



Working paper No. 3



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

Working paper series on the middle class

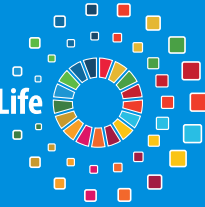


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the situation in Egypt, Jordan and the State of Palestine**
Working paper series on the middle class

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UNITED NATIONS
Beirut

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Key messages

1/3



of the middle class

is poor

Large share



of the middle class

at risk of poverty

The risk of falling into poverty remains a concern for many members of the middle class.

About one third of the middle class in both Egypt and the State of Palestine **is poor**, and a **large share of the middle class** in Jordan remains vulnerable and **at risk of falling into poverty**.



Members of the poor middle class



services sector
own-account
workers



rural areas



poorly educated

Members of the poor middle class are more likely to be **poorly educated** and to reside in **rural areas** than members of the non-poor middle class. They are also more likely to be **employed in the services sector or as own-account workers**.

Introduction

The distribution-biased growth and uneven recovery from the COVID-19 pandemic, the changing nature of employment caused by technological change and a rise in platform and gig employment, and the polarizing effect of inflation on different social groups have all contributed to socioeconomic discord within many societies. The Arab region, in particular, has been adversely affected by declining 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. As a result of those overlapping shocks, many Arab societies have experienced increased socioeconomic polarization.

The COVID-19 pandemic further exacerbated pre-existing vulnerabilities and accentuated structural deficits undermining the region's labour markets. As a result, the Arab region currently has the world's highest unemployment and youth unemployment rates. Furthermore, 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 in their incomes and purchasing power.

As mentioned above, the aim of this paper 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 use an expenditure-based approach and divide the population into economic groups. The paper 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.

The paper is organized as follows: after the introduction, chapter 2 provides an overview of the data sources used in the study and elaborates on the empirical approach adopted to identify different income groups, comparing this against the approaches adopted in prior studies. Chapter 3 presents the results obtained for the three selected Arab countries. Finally, chapter 4 discusses the main findings of the study and their socioeconomic ramifications, and concludes with a number of policy recommendations.

Methodology and data sources

01

A. Identifying the poor middle class

Estimates of poverty rely on national poverty lines computed by national statistical offices, and on thresholds identified by Abu-Ismaïl and Sarangi,¹ who adopted an expenditure-based approach to distinguish five income groups, namely,² 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.³

To overcome the shortcomings associated with strictly relative or absolute measures, Abu-Ismaïl and Sarangi proposed a framework and methodology that considers both the quantity and composition of consumption expenditures in each income group.⁴ That approach facilitates the determination of an upper poverty line (UPL) and a lower middle-income line (LMIL), which define the lower and upper bounds, respectively, of the total consumption expenditure of the lower middle-income group, and similarly an upper middle-income line (UMIL) under which lies the upper middle-income group. The affluent group is situated above the UMIL, the vulnerable group below the UPL and above a pre-defined national poverty line (NPL), under which the poor lie.⁵ From the assigned income group lines or cut-offs, multiples of the national poverty line were extracted and used in Jordan and the State of Palestine, whereas the multiples for Egypt were extracted from World Bank statistics.⁶

Table 1 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 the Government of Jordan did not report an official figure for the poverty line in 2013, we take that

The affluent group is situated above the UMIL, the vulnerable group below the UPL and above a pre-defined national poverty line (NPL), under which the poor lie.

country's 2011 national poverty line, calculated using the 2011 Household Expenditure and Income Survey, and project it to 2013, using the consumer price index provided in World Bank to account for cost-of-living changes.⁷ As such, the monthly poverty line in Jordan during 2013 was estimated at 78 Jordanian dinars (JD) per capita per month. The poverty line for the State of Palestine was reported by the Palestinian Central Bureau of Statistics at 2,470 new Israeli shekels (NIS) for a household of five members, equivalent to 494 NIS per capita per month in 2017. The monthly national poverty line of Egypt stood at 744 Egyptian pounds (LE) according to the Central Agency for Public Mobilization and Statistics of Egypt in 2017/2018. The headcount poverty ratio was calculated by identifying the percentage of those whose total expenditure falls below the poverty line.

To identify the other income groups, we use country-specific poverty line multiples. For Egypt, those multiples are 1.33 for UPL/NPL, 1.67 for LMIL/NPL and 2.00 for 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 2010/2011 Household Expenditure and Income Survey of Jordan, are used for the two countries, namely, 1.5 for UPL/NPL, 2.5 for LMIL/NPL and 3.5 for UMIL/NPL.⁸

Table 1. National poverty lines and poverty line multiples in local currency (Per capita per month)

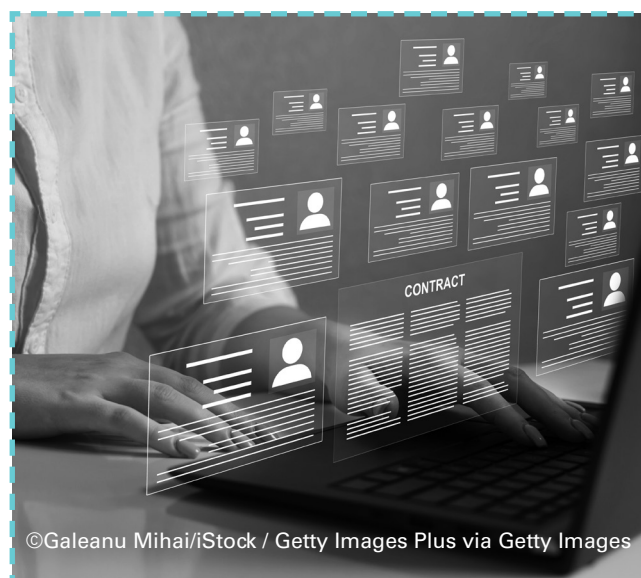
Poverty lines (currency)	National poverty line (NPL)	UPL/ NPL	Upper poverty line (UPL) (vulnerability threshold)	LMIL/ NPL	Lower middle-income line (LMIL)	UMIL/ NPL	Upper middle-income line (UMIL) (affluence lower threshold)
Egypt 2018 (LE)	744	1.33	989	1.67	1,242	2	1,487
Jordan 2013 (JD)	78	1.5	117	2.5	195	3.5	273
State of Palestine (NIS)	494	1.5	741	2.5	1,235	3.5	1,729

Source: Authors' calculations based on poverty lines established by national statistical offices, which each draw on data derived from the 2017/18 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: The 2011 national poverty line in Jordan was adjusted based on inflation (consumer price index) to estimate the 2013 national poverty line.

B. Data sources

The analysis reported here is contingent on the availability of high-quality nationally representative microdata on occupational status. The household budget surveys introduced below have been selected with this in mind. As mentioned above, for Egypt, we use the 2017/18 Household Income, Expenditure and Consumption Survey, provided by the Egyptian Central Agency for Public Mobilization and Statistics. In 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.



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Results



02

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 groups 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.

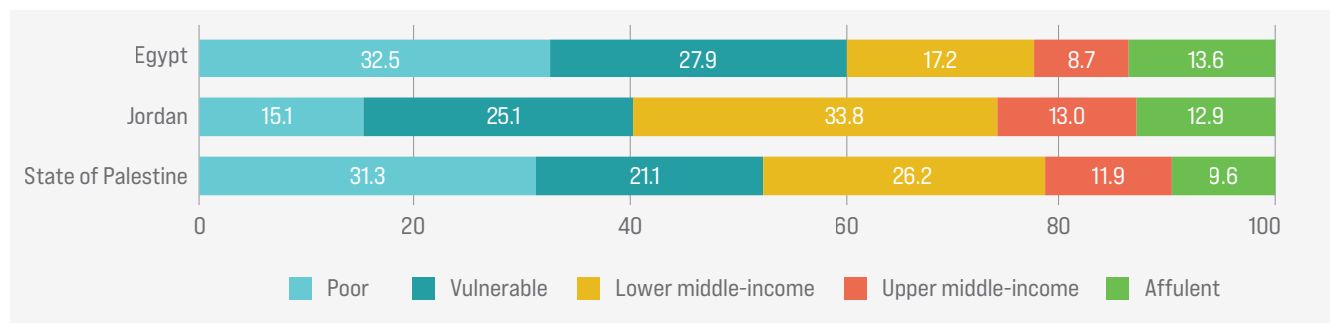
A. Highest income poverty is found in Egypt, followed by the State of Palestine and Jordan

Figure 1 shows the key results of the analysis, the economic stratification of the population in the three countries, including poverty rates, and the share of the population in the lower middle-income, upper middle-income and affluent groups. Given that this paper is concerned with the incidence of poverty among the middle class, particular focus is directed to poverty rates in the analysis.

Egypt is characterized by the highest poverty rate of the three countries, and the poor in Egypt constitute 33 per cent of the population, the largest income group. Following the poor, 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, followed by the vulnerable group, which comprises 25 per cent. 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, followed by the lower middle-income group (26 per cent) and the vulnerable group (21 per cent). 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, jointly making up 78 per cent of population in Egypt, 74 per cent in Jordan, and 69 per cent in the State of Palestine. The two higher income groups (upper middle-income and affluent) make up the lowest shares, jointly accounting for 22 per cent of population in Egypt, 26 per cent in Jordan, and 22 per cent in the State of Palestine.

Figure 1. Income group distribution by country (Percentage)



Source: ESCWA calculations, using expenditure as an income proxy. Income data taken from the 2017/18 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.

B. Substantial portion of the middle class falls into poverty

Figure 2 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. Poverty rates within that social class are negligible in all three countries. 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 is 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), and 32 per cent are in the upper middle-income or affluent groups. Those figures underscore the concept that, should an economic downturn occur, many members of the middle class would be at risk of being reduced to poverty.

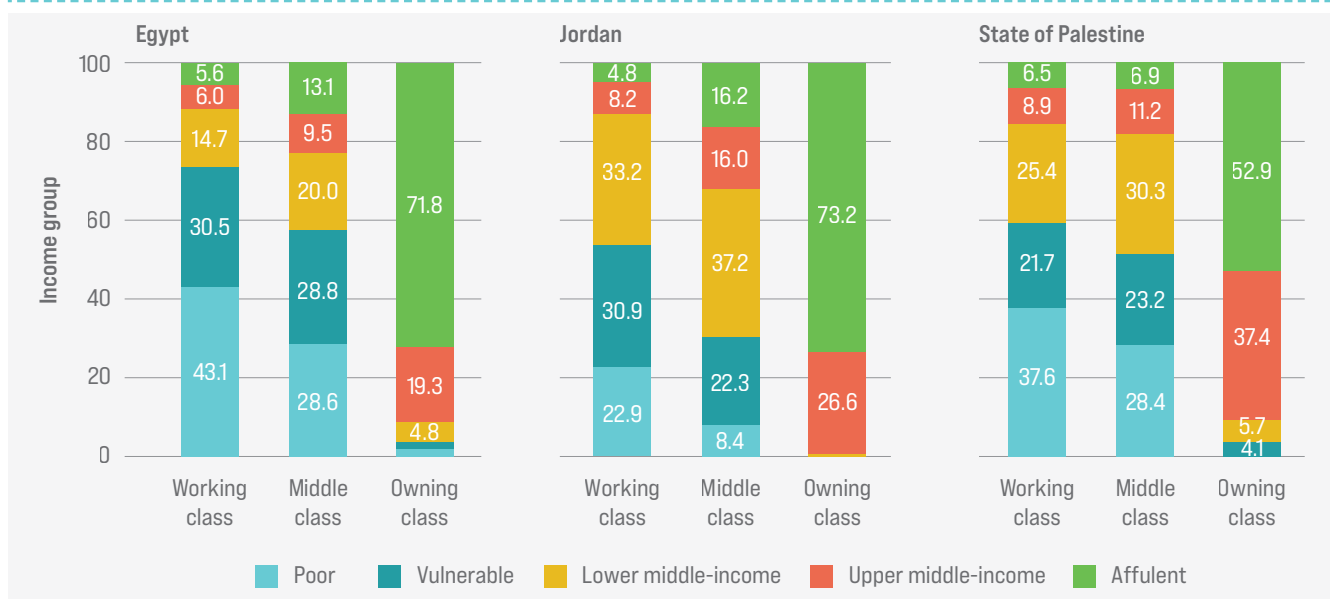
The Palestinian middle class exhibits an economic distribution midway between the distributions of Egypt and Jordan. Compared to the former,

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). A minority of the middle class are within the upper middle-income (11 per cent) or affluent (7 per cent) groups.

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 prevalence of poverty is especially the case in Egypt and the State of Palestine. 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 to the owning class.

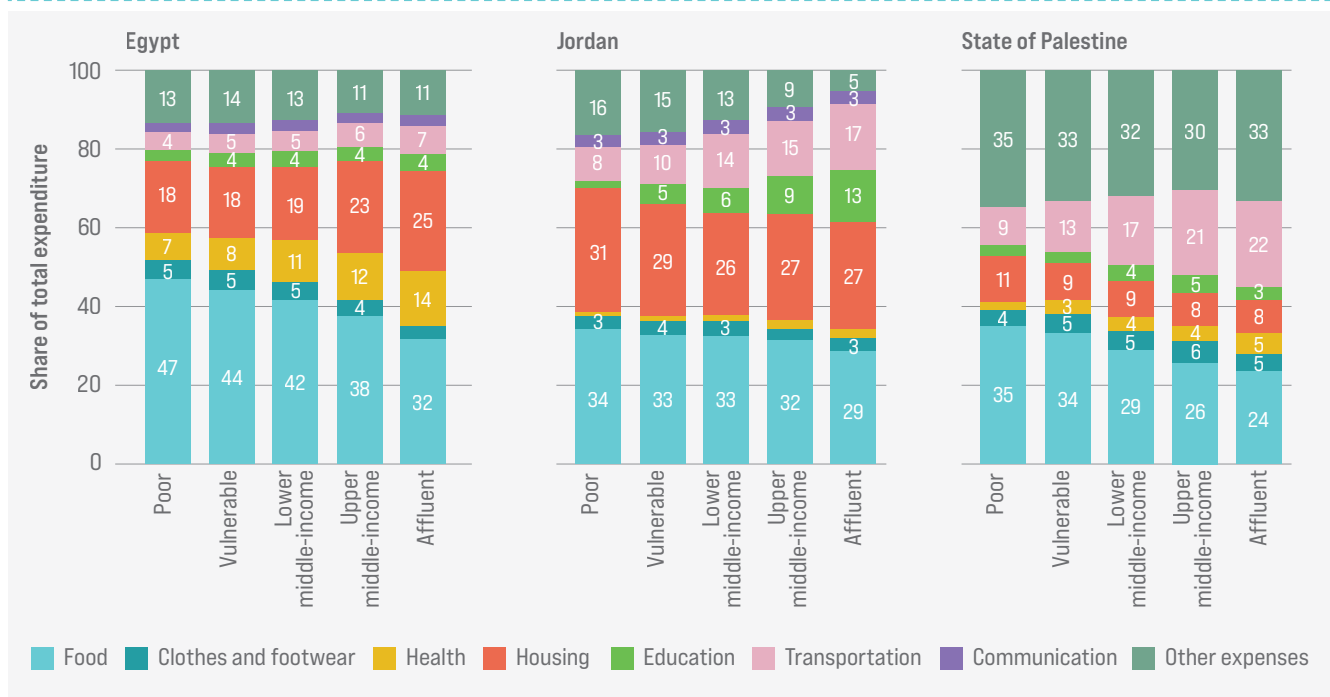
The results of this paper also suggest that the Arab middle class is far from monolithic in terms of its composition and the characteristics of its members. Figure 3 illustrates the consumption patterns of the middle class in the three countries. Those vary significantly across the countries examined 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 2. 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 2017/18 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 3. Middle-class expenditure patterns by income group (Percentage)



Source: ESCWA calculations, using expenditure as an income proxy. Income data taken from the 2017/18 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.

C. The poor middle class are mainly rural, less educated, self-employed, or service workers

Table 2 provides 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 larger number of children compared to non-poor middle-class households. In Jordan and the State of Palestine, the average poor middle-class household consists of some seven members, compared to 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 to the non-poor middle class (around four members). Moreover, a larger share of the poor middle class resides in rural areas compared to the non-poor middle class, except in the State of Palestine. In Egypt, the share of the poor middle class living in rural areas is sizeable, constituting around 65 per cent of the poor middle class, compared to 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, particularly in the Gaza Strip. Non-poor middle-class households are less likely to live in camps. 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 to 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



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type of jobs held by members of the poor middle class and the non-poor middle class. Firstly, and as indicated in table 2, a larger share of the poor middle class is self-employed compared to the non-poor middle class. The difference between the poor and the non-poor middle class in that respect is highest in Jordan, where 7.3 per cent of the non-poor are self-employed compared to 20.5 per cent of the poor middle class. As for employment, a sizeable share of the middle class is employed in the public sector, particularly in the State of Palestine, where 47.3 per cent and 41.1 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 to the non-poor middle class. In Jordan, for example, 33.3 per cent of the poor middle class work in trade and transportation, whereas 23.5 per cent of the non-poor middle class are employed in that sector. Furthermore,

26.7 per cent of the poor middle class in Jordan work in sales occupations, compared to 14.2 per cent of the non-poor middle class. Similarly, the share of poor middle-class sales workers in the State of Palestine (17 per cent) is higher than the share of non-poor middle class (9.7 per cent).

Table 2. Characteristics of the poor and non-poor middle class (Percentage)

	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.

Making sense of the results



14

03

A. 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? One important contributor to that trend is the high inequality in income and wealth in those two countries. Figure 2 makes clear that the owning class mostly consists of affluent households, as opposed to the middle class, whose members hail from the lower end of the economic distribution curve.

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 enable workers to lay claims on firms' profits, the earnings gap between wage earners and capital owners is likely to widen.

As illustrated in figure 4, Gini coefficients in many countries in the Arab region have stood at 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 50th and 90th percentile of the wealth distribution curve, commonly known as the middle 40 per cent. Figure 5 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. In Egypt, their share has fallen since the Arab Spring protests and uprisings. Among Arab middle-income countries and least developed countries, the wealth share of the middle 40 per cent gradually rose during the 2000s to reach 30.1 per cent, dropped to 27.5 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 6 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 in 2010 to 47 per cent in 2022. The share similarly stagnated in the State of Palestine, where it stood at some 36 per cent between 2010 and 2015, picked up slightly to between 37 and 38 per cent during between 2016 and 2019, and fell to between 29 and 30 per cent during 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, from 28.5 per cent to 31.7 per cent, before falling again to approximately 25.5 per cent. Across the Arab middle-income and least developed countries, the population share earning within the UPL–UMIL range steadily declined from 36.3 per cent in 2010 to 31.7 per cent in 2022. Between 2019 and 2020, during COVID-19-related shocks, 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 36.8 per cent to 29.3 per cent.

Figure 4. Within-country Gini coefficients (Percentage)

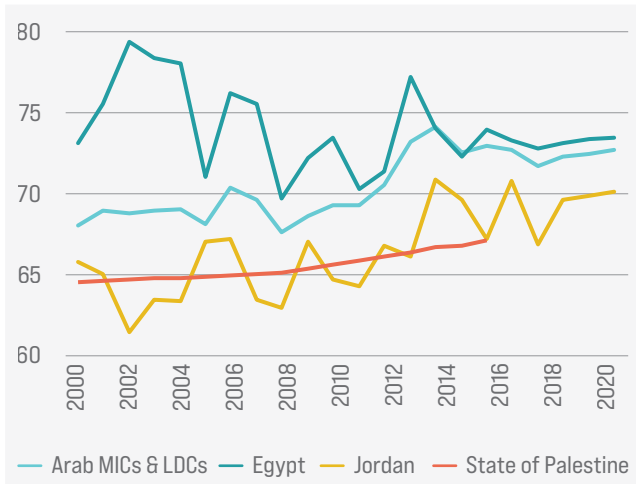
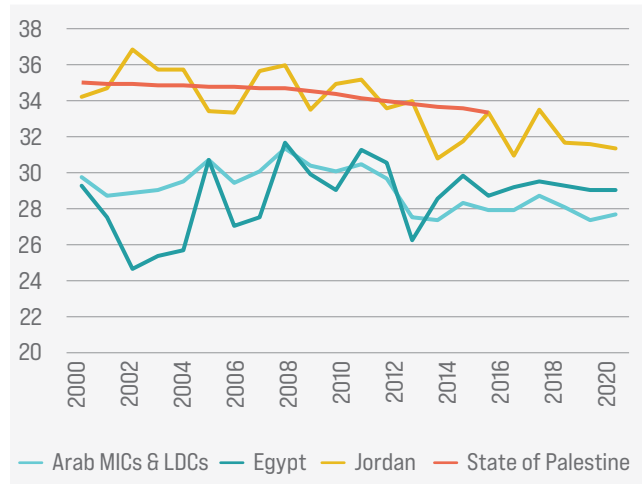


Figure 5. Wealth share of the middle 40 per cent of the population (Percentage)

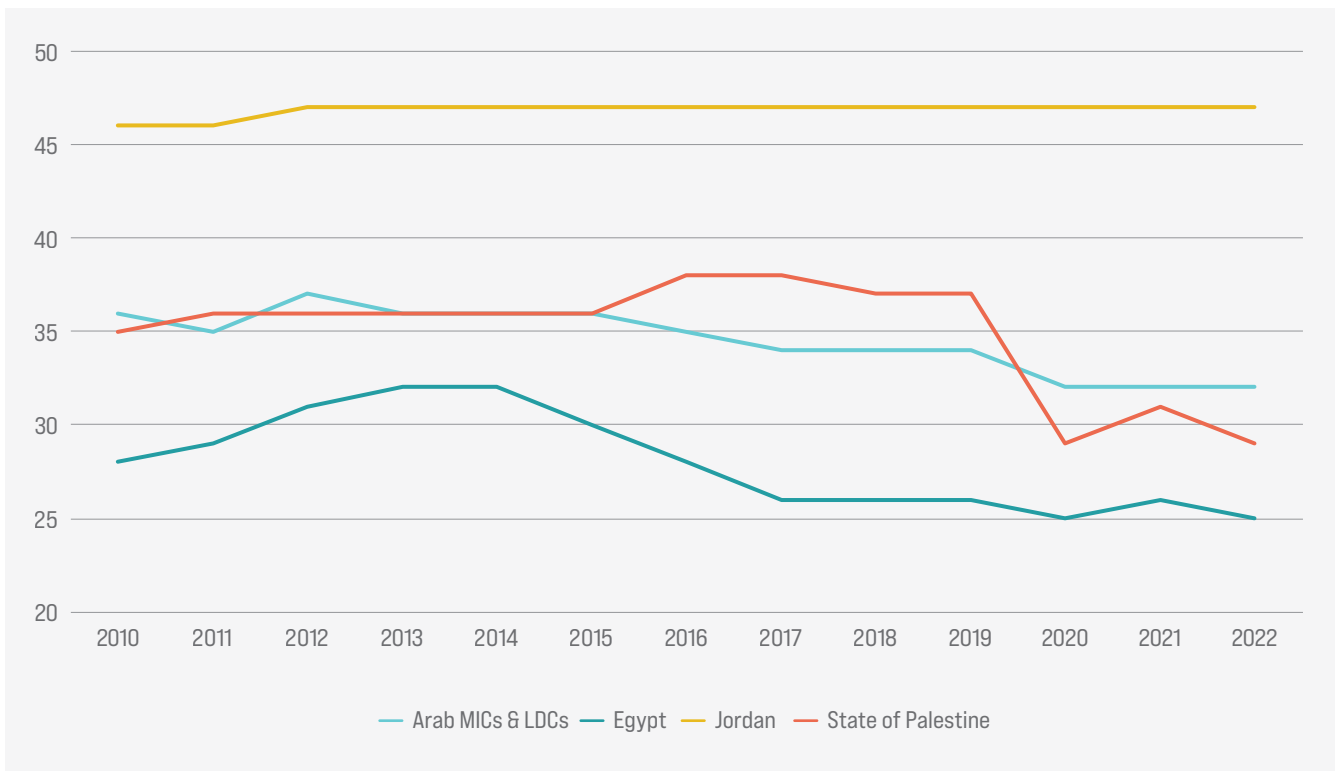


Source: ESCWA calculations on the basis of data contained in Credit Suisse Research Institute, 2022. Global Wealth Report.

Available at www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html.

Note: The “middle 40 per cent” are those individuals between the 50th and 90th percentiles of the wealth distribution curve. Arab middle-income countries (MICs) and least developed countries (LDCs) include Algeria, the Comoros, Djibouti, Egypt, Iraq, Jordan, Lebanon, Mauritania, Morocco, Somalia, the State of Palestine, the Sudan, the Syrian Arab Republic, Tunisia, and Yemen.

Figure 6. 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, Somalia, the State of Palestine, the Sudan, the Syrian Arab Republic, Tunisia, and Yemen.

B. Limited structural transformation of Arab economies

The low income of the middle class is 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.⁹ 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 working paper No. 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. Nonetheless, members of the middle class have improved their educational status over the years, as highlighted in working paper No. 2 and ESCWA,¹⁰ with a significant share of the middle class attaining at least a secondary education, demonstrating clearly that there has been significant progress in terms of the human capabilities of the middle class. However, 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 in 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.

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

The middle class, especially in oil-poor Arab countries, is, in many ways, a victim of Government policies that have resulted in reductions in public spending and the implementation austerity. This has had adverse consequences for members of the middle class, as their expenditure freedom has, in many cases, been severely curtailed. Many middle-class households devote most of their non-food expenditure to what many perceive as 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,¹¹ social expenditure and financial protection mechanisms can prevent the vulnerable from slipping into poverty, as they help reduce their out-of-pocket spending on health care. Such out-of-pocket health payments push around 100 million people into poverty each year.¹² 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 expenditure 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 can, therefore, have a significant impact on poverty and vulnerability.

In developing countries, around half a trillion dollars, or \$80 per capita, is allocated each year to out-of-pocket expenditure on health services due to inadequate levels of Government health-care spending.¹³ As illustrated in figure 7, 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.

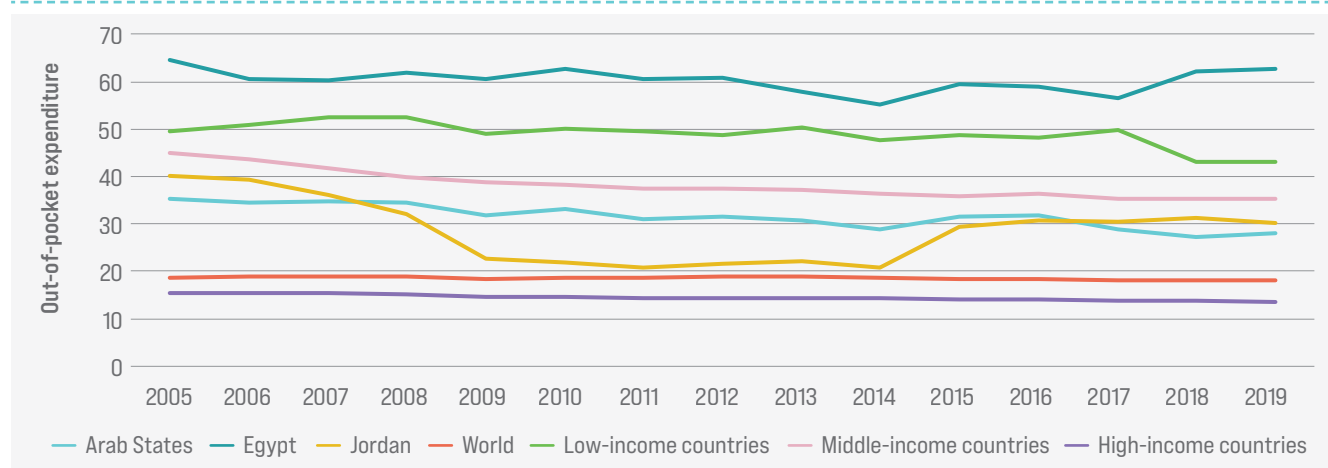
According to the IMF Government Finance Statistics database, public social expenditure on health, education and social protection, as a share of the gross domestic product (GDP) in the Arab region, was between 9 and 10 per cent between 2014 and 2018. These expenditure levels were far

below the world average, which fluctuated around 16 per cent prior to 2019, when they dropped to 14 per cent. The expenditure of Jordan is below the world average but higher than the average for the Arab region as a whole, standing at between 12 and 13 per cent of GDP. Expenditure in Egypt was similar, standing between 13 and 15 per cent between 2011 and 2015.

Social spending can be also evaluated by examining its efficiency. According to ESCWA, the United Nations Development Programme and the United Nations Children's Fund,¹⁴ the efficiency of spending in different social dimensions in the Arab region lags behind efficiency in other global regions, and is far below the global mean and the mean for high-income countries. Higher efficiency scores mean that the same social expenditure generates better outcomes in different social dimensions, including education and health. For example, compared to countries with similar spending levels on education, the Arab region fares poorly in terms of expected years of schooling and is, therefore, considered to be less efficient than the global average.¹⁵

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.

Figure 7. 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.

Concluding remarks and policy recommendations

04

To address the poor or vulnerable status of the middle class, Governments should implement a number of key policy interventions. In Egypt and the State of Palestine, about a third of the middle class is poor, while in Jordan a large share is vulnerable and at risk of falling to poverty.

Policy interventions directed toward enhancing the economic status of the middle class and protecting its purchasing power are therefore necessary, particularly as the middle class can be a strong driver of economic growth, improved accountability and better governance.

A. Addressing inequality is crucial for alleviating deprivation

A major cause of the disadvantaged status of the middle class compared to the owning class is the high wealth and income inequality prevailing in the Arab region. Despite the significant growth that has taken place in many Arab countries, the unequal distribution of resources remains a serious challenge. The rich remain the main reapers of economic gains due to their high returns on capital investment and the limited employment, education and earning opportunities of other social classes.

In essence, the problem is that there has been little inclusive growth in the region, leaving behind wage workers in certain industries and undermining small and medium-sized enterprises that are not politically favoured. Policies that encourage inclusive growth and provide adequate opportunities for the growing educated

middle class are therefore needed, not only in urban areas, but also in the rural communities. Redistributive policies that ensure fair revenue generation are necessary, such as policies to promote progressive taxation, reduce tax evasion and create a solidarity tax fund, as discussed in working paper No. 6. Furthermore, policies that incentivize and encourage the establishment of small and medium-sized enterprises and support innovation can also promote inclusive growth. This will entail the establishment of equitable financing mechanisms and the provision of funds irrespective of whether or not a particular business enterprise is politically connected. Reforms to public procurement regimes are also needed to encourage competition and increase opportunities in the private sector. This will allow the private sector to generate decent jobs for suitably qualified and experienced workers.

B. Public social spending should be enhanced to tackle gaps in capabilities

Public spending plays an important role in ensuring the well-being and maximizing the economic potential of members of society by

protecting the poor and reducing burdens on small businesses. Public social spending gained importance as a result of the repercussions of the

COVID-19 pandemic, macroeconomic uncertainty, political instability, and spillover effects of the war between the Russian Federation and Ukraine, which have all had disproportionate effects on society. Inflationary pressures and economic contraction have exacerbated the vulnerability of many Arab households. Coupled with fiscal pressures and budget cuts, anemic public social spending has made the situation worse, especially for low-income groups. Thus, progress towards the achievement of many of the Sustainable Development Goals has slowed or even reversed, including those Goals pertaining to health and the eradication of poverty.

Middle class households allocate a significant portion of their income to basic services, including education and health, which leaves them with limited resources to spend on non-essential goods and services. Prior to the COVID-19 pandemic, the Arab region was already lagging behind other regions in terms of social expenditure on health care and social protection mechanisms.¹⁶ States should, therefore, adopt social policies that provide quality education and health services to their populations and reduce out-of-pocket expenses. Those policies should, moreover, be aimed at the most deprived or marginalized groups within society, while also considering household composition and size to

Middle class households allocate a significant portion of their income to basic services, including education and health, which leaves them with limited resources to spend on non-essential goods and services.

ensure the equitable provision of services. Aside from increasing the resources available for those social policies, it is also important to increase the effectiveness of expenditure in order to maximize the multiplier effects of social spending with respect to socioeconomic outcomes and economic growth. Therefore, investments that are likely to result in long-term benefits, such as investments in key infrastructure projects, should be prioritized, and implementation of those policies should take place in tandem with ongoing monitoring and impact assessments. Implementation of the ESCWA Social Expenditure Monitor can help relevant stakeholders monitor progress by Governments on a wide range of social indicators, and can thus be used as an assessment tool to enhance efficiency, effectiveness and equity.

C. A new economic model should be adopted to promote economic revitalization

The creation of sufficient numbers of high value-added jobs will require the structural transformation of Arab economies with a view to encouraging the development of more productive sectors. As a significant portion of the middle class works in “other service sectors” or other low value-added sectors, a new economic

growth model that revitalizes the industrial sector and supports the emergence of a knowledge-based economy is needed. This would allow Arab countries to escape productivity-limiting economic constraints and decrease their dependence on remittances from abroad or oil revenues. If taken, those crucial steps could

This is particularly vital for middle-class self-employed workers. Employment creation in high-value, productive sectors could support their transition from a precarious work setting to more secure formal wage work.

help protect Arab economies from unforeseen shocks, such as the economic repercussions of the COVID-19 pandemic or the recent intensification of the war between the Russian Federation and Ukraine. In particular, it will prove necessary to enhance the developmental role of the private sector, capitalizing on human capital and

increasing the productivity of public investment. This is particularly vital for middle-class self-employed workers. Employment creation in high-value, productive sectors could support their transition from a precarious work setting to more secure formal wage work. Such transformative development policies lie at the heart of the slogan, “subsidies to the poor and decent jobs to the middle class”, as proposed by ESCWA.¹⁷ However, the adoption of an economic model that generates decent jobs in highly productive sectors and provides social safety for the poor should be supported by governance reforms. Such reforms should be undertaken with a view to promoting the rule of law in order to protect property rights, political stability and security, a public sector that provides quality basic services on an equitable basis, and a competitive private sector that offers equitable opportunities to everyone without discrimination or favouritism.

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Endnotes

- 1 Abu-Ismaïl, Khalid, and Niranjana Sarangi, 2013. A new approach to measuring the middle class: Egypt. Economic and Social Commission for Western Asia publication.
- 2 Household expenditure is used as a proxy for income throughout this paper, in line with the expenditure-based approach used to derive poverty lines.
- 3 Economic and Social Commission for Western Asia (ESCWA), 2015. Arab middle class: Measurement and role in driving change.
- 4 Abu-Ismaïl and Sarangi, 2013.
- 5 This approach places the middle-income group between a vulnerable group at risk of falling into poverty, who allocate their consumption expenditure purely to basic commodities (above a specified poverty line), and an affluent group, who enjoy wider freedom in their consumption choices. Freedom of choice in consumption is the central pillar of the approach, giving rise to differences among various societal classes. The key tenet is that more affluent individuals enjoy a higher degree of freedom in their consumption.
- 6 World Bank, 2019.
- 7 World Bank, 2022.
- 8 ESCWA, 2015.
- 9 Sarangi, Niranjana, Abu-Ismaïl, Khalid, and Verena Gantner, 2017.
- 10 ESCWA, 2015.
- 11 World Bank, 2019.
- 12 Ibid.
- 13 Ibid.
- 14 ESCWA, United Nations Development Programme and United Nations Children's Fund, 2022.
- 15 Ibid.
- 16 ESCWA, 2022.
- 17 ESCWA, 2015.



In the last few years, the world has sought to address multiple crises that have undermined the socioeconomic fabric of society. The aim of this paper is to shed light on the impact of income poverty on the middle class in three Arab middle-income countries, namely Egypt, Jordan and the State of Palestine. In particular, the paper highlights the situation of the most vulnerable segment of the middle class and identifies a number of mechanisms that could be used to prevent members of the middle class from falling into poverty. The paper illustrates that a significant portion of the middle class in the three countries is at risk of falling into poverty, echoing the conclusions reached previously by the Economic and Social Commission for Western Asia (ESCWA) in 2015. This is especially the case in Egypt and the State of Palestine. The paper suggests 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 is comprised of low-income at-risk groups. The markedly disadvantaged status of the middle class compared to 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.

