Mind the gap

Brunswick's DANIA SAIDAM examines the imbalance among and between generations

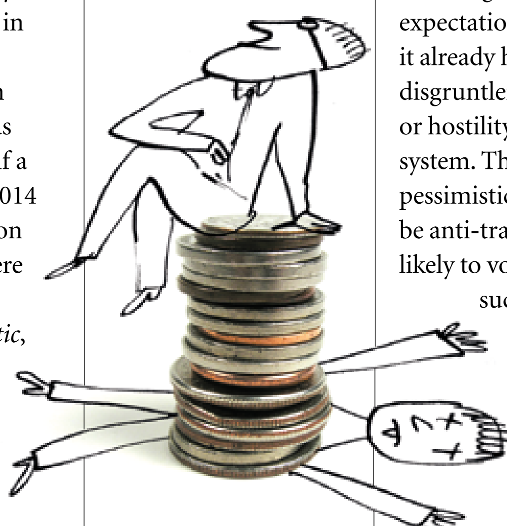
To date, the debate over rising inequality has focused on the increasing concentration of wealth among the rich. But recent research from McKinsey Global Institute (MGI), the business and economics research arm of McKinsey & Company, suggests there are more complex factors at play.

While there has been a substantial increase in income inequality between the rich and poor, MGI also found a widening disparity between this generation and the last. It estimates that as many as 70 percent of households, or over half a billion people, had flat or falling incomes in 2014 – compared to 2 percent, or less than 10 million people, in 2005 – and younger generations were the hardest hit.

According to a 2015 article from *The Atlantic*, Millennials in the US are, on average, "$2,000 poorer than their parents were at the same age," and both less likely to have a job and more likely to live in poverty.

The lowest paid, the least educated and women were also disproportionately affected. This held true in most major economies MGI surveyed. So even with the global disparity between rich and poor, the factors of age, wealth, gender and education played key roles.

The financial crisis has been the main catalyst for this intergenerational income slump, but it has been aggravated by aging populations, shrinking household sizes, automation, trade and migration. National policy also played a decisive role, with incomes falling more heavily in countries with light regulation and a less unionized workforce.



Flat or falling incomes have urgent economic and social consequences. These range from seriously limiting overall demand, especially in advanced economies, to creating an increased need for highly skilled labor and a glut of less skilled workers.

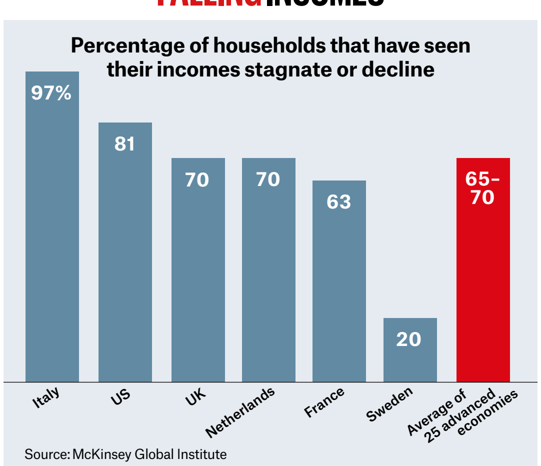
Most significantly, a sustained period of flat or falling incomes could confound widely held expectations of advancement – in some cases it already has. This stokes social and political disgruntlement and feelings of alienation from, or hostility toward, parts of the global economic system. Those who are not advancing and are pessimistic about the future are twice as likely to be anti-trade and anti-immigration, and more likely to vote for nationalist political movements, such as France's National Front, or the UK's move to leave the EU.

Income advancement has not attracted significant attention in the past but could become a policy goal in its own right – a fundamental indicator of the health of the economy and society, comparable to poverty reduction or overall employment figures.

Governments and businesses need to consider bold measures aimed at helping those most at risk. This could include upgrading their workforce's skills (see "Calling the future," page 28) and easing the transition from education to employment through improved vocational training, apprenticeship programs and incentivizing students to pursue studies that lead to lucrative employment (STEM subjects, for instance). Leaders can be advocates for the investment and growth needed to create employment.

To date, many corporations have lacked the boldness and innovation that is desired and expected by the public. Data show confidence in these institutions and their leaders is low; companies and senior leaders need to strike the right tone in their messages, but for these to be effective and gain traction, they will need to be backed up with concrete action.

FALLING INCOMES



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