Shrinking middle

66% – Asia-Pacific's share of the global middle class by 2030

50% – US working population expected to be freelance

Shrinking middle

While the global middle class grows, in the West increasing inequality for some drives a relative decline in middle-income populations. Coupled with the erosion of secure jobs, the US in particular sees a steadily shrinking middle.

When taking a global view, one of the major demographic shifts underway is the growth of the middle class. The middle class growth during the Industrial Revolution and after the Second World War was largely in Western Europe and America, whereas today the growth is in the so-called emerging markets. Asia, Africa and Latin America are collectively set to add 3 billion more middle class by 2030. However across the US and Western Europe some see a shrinking middle class - ‘the middle class is no longer America’s economic majority’. Or perhaps it is about a broader shrinking middle that encompasses not just the idea of the middle class but middle income, jobs and roles?

In 2011 13% of the world population were middle income, defined as living on between $10 and $20 a day. Asia-Pacific’s share of the global middle class will have moved from 28% in 2009 to 54% in 2020 and 66% by 2030. Most of the middle class growth is expected to come from more of the 56% low-income people crossing the $10 threshold. By contrast, the middle class in the West is not plummeting but rather stagnating – a bit like its economic growth.

In the US there has already been a significant drop in middle-income population. In 1970 65% of Americans lived in middle-income neighbourhoods; by 2010, just over 40%. Meanwhile, the proportion of families living in affluent neighbourhoods doubled to 15% and those living in poor neighbourhoods has grown from 8% to 18%. Hence the term – the squeezed or shrinking middle.

Middle class jobs are on the decline – again, a concern in the West rather than the Rest. Intriguingly when you talk to the IT and automation firms keen on using new technology to improve or replace human roles, their core focus is no longer in the manual arena. Replacing a $15,000 hairdresser with a robot with the required dexterity is simply not practical, however there is a wealth of prime middle-class jobs in their sights. The vast majority of back-office legal and accounting roles are repetitive but require good levels of knowledge to undertake, and are ideal for replacement by AI. In the healthcare arena, while fully replacing surgeons is not yet on the cards, pharmacists are another middle-class role ripe for substitution to a friendly, and very well-informed, robot. Primary care doctors and healthcare professionals are unlikely to be replaced completely but many of their data intensive repetitive activities are also on the radar. A growing number of $50,000 roles across the West are, potentially, at risk. Clearly, society and politicians may well say no the technology takeover but the possibility is a cause for concern for many.

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Unequal access

More hidden from some views however is the fast growth of the on-demand or 'gig' economy. Whether using Axiom, Eden McCallum, Freelancer.com or Elance, a host of specialist service intermediaries are matching skills to project and cutting out the middlemen. Organisations are providing a disintermediation / connection role for lawyers, consultants, designers, copyeditors and marketers - Elance alone connects 9.3m workers to 3.7m companies. While these networks do not replace fully the middleman role previously taken by traditional agencies and law firms, they are optimizing it and significantly reducing costs. Looking ahead, as half the 160m US working population is expected to be freelance or independent contractors, the scale of the opportunity for replacing this shrinking middleman of service organisations and employment agencies is huge. This isn't restricted to the US and is already across many other nations; India is a prime example with 25% of its workforce already freelancing, but similar shifts are also occurring in the Philippines, Kenya, Indonesia and Brazil. As the global supply of talent and the growth of the service economy align, some see a levelling of the international marketplace driving more effective matching of people to projects and, over the long term, a normalization of freelance rates to between $40 and $50 per hour.

Others are not so sure. While many people already buy insurance direct from the insurer and subscribe to digital news direct from the publisher, estate agents for one are still around, and in some cities flourishing. In some areas middlemen are more important than ever: people are confused by the overwhelming choice the Internet brings, and the need for trustworthy guides and other sorts of intermediary is increasing. Curation and coaching seem to be a growing need.

Some believe that we will see the online globalization of freelance talent driving both access and competition – providing opportunity for many connected individuals around the world, but also challenging established workers in the West. Incomes in Asia are already increasing and this freelance shift is envisaged to accelerate. As established value chains collapse, small organisations combine to provide scale and agility, some, such as the WTO, see a rise in asset sharing and use of networks all driving greater transparency, efficiency and lower costs for customers. Just as peer-to-peer marketplaces are disrupting parts of the financial and retail sectors, so in the future they will also have impact on accountants, lawyers and their other traditionally safely employed counterparts.

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Several Western governments are clearly concerned about the implications on tax from this. Not only may personal income tax incomes drop as individuals move from being employees to self-employed, but there could be a big hole in corporation tax revenues as whole rafts of established physically located organisations disappear and are replaced by networks hosted in suitable low-tax regions. This may in turn, it's argued, reduce the level of state and government expenditure on education, healthcare and social benefits in the US and so further increase the rich / poor gap and shrink the middle.

What is clear that this is a lumpy shift – not like the relatively smooth growth in the global population. The overlay of local economic shifts, regional population trends and global connected marketplace are, in some countries, likely to have a significant impact. At the moment, the signs point to the US being where the middle shrinks most and that may be how it plays out. But the same drivers of change are having impact elsewhere - so it may not be long before other countries start to feel that squeeze.

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Related insights

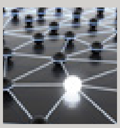
Imbalanced Population Growth

A growing population adds another billion people but it is also rapidly ageing: a child born next year will live 6 months longer than one born today. While migration helps to rebalance, increasing dependency ratios challenge many.

The real sharing economy

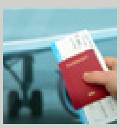
Increasing collaboration drives organisations to reconfigure based on social networks and impact. Real sharing enterprises, not driven by profits, seek to share resources, knowledge, and decision-making responsibilities.

Organisation 3.0



New forms of flatter, project-based, collaborative, virtual, informal organisations dominate - enabled by technology and a global mobile workforce. As such the nature of work and the role of the organisation blurs.

Skills concentrations



The need to build and develop capabilities becomes increasingly challenging for companies and workers alike. Those who benefit from the high-skill reward opportunities remain a select group who move ahead of the urban pack.