

## Abstract

### **Middle class income dynamics and mobility: an Italian perspective**

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The media in Europe and the USA started to perceive the decline of the middle class many years before the economic recession. The attention in the public debate to the shrinking middle class has led to an increase in literature on polarization in economics which aims to investigate what evidence emerges from the distribution of incomes. For many years distributional studies have focused mainly on the poor and on the rich, leaving out the middle (Atkinson and Brandolini, 2013). The research on polarization reverses this perspective considering the middle group as a crucial element. Measures of polarization capture not only the degree to which income distribution spreads out from its center (Foster and Wolfson, 1992), but also the formation of some earnings groups (poles) around local means (Esteban and Ray, 1994). The polarization phenomenon is often considered dangerous as it signals a reduction of social cohesion and can lead to conflict. Furthermore, it appears very unpleasant because it is likely to trigger broader processes of segregation, which in turn implicate consequences that are not acceptable in terms of social justice (Franzini, 2010). However, economic concerns on the malaise of the middle class not only depend on its absolute level of incomes and on the distance from other social groups since also vulnerability, defined as uncertainty and income volatility, can play a crucial role. The link between the concepts of economic stability and security and the middle class has been widely discussed by sociologists in social class analysis (Goldthorpe and McKnight, 2004) and recently it has been considered also by economists (Lopez-Calva and Ortiz-Juarez, 2014; Krugman, 2014). In Italy it is particularly relevant to explore income dynamics of the middle income groups as the analysis of this dimension has helped to explain the puzzle between the empirical evidence of stability in distributional indices and the worsening of confidence and expectations experienced by Italian households in the 2000s before the financial crisis (Bagnasco, 2004; Boeri and Brandolini, 2004; Pisano and Tedeschi, 2007; Franzini, 2010). The evaluation of income volatility appears even more interesting in the context of the economic crisis which has led to a general impoverishment and an increasing polarization of the distribution of income, given the fact that a literature on the consequences of the increasing distance between social groups on individual income dynamics is still lacking. The aim of the paper is, therefore, to extend the analysis of the middle class towards an inter-temporal framework, by observing the mobility across different time periods of those belonging to the middle class. By using longitudinal data, a picture of income dynamics for this group in Italy between 2002 and 2012 will be provided. This will be done exploring downward or upward mobility of the middle class and the relationship between changes in relative position and their determinants over time. To this aim, we use the longitudinal component of the SHIW dataset and cluster individuals in three groups (low, middle and high class) according to income thresholds obtained following the method proposed by Esteban, Gradin, and Ray (2007). The findings reveal a general impoverishment of the middle class due to the economic recession and show an increasing rigidity of the Italian social structure, because lower entry and exit rates between classes emerges after 2008. Furthermore, through a multinomial logit regression, we study the association between downward or upward movements of middle class members and their characteristics, also focusing on the role played by some demographic and economic events affecting individuals and households in the observed time period (i.e. changes in household composition and employment statuses). Comparing regressions' results for the periods 2002-2006 and 2008-2012, different probabilities to move characterise the various groups of individuals and, mostly, the association between the occurrence of positive and negative trigger events and individual mobility

strengthens in 2008-2012, maybe due to the growing weakness of the welfare state and the increasing inability of the families to cope with the difficulties.

The paper is structured as follows. Firstly, the issue of mobility is considered exploring its connections with vulnerability and the analysis of the middle class and presenting some evidences from the existing literature. Secondly, distinguishing the different aspects of income mobility, a review of the studies on the concept of mobility that we intend to study is provided, considering the most adequate mobility measures to capture that concept (Section 2). In Section 3, data and methodological choices are briefly presented. Then, empirical results are discussed (Section 4). Finally, the last section (Section 5) proposes a summary of the main reflections emerged in the paper, pointing out the relevance of the consideration of the longitudinal component in the study of middle class.