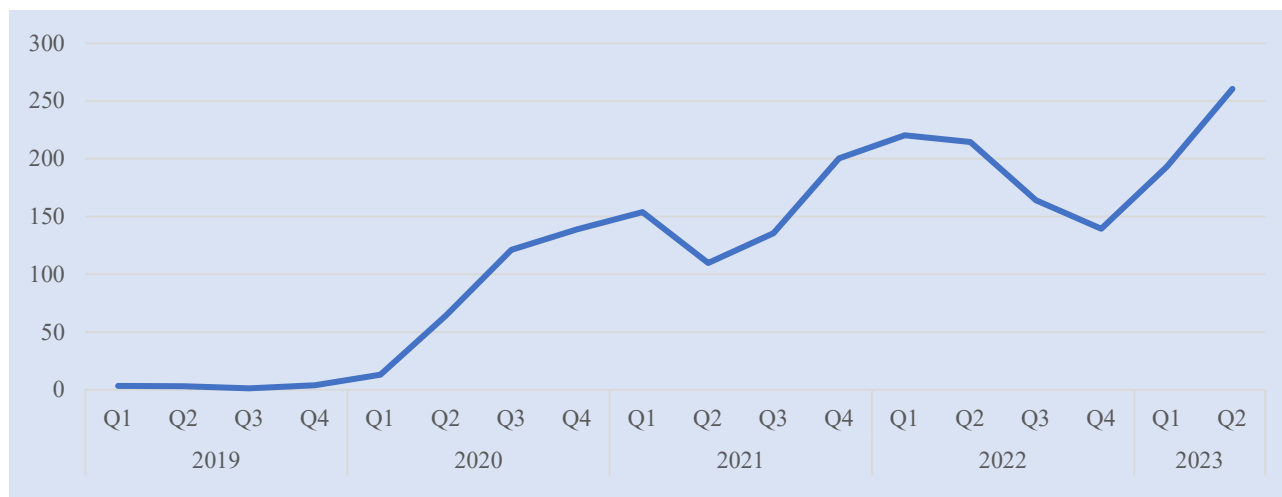


Source: Authors' calculations based on monthly financial reports issued by the Egyptian Ministry of Finance.

2. Monetary crises and inflation

26. In recent years, Arab countries have been plagued by high levels of inflation, which disproportionately affect the middle and working classes. Figure 8 shows that inflation in Lebanon has reached very high levels following the outbreak of the economic crisis in 2019 and the virtual collapse of the local currency. Other countries in the region have also witnessed steep increases in consumer prices, in part as a result of the above-mentioned subsidy reductions, which entail higher consumer prices, and of monetary policy changes, such as the 2016 currency liberalization in Egypt.

¹⁷ ESCWA, [Targeted social protection in Arab countries before and during the COVID-19 crisis](#), 2021.

Figure 8. Quarterly general inflation (year on year) – Lebanon (Percentage)

Source: ESCWA Arab Inflation Monitor. Available at <https://aim.unescwa.org/General/Index>, accessed on 28 February 2024.

27. While non-inflationary economic crises typically lead to a loss of employment, inflationary crises tend to entail a reduction of purchasing power among workers. In other words, inflationary crises may not cause middle-class households to lose their livelihoods altogether (in Egypt, for instance, the employment rate remained stable during the years 2016-2022, and unemployment even declined considerably), but the real value of their earnings was eroded.¹⁸ If pensions and other social protection benefits are not indexed, their real values also dwindle in the face of price increases, as has notably occurred in Lebanon in recent years.¹⁹

28. Following the outbreak of the war in Ukraine in early 2022, the price of food and other commodities has increased in many Arab countries. However, Governments have adopted measures to moderate this impact, including increasing subsidies and instituting price controls.²⁰ Non-subsidy social protection measures have also been introduced or enforced. For instance, countries have increased the value of non-contributory cash transfers. Yet, the poverty-targeted nature of many such measures effectively prevents middle-class households from benefiting.²¹

3. Regressive tax regimes

29. During the last decade, Arab countries have adopted various measures to increase tax revenues. Notably, value-added tax (VAT) has been raised or introduced in some countries where it did not previously exist.²² There have also been various efforts to increase revenues from direct taxation. Several countries have increased the top-tier tax rate in order to collect more tax revenue from high-income earners, but often with limited budget impacts.²³

¹⁸ E.g. World Bank, *Balancing Act: Jobs and Wages in the Middle East and North Africa*, MENA Region Economic Update Jobs and Wages, 2023.

¹⁹ International Labour Organization, *Financial Assessment Report for the National Social Security Fund in Lebanon: Executive Summary*, 2023.

²⁰ World Bank, *Altered Destinies. The Long-Term Effects of Rising Prices and Food Insecurity in the Middle East and North Africa*, MENA Economic Update, 2023; ESCWA, *Annual Digest of Social Protection Reforms in the Arab Region 2022*, 2023.

²¹ Ibid.

²² ESCWA, *Tax reforms in the Arab region: assessing equity, efficiency and progressivity toward mobilizing domestic resources*, Background paper 4, 2023.

²³ Ibid.

30. A higher share of total indirect taxes than of total direct taxes tends to emanate from the middle classes. For instance, it has been found that in Egypt in 2015, the middle 60 per cent of the population stood for around 50 per cent of total sales tax as compared to 41 per cent of total personal income tax.²⁴ Similarly, in Tunisia in 2010, 49.5 per cent of revenues from indirect taxation and 31.3 per cent of revenues from direct taxation derived from the middle 60 per cent.²⁵

31. In other countries, the difference is considerably bigger, with practically all income tax being paid by the uppermost quintile or even decile. For instance, in Morocco in 2012, the middle 60 per cent paid 39 per cent of all VAT but merely 5.1 per cent of income tax. Revenues from income tax were practically limited to the highest echelons, with 86.9 per cent of it being paid by the wealthiest 10 per cent.²⁶ A similar pattern could be seen in Jordan.²⁷

32. In terms of tax incidence, the burden of indirect taxation tends to be quite evenly distributed across income groups, though often affecting those at the lower end somewhat more. For example, in Morocco in 2012, the incidence of indirect taxation amounted to 2.6 per cent of the market income, both among the wealthiest quintile and the middle 60 per cent, but reached 4.5 per cent among the poorest quintile.²⁸ Meanwhile, the incidence of direct taxation is naturally much higher among the wealthier parts of the populations.

33. Even though the richer parts of the populations are typically most affected in absolute terms, given that they stand for a higher share of total consumption, the real impact of VAT increases is at least as palpable for the less affluent parts of the population. Such reforms can thus be extremely detrimental to middle-class households already impacted by a lack of formal employment opportunities and rising prices in the face of subsidy reductions, but who are nevertheless not deemed sufficiently poor to qualify for social assistance.

34. Recognizing this, countries have endeavoured to augment revenues from VAT while limiting the social impacts. For instance, Morocco projects that VAT revenues will increase by an annual average of 6.7 per cent up until 2027, with the exemption of certain products such as medications and school supplies.²⁹

C. Crises affecting income opportunities and costs of living of the middle class

1. *Conflicts*

35. Conflicts generate a range of short-, medium- and long-term impacts that negatively affect the middle class. These include, but are not limited to, the destruction of homes, assets and infrastructure, mobility restrictions, lack of economic opportunities, currency devaluation and inflation, displacement, rising

²⁴ Ibarra, G. L., and others, [Impact of fiscal policy on inequality and poverty in the Arab Republic of Egypt](#), Policy Research Working Paper No. 8824. World Bank, 2019.

²⁵ Jouini, Nizar, and others, [Fiscal policy, income redistribution and poverty reduction: evidence from Tunisia](#), Working Paper 38, CEQ Institute, Tulane University, 2017.

²⁶ Touhami, Abdelkhalek, and Ejjanoui Fouzia, [Impact des politiques fiscales sur la pauvreté et les inégalités au Maroc](#), Economic Research Forum (ERF) 24th Annual Conference, 2017.

²⁷ Rodriguez, Laura and Matthew Wai-Poi, [Fiscal Policy, Poverty and Inequality in Jordan: The Role of Taxes and Public Spending](#), Policy Summary, World Bank, 2021.

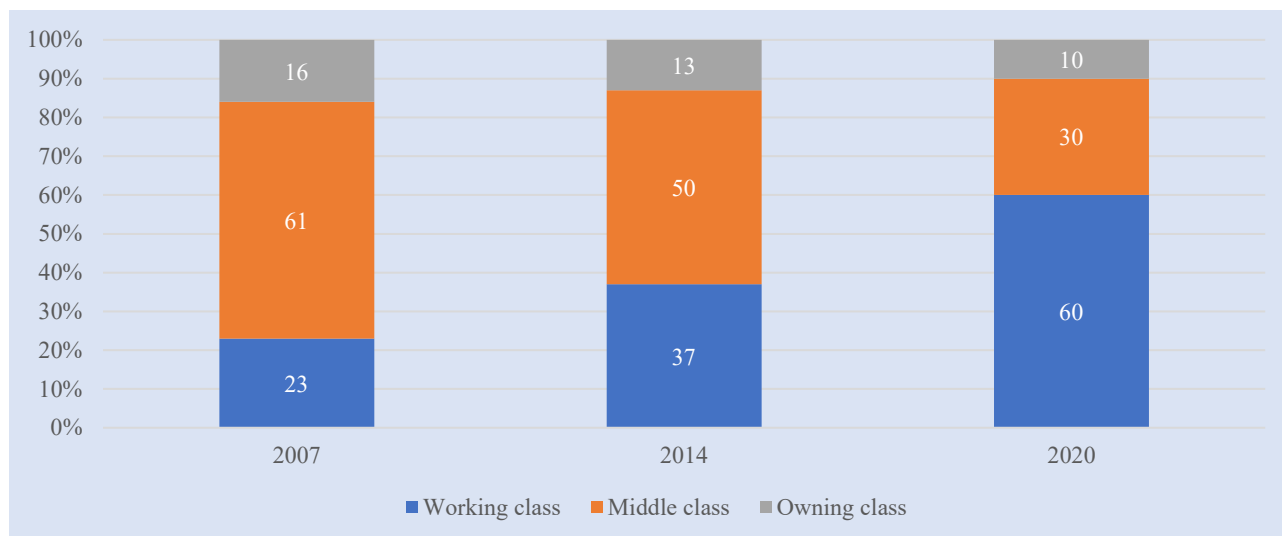
²⁸ Touhami, Abdelkhalek, and Ejjanoui Fouzia, [Impact des politiques fiscales sur la pauvreté et les inégalités au Maroc](#), Economic Research Forum (ERF) 24th Annual Conference, 2017.

²⁹ Ministère de l'Economie et des Finances, [Document de programmation budgétaire triennale globale pour la période 2024-26](#), 2024.

corruption, as well as degradation of State institutions and capacities. They result in the impoverishment of the middle class, and often cause a substantive share of it to leave the country.³⁰

36. It has been estimated that in Iraq, which has suffered several waves of intense conflict during the last two decades, the middle class shrank from 61 per cent of the overall population in 2007 to 50 per cent in 2014, and thereafter to merely 30 per cent in 2020 (figure 9). It appears that many middle-class households, as measured by income, were pushed into the lower class, which increased from 23 per cent of the overall population in 2014 to 60 per cent in 2020, while the upper class decreased from 16 to 10 per cent.³¹ The middle classes of the Syrian Arab Republic and Yemen have in the past years been decimated due to the effects of conflict.³²

Figure 9. Change in relative size of economic classes - Iraq, 2007-2020



Source: Dagher, Munqith, [Iraqi stability and its free-falling middle class](#), Center for Strategic and International Studies, 2020.

37. Conflicts also impact populations in indirectly affected countries. In particular, the inflow of refugees in unprepared and oversaturated labour markets can lead to increased competition with local job-seekers and workers, put further pressure on social services, and drive up prices such as for housing. Reduced food exports from countries directly affected by conflict, whether in the region or elsewhere, may in addition entail scarcity and higher prices in importing countries, as had become particularly evident following the 2022 outbreak of the war in Ukraine.

2. Climate crisis

38. In 19 out of 22 Arab countries, the level of water stress (freshwater withdrawal as a proportion of available freshwater resources) is higher than the global average of 18.24 per cent. Out of the 25 most water stressed countries in the world, 14 are Arab, and in all but one of these, the level of water stress is above 100

³⁰ ESCWA, [The Middle Class in Arab Countries](#), Chapter 8: Impact of conflict on the middle class in the Arab region, 2023.

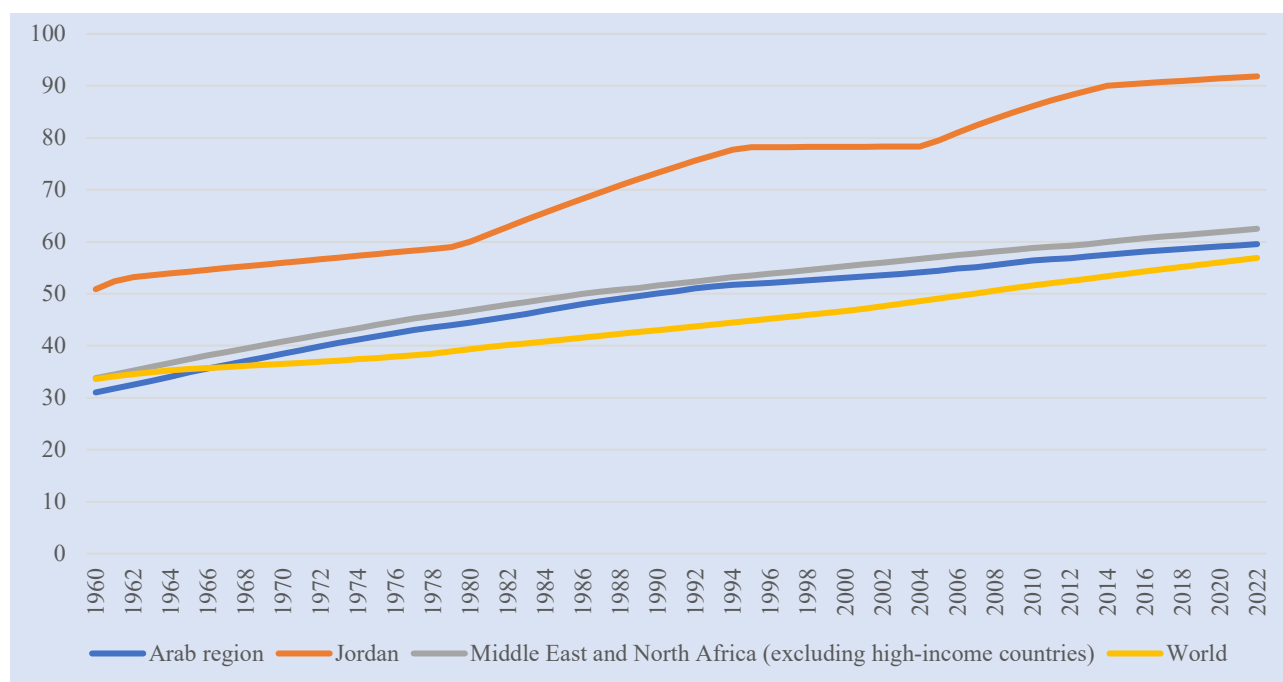
³¹ Dagher, Munqith, [Iraqi stability and its free-falling middle class](#), Center for Strategic and International Studies, 2020. For this purpose, lower class was defined as those living on \$2-5 per individual and day, middle class as those living on \$6-10 per individual and day, and upper class as those living on more than \$10 per individual and day.

³² INGO briefing for the UNGA, [The humanitarian situation in Yemen after seven years of conflict](#), 2021; Syrian Economic Sciences Society, [Employment and Livelihood Support in Syria](#), 2018.

per cent. Water has always been scarce in the Arab region compared to elsewhere in the world, but climate change is rapidly aggravating the situation due to its impact on the hydrological cycle.³³

39. Water scarcity and other effects of climate change impact the middle class through a variety of channels. Notably, their negative repercussions on the agricultural sector may lead to reduced output, adding to food price inflation and food insecurity, and may trigger migration to urban areas. In the Arab region, the accelerating rate of urbanization during the second half of the twentieth century means that there is already a shortage of affordable housing in many cities. As shown in figure 10, the proportion of the population in Jordan living in urban areas increased from 51 per cent in 1960 to 78 per cent at the turn of the century, and then to 92 per cent in 2022. For comparison, at the global level, the proportion of urban dwellers increased from 34 to 57 per cent.³⁴

Figure 10. Proportion of population living in urban areas- Arab region, Jordan, Middle East and North Africa (excluding high-income countries) and globally (Percentage)



Source: World Bank, [Urban population \(% of total population\) - Jordan](#), 2024. Accessed on 29 February 2024.

40. In terms of food prices, climate change already has a measurable effect on the yields of several staple crops. For example, the International Panel on Climate Change (IPCC) estimated that between 1981 and 2010, the mean yields of soybeans, maize and wheat sank by 4.5 per cent, 4.1 per cent, and 1.8 per cent, respectively, as a result of climate change.³⁵ Worsening scarcity of staple foods translates directly into food price increases. The European Central Bank predicts that annual food inflation will increase by 0.9-3.2 percentage points per year by 2035 owing to climate change, with the effects expected to be especially impactful in the Global South.³⁶ While this development is of specific concern for the region's poor population, it also affects the expenditures and consumption of the middle class.

³³ Intergovernmental Panel on Climate Change, [Climate Change and Water](#), IPCC Technical Paper VI, 2008.

³⁴ World Bank, [Urban population \(% of total population\) - Jordan](#), 2024. Accessed on 29 February 2024.

³⁵ Intergovernmental Panel on Climate Change, [Climate change and Land. Chapter 5: Food Security](#), 2022.

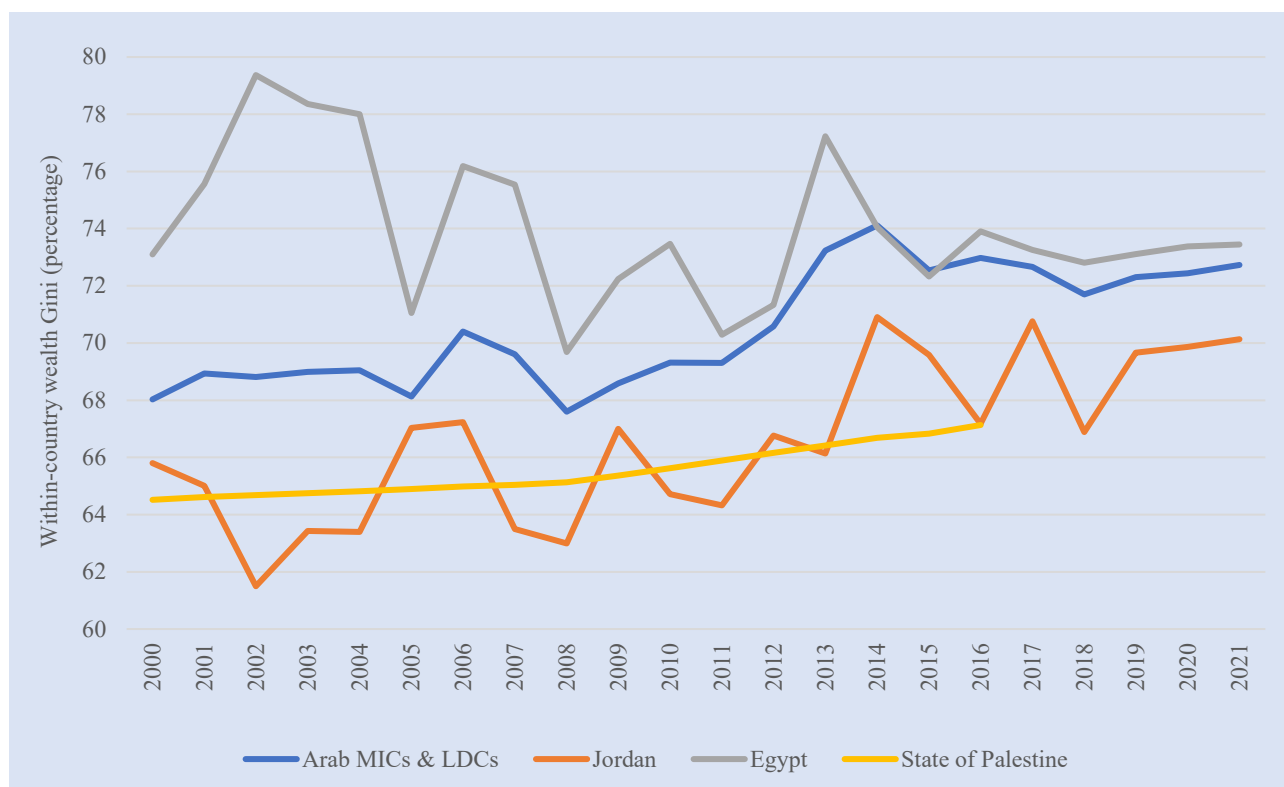
³⁶ European Central Bank, [The impact of global warming on inflation: averages, seasonality and extremes](#), ECB Working Paper Series No. 2821, 2023.

III. Effects of compounding crises and shocks on the middle class in the Arab region

41. Each crisis and shock, as individually described above, has its respective idiosyncratic impact on the middle-class populations in the Arab region. Individual impacts, however, compound and reinforce each other in terms of their socio-economic effects on the middle class.

42. Most notably, income inequality in the Arab region's middle-income and least developed countries increased steadily since the start of the millennium from 0.68 in 2000 to 0.73 in 2021 (figure 11),³⁷ thereby solidifying the region's status as the world's most unequal region in terms of income distribution.

Figure 11. Within-country Gini coefficients (Percentage)



Source: ESCWA, *The Middle Class in Arab Countries*, 2023.

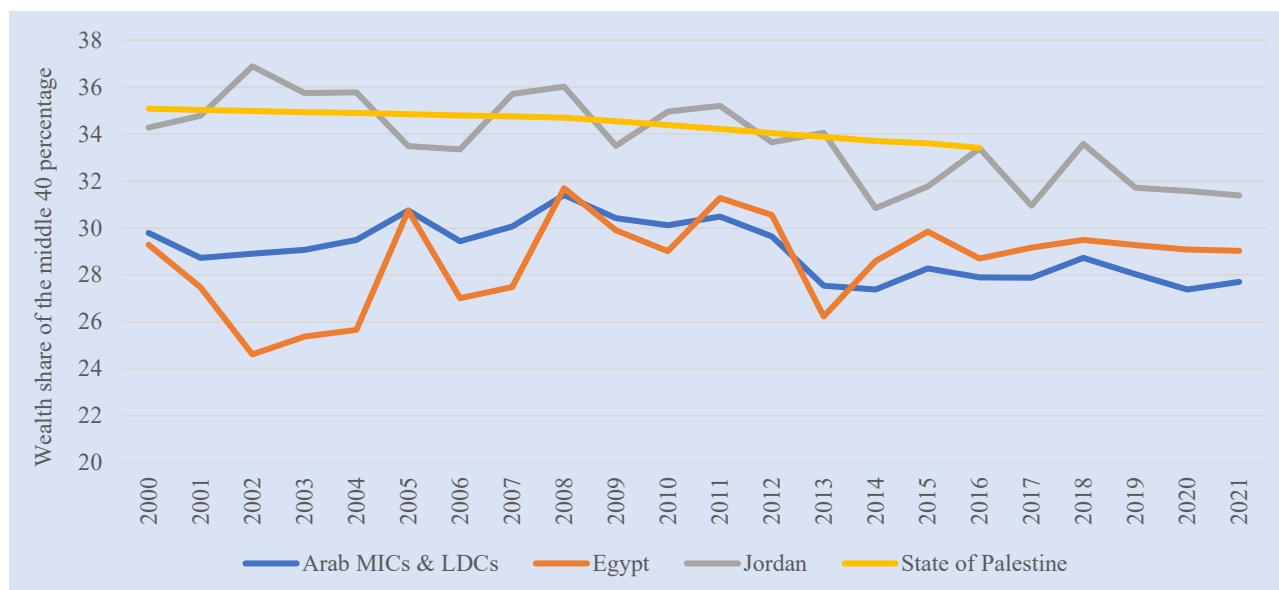
Note: MICs refers to middle-income countries; LDCs refers to least developed countries.

43. This development is consistent with the slight decline in the wealth of the so called “middle 40 percent”³⁸ in the Arab region's middle-income and least developed countries (figure 12). In 2000, this population group's share of wealth was estimated to be just below 30 per cent, and it slightly decreased to 27.7 per cent in 2021.³⁹

³⁷ ESCWA, *The Middle Class in Arab Countries*, 2023.

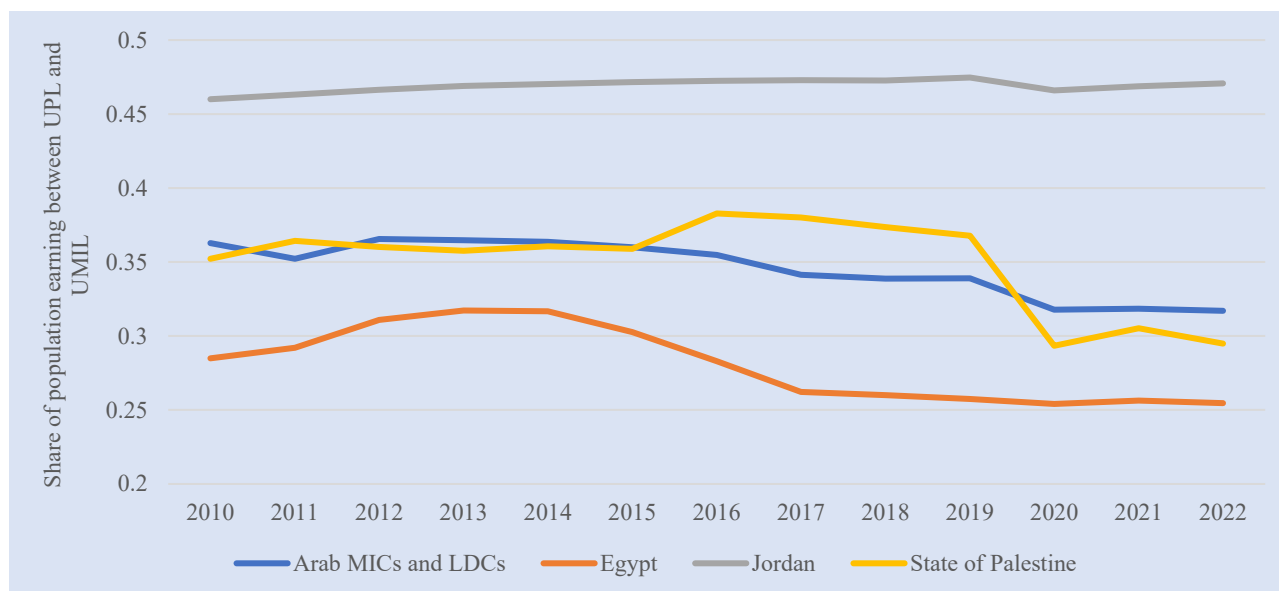
³⁸ Those between the 50th and 90th percentile distribution curve.

³⁹ Ibid.

Figure 12. Wealth share of the middle 40 per cent of the population (Percentage)

Source: ESCWA, *The Middle Class in Arab Countries*, 2023.

44. In this context, it is illustrative to gauge the change in the shares of the population group that earns an income between the upper poverty line (UPL)⁴⁰ and the upper middle-income line (UMIL).⁴¹ Between 2010 and 2022, the average of this share for the region's middle-income and least developed countries decreased from 36 per cent to 32 per cent (figure 13).⁴²

Figure 13. Share of population earning between the upper poverty line and the upper middle-income line (Percentage)

Source: ESCWA, *The Middle Class in Arab Countries*, 2023.

⁴⁰ Approximately 1.5 of national poverty lines.

⁴¹ Approximately 3.5 of national poverty lines.

⁴² ESCWA, *The Middle Class in Arab Countries*, 2023.

45. While these figures do not illustrate an extreme decline in equality and economic fortunes of the middle class in the Arab region, they nevertheless all point to the same direction: a slow-moving decline in the population share of the middle class and middle-income groups, as well as in their relative wealth and income.

IV. The way ahead: policy choices to stabilize the middle class in the Arab region

46. Broad-based, productive and sustainable growth is key to middle class expansion and prosperity. To promote such growth, Governments are encouraged to consider integrated, multisectoral “national employment policies, rethink macroeconomic policies and promote private sector development”.⁴³

47. Small, informal firms are overall correlated with low productivity. Therefore, a fundamental requirement for enhancing growth is to expand and formalize small enterprises. Social insurance and tax systems must be calibrated to promote this. For instance, special tax regimes for micro enterprises can enable them to be integrated into the formal economy and obtain social insurance coverage. At the same time, it is important that such regimes be set up in a way that does not disincentivize expansion.⁴⁴ Tax breaks or reduced flat-rate entry-level tax regimes appear to have promoted formalization of micro and small businesses in some Latin American countries.

48. Market conditions and the rule of law are also essential for economic development. Long and costly business registration processes, stifling regulation, monopolies, and corruption are detrimental to entrepreneurship and innovation. Enhancing the quality of judicial processes and facilitating the enforcement of commercial contracts would lower the transaction costs and risks associated with business interactions. Moreover, effective and reliable enforcement of credit contracts would reduce the risk of lending and increase the availability of credit, which would in itself become an incentive for firms to grow and ultimately formalize.⁴⁵

49. Efforts to attain fiscal consolidation through the reduction of public sector employment have often been based on the presumption that this would invigorate the private sector. However, such expectations have largely been confounded in the Arab countries, where public sector downsizing has instead coincided with an increase of economic inactivity (especially among women) and of relatively unproductive informal work (especially among men), leading to the social and economic degradation of the middle class. While bureaucratic inefficiency is a real concern, curtailing human resources is not necessarily the appropriate remedy. As such, “it is better to reimagine the debate in terms of identifying public-private synergies”.⁴⁶

50. While creating an environment that generates decent employment opportunities is fundamental, it is also crucial that people be endowed with the skills demanded in a productive and innovative context. This calls for a reform of the education sector as well as for effective active labour market policies. It is also critical that women be enabled to take up employment in general and private-sector employment in particular, notably by “increasing the safety of public transport and improving the working conditions of women, including through the provision of childcare and maternity benefits”.⁴⁷

51. Efforts to achieve fiscal sustainability by reducing subsidies and increasing indirect taxation must be pursued with great caution, bearing in mind the impact of such reforms not only on the poorest, but also on the

⁴³ ESCWA, [Towards a Productive and Inclusive Path: Job Creation in the Arab region](#), 2021.

⁴⁴ Lopez-Acevedo, Gladys, and others, [Informality and Inclusive Growth in the Middle East and North Africa](#), Middle East and North Africa Development Report Series, 2023.

⁴⁵ Ibid.

⁴⁶ ESCWA, [Towards a Productive and Inclusive Path: Job Creation in the Arab region](#), 2021.

⁴⁷ Ibid.

middle class. Governments have introduced or expanded non-contributory cash transfer programmes to cushion the social impacts of subsidy reforms, but the middle class has frequently been excluded from these programmes.

52. Endeavours to extend contributory social protection, such as pensions, to a larger share of the middle class are commendable and necessary, but it must be understood that such measures generate benefits to households only in the medium to long term. The immediate effect of social insurance schemes is in fact to reduce the purchasing power of households that have to forfeit a part of their revenues in the form of contributions. Effective coverage extension may therefore require subsidizing a proportion of vulnerable middle class households' contributions, or the concomitant provision of some non-contributory benefits or services.

53. To close the coverage gap and extend social protection to the missing middle, Governments should consider moving towards integrated systems and seek to bridge the gap between contributory and non-contributory components. In this regard, the comprehensive Social Protection Law adopted by Oman in 2023 constitutes an innovative and promising regional example.⁴⁸

V. Conclusion

54. A broad, economically productive, and financially secure middle class is not just the central pillar of a nation's economic development. A flourishing middle class is also a precondition and a cornerstone for social and political stability.

55. In the Arab region, multiple overlapping and at times external shocks and crises continue to have a negative impact on the size, economic status and economic prospects of the middle class. This translates into ever increasing inequality and reduced productive economic activity, notably of women in middle-income countries. In this group of non-resource rich countries, a worrisome downward mobility from upper-middle class to lower-middle class (the "missing middle") and eventually into the working class can be observed for parts of the comparatively well-educated working age population. This trend contributes to an expanding caseload and a need to increase social expenditures for the region's Ministries of Social Development.

56. Key drivers of this development include economic policy decisions that, as illustrated above, aim to achieve financial and budgetary stability at the national level. While these decisions are justified from a budget stability perspective, they raise the consumption expenditures of the middle class, which are also amplified by double-digit inflation at times, while limiting their access to decent employment and social security.

57. An essential element in this trajectory is that economic policy decisions seem to be made in isolation and only insufficiently consider the socio-economic repercussions of these decisions. For example, the decline in the region's public sector employment is only insufficiently – if at all – compensated by (formal) private sector development and employment, thus putting pressure on even well-educated middle-class populations to take on insecure informal employment.

58. Ultimately, this calls for paying greater attention to integrated fiscal, economic, and social policymaking. Such concerted economic and social policymaking would also take into account the social and economic prospects of wider segments of the population like the middle class, while protecting the most vulnerable through the expansion of social assistance. A central plank for this type of policymaking would consist of nurturing the development of a viable private sector marked by the creation of decent – i.e. socially insured – employment opportunities.

⁴⁸ ESCWA, [Annual Digest of Social Protection Reforms in the Arab Region 2023](#), 2024.