McKinsey
Global Institute

Executive summary

The social contract in the 21st century

Outcomes so far for workers, consumers, and savers in advanced economies

February 2020

McKinsey Global Institute

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Preface

What the social contract is—and how and why it changes—has preoccupied philosophers, economists, and social scientists for at least four millennia, encompassing the Code of Hammurabi, Plato's *Republic*, and the European Enlightenment when, among others, Jean-Jacques Rousseau used the term in his 1762 book, *On the Social Contract*. At its core, the social contract is the implicit relationship between individuals and institutions. History suggests that the discussion about the social contract is most active in times of broad economic, social, and political upheaval.

It is thus perhaps not surprising that the subject has once again become topical, given the shifts fueled by technology and globalization in market and political economies since the start of the 21st century—not to mention the 2008 financial crisis. Public sentiment, as expressed in opinion polls over the past few years, suggests that we are living in a new era of rising discontent, mistrust of institutions, and an economy that does not work well for everyone. This remains true despite significant progress in some economic indicators, including employment rates and GDP growth, along with technological advancements and improvements in education and longevity.

Discussion of the social contract often encompasses the political economy and society's institutions, including governments, as well as issues of values and social justice in communities small and large, local and global. In this research, our focus is on its economic aspects. This report is the latest MGI publication focusing on shifting economic outcomes for different groups of individuals. Previous publications include 2016 reports on income stagnation, consumer trends, and investment returns, and 2019 papers on inequality and on labor share of national income.[1]

The research was led by James Manyika, chairman of the McKinsey Global Institute, Anu Madgavkar, and Tilman Tacke, MGI partners based in Mumbai and Munich, respectively. MGI directors Sven Smit and Jonathan Woetzel provided input, guidance, and support, as did Jan Mischke, an MGI partner in Zurich. The research team was led at different stages by Abdulla Abdulaal, Maggie Desmond, and Manuel Schönfeld. Team members were Yunnan Jiang, Joh Hann Lee, Kimberley Moran, Katie Parry, and TJ Radigan.

We are grateful to external academic advisers who guided and reviewed our work: Martin Baily, senior fellow at the Brookings Institution; Richard Cooper, professor of international economics at Harvard University; Harold James, professor of history and international affairs at Princeton University; Hans-Helmut Kotz, program director at the SAFE Policy Center at Goethe University and resident fellow at the Center for European Studies at Harvard University; Dani Rodrik, professor of international political economy at the John F. Kennedy School of Government at Harvard University; Michael Spence, Nobel laureate and professor of economics at New York University's Stern School of Business and senior fellow at the Hoover Institution; and Laura Tyson, Distinguished Professor of the Graduate School at the University of California, Berkeley.

This research has benefited from a growing body of work on various aspects of the implicit social contract. We are particularly grateful to the following authors, whose work was a core

[1] Previous McKinsey Global Institute reports include *Urban world: The global consumers to watch,* March 2016; *Diminishing returns: Why investors may need to lower their expectations,* May 2016; *Poorer than their parents? Flat or falling incomes in advanced economies*, July 2016; *A new look at the declining share of labor income in the United States*, May 2019; and *Inequality: A persisting challenge and its implications*, July 2019.

source of data and research for us throughout this report: Jacob S. Hacker, *The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream*, 2019; Peter Hall and David Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, 2001; and Joseph Stiglitz, Amartya K. Sen, and Jean-Paul Fitoussi, *Measurement of economic performance and social progress*, 2009. We also gained insight from OECD publications, primarily *Under pressure: The squeezed middle class,* and *How's life? Measuring well-being*.

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This report was edited and produced by Peter Gumbel, MGI editorial director, together with production manager Julie Philpot, graphics design team leader Vineet Thakur, and senior graphic designers Laura Brown, Jayshree Iyer, Richard Johnson, Pradeep Rawat, and Patrick White. Nienke Beuwer, MGI director of external communications, helped disseminate and publicize the report. Lauren Meling, MGI digital editor, ensured digital and social media diffusion. We are grateful to Kaizeen Bharucha, Amanda Covington, Deadra Henderson, Bettina Lanz, and Sarah Portik for personnel and administrative support.

This report contributes to MGI's mission to help business and policy leaders understand the forces transforming the global economy. As with all MGI research, this research is independent and has not been commissioned or sponsored in any way by business, government, or other institution. We welcome your comments at MGI@mckinsey.com.

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In brief

The social contract in the 21st century: Outcomes so far for workers, consumers, and savers in advanced economies

Individuals in advanced economies have been exposed to significant changes in the economy over the first two decades of the 21st century. These changes have been driven by technology and globalization, the economic crisis of 2008, and shifting market economy and institutional dynamics. While many of the developments have brought opportunities and economic growth, this research examines what the economic outcomes have been so far for individuals as workers, consumers, and savers and the extent to which these outcomes reflect a shifting balance between the individuals and institutions involved. We focus on outcomes in 22 OECD countries since the start of this century. Our findings include:

— Work opportunities have increased everywhere, and to record levels in some countries, but work security and income growth have declined or expanded unevenly. In the 22 countries we studied, 45 million more working-age people were employed in 2018 than in 2000—31 million of them women. The gains in employment were primarily driven by growth in alternative work arrangements. While work benefits such as paid leave have improved, wages have stagnated for many workers. Polarization toward high- and low-skill employment has eroded seven million middle-skill and middle-wage jobs in 16 European countries and the United States, despite the strong job growth overall.

— As consumers, individuals have benefited from improved access and lower prices for discretionary goods and services, such as communications, clothing, and recreation. However, rising housing prices, which account for 37 percent of general inflation, together with higher healthcare and education costs and spending, have absorbed between 54 and 107 percent of the gains in income for average households in Australia, France, the United Kingdom, and the United States since 2002.

— Household saving rates have fallen at a time when individuals have to save for longer retirement and assume greater responsibility for saving. Since 2000, pension levels guaranteed by the public sector or employers have declined by an average of 11 percentage points. Yet household saving rates fell in 11 of the 22 countries; in 2017, more than half of individuals did not save for old age. While mean individual wealth has returned to pre-crisis levels in 11 countries in our sample, median wealth is still 23 percent lower on average.

— Changes in individual outcomes across the three arenas have been propelled by the changing role of institutions, which are cushioning individuals to a lesser degree from the effects of the forces at work in the economy. For example, employment protections are now lower, a higher share of healthcare and education costs is private, and guaranteed pension levels have dropped. While spending on public-sector wages and various government transfers to individuals rose from an average of 38 percent of GDP in 2000 to 41 percent in 2018, it was largely because of higher aging-related costs. This pattern of greater "individualization" of the social contract prevailed in most of the 22 economies, despite differing market systems and levels of government spending.

— As a more individualized social contract evolves, different groups of individuals are affected differently. Outcomes have been favorable for about 115 million workers equipped for high-skill jobs, individuals for whom discretionary consumption is relatively high compared with their spending on basics, and savers able to accumulate capital. However, more than 120 million middle-skill workers in Europe and the United States experienced declining employment and stagnating wages at a time when the cost of basics rose faster than general inflation. Low-income individuals experienced challenging outcomes in their roles as consumers and savers. Young people have less secure employment, spend more on meeting basic needs, and have just one-third of the average adult wealth compared with two-thirds a generation ago. Women in general, and minorities in some countries, have fared less well than others in incomes and savings.

— While individuals have achieved many gains that will need to be sustained and expanded, the bottom three quintiles of the population—about 500 million people—have experienced challenges. We identify ten key questions to address if outcomes are to improve and be inclusive as the century progresses. These include: how to reduce job fragility and wage stagnation at a time of changing work arrangements; how to address rapidly rising costs of housing and, in some countries, healthcare and education; how to mitigate the risk of saving shortfalls for some; and how to address the challenges faced by particularly vulnerable groups, including the young and lower-income households.

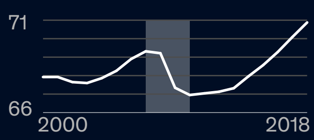
— Policy makers, business leaders, and individuals will need to focus on two fronts. The first is sustaining and expanding the gains achieved through continued economic and productivity growth; business dynamism; investment in economies, technology and innovation; and continued focus on job growth and opportunity creation. The second is tackling the challenges individuals face, especially those most affected. Leaders are beginning to respond to these opportunities and challenges to varying degrees. However, more is needed given the scale of the opportunities and challenges, if the outcomes for the next 20 or more years of the 21st century are to be better than the first 20 and increase broad prosperity.

21st-century social contract:
Economic outcomes for individuals so far

Outcomes have changed for people in their roles as workers, consumers, and savers in 22 OECD countries

Outcomes for workers

Unprecedented job growth
Employment rate, % of 15–64 population

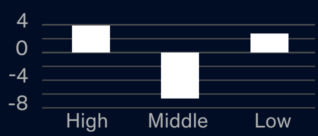


Of 45M new jobs, 31M for women

Part-time work drove job growth

Change in employment rate 2000–18, percentage points

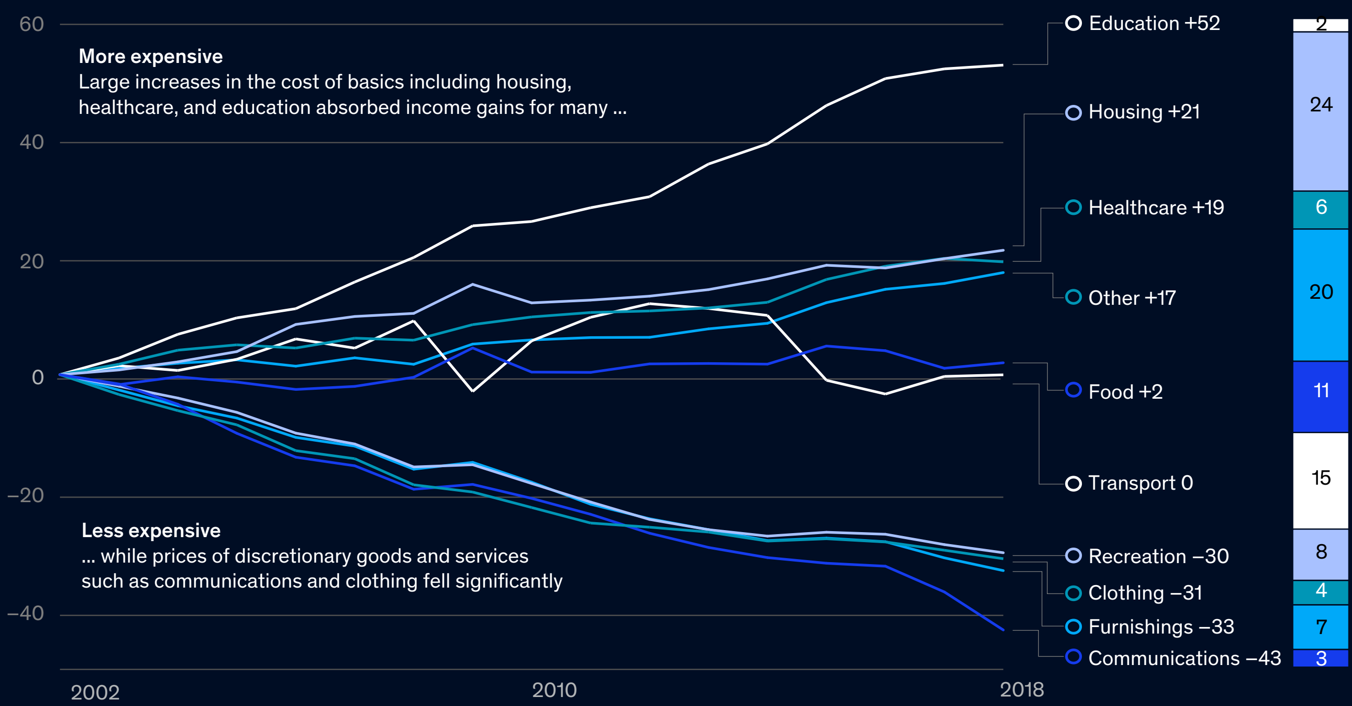
More polarized labor market
Europe and US employment share change by skill/wage level 2000–18, percentage points



Outcomes for consumers

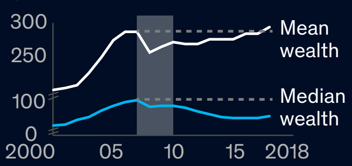
Change in category consumer prices, indexed to overall inflation, percentage points

Share of consumer spending, %

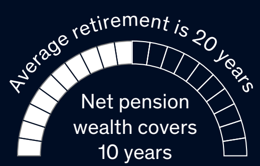


Outcomes for savers

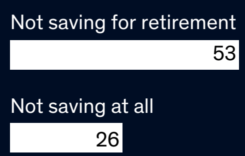
Mean individual wealth recovered but median is still below pre-crisis level
$ thousand



Insufficient guaranteed pensions, 2018



Not enough personal saving
% of 15+ population



Growing indebtedness

23%

of US households in 2017 had zero or negative net worth, vs 16% in 2001

Institutions have shifted more responsibility onto individuals

Two priorities for the next decades of the 21st century

1. Sustain and expand the gains

- Tech progress
- Productivity and economic growth
- Higher employment and opportunity creation

2. Find solutions for the most adversely affected groups

Low-skill, low-wage
~335 million
Stagnant wages, more costly housing, and negative savings (–14% of disposable income).

Women and minorities
~295 million
Still lag in employment, savings, and wages; female pay is 85¢ per $1 for men.

Trailing regions
~215 million
Uneven locus of economic activity, job growth, and innovation.

Young people
~180 million
Less stable employment, less wealth, and a harder climb onto the housing ladder than elders.

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Executive summary

Life has changed substantially for individuals in advanced economies in the first two decades of the 21st century as a result of trends including disruptions in technology, globalization, the economic crisis of 2008 and its recovery, and shifting market and institutional dynamics. Overall, the 21st century has brought opportunities and economic growth and the prospect of more to come as the century progresses, through developments in science, technology and innovation, and productivity growth. In many ways, outcomes so far for individuals have been for the better. Yet the relatively positive perspective on the state of the economy, based on national-level GDP and job growth indicators, needs to be complemented with a fuller assessment of the economic outcomes for individuals as workers, consumers, and savers.

In doing so, this research finds that opportunities for work have expanded, employment rates have risen to record levels in many countries, and many benefits have improved, although not everywhere. At the same time, work polarization and income stagnation, while varying in magnitude across countries, have grown. While the availability and cost of many discretionary goods and services have fallen sharply, the cost of basic necessities such as housing, healthcare, and education has grown and is absorbing an ever-larger proportion of incomes. Coupled with wage stagnation effects, this is eroding the welfare of the bottom three quintiles of the population by income level (roughly 500 million people in 22 countries). Public pensions are being scaled back, and roughly the same three quintiles of the population do not or cannot save enough to make up the difference. Moreover, in the post-crisis macro and monetary policy environment especially, the investment opportunities for a majority of households have been unattractive. While the average wealth for individuals has recovered to pre-crisis levels, the wealth of the median individual is still almost one-fourth below pre-crisis levels. This contributes to rising economic insecurity and wealth inequality.

In addition to changes in the outcomes for individuals, we also find quantifiable evidence that individuals have had to assume greater responsibility for their economic outcomes in the past two decades. While this research focuses on actual shifts this century, many of these outcomes and shifts and underlying trends began decades earlier.

These changes in outcomes for individuals and the roles of institutions point to an evolution in the “social contract”: the arrangements and expectations, often implicit, that govern exchanges between individuals and institutions. While many have benefited from the evolution in the social contract, for a significant number of individuals the changes are spurring uncertainty, pessimism, and a general loss of trust in institutions.[1] Some policy makers and business leaders are responding with a public reevaluation of their role and purpose in society.[2]

In this research, we aim to go beyond sentiment, to examine, in a fact-based way, how particular aspects of the implicit and various social contracts have changed and, where possible, to measure those changes. We focus on advanced economies, covering 22 Organisation for Economic Co-operation and Development (OECD) countries that together constitute 57 percent of global GDP, although the questions are germane for emerging economies as well.[3]

1 Trust in government fell in more than half of the Organisation for Economic Co-operation and Development (OECD) economies between 2006 and 2016, and almost half the people polled in 16 OECD economies believe the average person in their country is worse off today than 20 years ago. *What worries the world*, Ipsos Public Affairs, September 2018.
2 For example, see “Business Roundtable redefines the purpose of a corporation to promote ‘an economy that serves all Americans,’” Business Roundtable, August 19, 2019.
3 Our research covers Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, South Korea, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

The goal of this research is not to suggest undoing the gains and opportunity-creating developments including from technological progress, economic growth and productivity, and the evolution of institutions where beneficial—quite the opposite. Indeed, much will be required to sustain and further accelerate the gains and create conditions for more as the 21st century progresses—topics we have discussed in our other research.[4] The goal here is to shed light on outcomes to date for individuals in order to motivate action to ensure that the exciting opportunities and potential for economic prosperity are inclusive and shared by all.

The social contract is a very broad concept, covering multiple facets of everyday life, including notions of economic, social, and political arrangements as well as values, justice, and many other aspects of society and social arrangements at the local and global levels.[5] History suggests that the discussion about the social contract is most active in times of broad technological, economic, social, and political upheavals. The start of the 21st century has been characterized by broad shifts in advanced economies fueled by advances and disruptions from technology and globalization, as well as shifts in the structure and role of markets and institutions, shifts in political economies, and the effects of the 2008 financial crisis. In this research, we focus on the economic aspects of the social contract, specifically on the three key economic roles for individuals as workers, consumers, and savers. These three roles cover existential and aspirational needs of individuals to generate income to meet consumption needs today, enhance economic security, save for the future, and generally progress (see Box E1, "Assessing shifts in the social contract").

Gauging shifts in the social contract remains an imperfect science, and more data and research, especially of a comparative and disaggregated nature, are needed to complete the picture. Nonetheless, our findings suggest that significant enough shifts have occurred that business leaders, governments, and individuals may want to reevaluate the gains, benefits, and opportunities being created and the challenges that have emerged, and, through their actions, address them to achieve better and more inclusive outcomes in the next decades of the 21st century.

The relatively positive perspective on the state of the economy in the 21st century so far needs to be complemented with a fuller assessment of the economic outcomes for individuals as workers, consumers, and savers.

For workers, employment has risen amid growing labor market polarization and wage stagnation

Notwithstanding the financial crisis of 2008, the first two decades of the 21st century have seen work opportunities expand and employment participation rise to record levels in most countries. Work arrangements have been changing, and alternative employment, notably part-time work, has experienced the fastest growth. Women have entered the workforce in significant numbers. However, work is increasingly shifting away from middle-income workers, average wages have stagnated in many countries since 2000, and income growth has been weak.

4 See, for example, the following McKinsey Global Institute reports: *Solving the productivity puzzle: The role of demand and the promise of digitization*, February 2018; *Skill shift: Automation and the future of the workforce*, May 2018; *Notes from the AI frontier: Modeling the impact of AI on the world economy*, September 2018; *Globalization in transition: The future of trade and value chains,* January 2019.

5 The social contract has preoccupied philosophers and social scientists from Plato and Socrates in ancient Greece to Thomas Hobbes and Jean-Jacques Rousseau in the 17th and 18th centuries to John Rawls in the 20th. For a historical discussion, see Chapter 1.

Box E1
Assessing shifts in the social contract

A growing body of research focuses on economic satisfaction and well-being and on various other elements of life related to the social contract.[1] We chose to focus on three specific aspects of the implicit and various national social contracts outlined in Exhibit E1. For workers, this includes access to work, sufficient benefits (such as paid holidays), quality of work (such as training and career progression), stable employment, and wage growth. As consumers, people expect affordable prices that enable access to basic and discretionary goods and services, as well as improving quality. Here, we assess how costs of goods and services have grown or fallen relative to general inflation and also try to understand the share of consumer expenditures and share of income these goods and services absorb. For savers, the focus is building wealth and adequate provisions for retirement and economic security through participation in a high-return, stable capital market.[2] Here we assess individual savings as well as savings by institutions on their behalf.

Using these indicators, we analyze how outcomes for individuals have changed over the first 20 years of the 21st century in our sample of 22 OECD countries. We look at outcomes for populations at an aggregate level and at specific economic and social groups, including people of different ages, income levels, and genders.

This research builds on and integrates perspectives from previous MGI research that has examined questions of income advancement, consumption sufficiency, and inequality in economic outcomes, among others.[3] We draw on research by many other researchers.[4]

Our research has several shortcomings that would have helped paint a fuller picture. Indeed, many researchers (including ourselves) have done focused studies on country, sector, or demographic segments. Wherever possible, we have tried to provide reference to such research. Given our goal of assessing patterns and shifts in the three arenas of work, consumption, and saving across 22 countries, there were many elements of each of them that we would have wanted to examine—for example, private workplace benefits, multiple job holding, mortgage payments by house owners, and private pensions and inheritance. However, a lack of comprehensive and comparable data for all the countries in our sample limited our analysis, and indeed the other kinds of measures in Exhibit E1 we would ideally have included. Hence the need for more data and further research.

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1 Sources we examined include the OECD's Better Life Index; Joseph Stiglitz, Amartya K. Sen, and Jean-Paul Fitoussi, *Measurement of economic performance and social progress*, 2009; the UN Human Development Index and Sustainable Development Goals; and Matthew Taylor, *Good work: The Taylor review of modern working practices*, UK Government, 2017.

2 Tax policies have an important effect on some of the indicators we consider (for example, wages and saving rates), but due to data limitations, we do not attempt to correct for this.

3 Related McKinsey Global Institute reports include: *Poorer than their parents? Flat or falling incomes in advanced economies*, July 2016; *The power of parity: How advancing women's equality can add $12 trillion to global growth*, September 2015; *A new look at the declining share of labor income in the United States*, May 2019; and *Inequality: A persisting challenge and its implications*, June 2019.

4 See, for example, Nemat Shafik, "A new social contract," *Finance & Development*, International Monetary Fund (IMF), December 2018, Volume 55, Number 4; Lauren Damme, *Rethinking the American social contract*, New America Foundation, 2011; Maurizio Bussolo et al., *Toward a new social contract: Taking on distributional tensions in Europe and Central Asia*, World Bank, 2018; *Including institutions: Boosting resilience in Europe*, World Bank, 2019; *A new social contract*, National Economic and Social Rights Initiative, 2018; *Under pressure: The squeezed middle class*, OECD, 2019; Jacob S. Hacker, *The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream*, second edition, New York, NY: Oxford University Press, 2019; Dennis J. Snower, *Toward human-centered capitalism: Exploring a new social contract*, Brookings Institution, November 2019; and Paul Krugman, *The Age of Diminished Expectations: US Economic Policy in the 1990s*, Cambridge, MA: MIT Press, 1994; Branko Milanovic, *Capitalism, alone: The future of the system that rules the world,* Harvard Univeristy Press, 2019.

Exhibit E1

Our framing of the social contract identifies commonly held expectations among workers, consumers, and savers in a system of exchange with institutions, but excludes noneconomic aspects.

Our focus is on the economic aspects of the social contract

Collaboration with institutions to achieve prosperity and share risks

Public | **Private** | **Social**

Individuals in various roles, and individual inputs[1] → **Commonly held expectations of what the social contract will enable for individuals**[2]

Workers
- Education, skills, knowledge, and expertise
- Time and energy

→

- **Access** and ability to participate in work
- **Benefits,** for example, paid holidays and flexibility of work
- **Quality** such as safety, training, and career progression
- **Form and stability** of employment
- **Compensation,** notably growth and distribution of wages

Consumers
- Usage of disposable income for consumption

→

Examined for basic and discretionary goods and services[3]
- **Prices** and affordability
- **Access** and availability
- **Quality** of outcomes

Savers
- Pension payments
- Savings and investment

→

- **Participation** and ability to engage in saving
- **Sufficient wealth** to provide a decent living in old age
- **Returns on wealth,** including growth and distribution
- **Stability** and risk of savings

Citizens
- Adherence to laws
- Civic engagement
- Contributions to community / society
- Taxes

→

- Physical security and justice
- Political voice and governance
- Social connections and relationships
- Personal life satisfaction
- Environmental sustainability
- …

…

→

- …

1 Individual inputs refer to commitments made by individuals in their roles as workers, consumers, and savers in the social contract. For example, workers commit their time and energy to an employer in return for paid employment.
2 Based on literature review; extent of expectations varies across countries and individuals. Individual level of satisfaction is influenced by which expectations are most important to them and the extent to which those expectations are being met. Our selection of indicators within each dimension is not exhaustive but illustrative, and based on data available for comparison across 22 countries between 2000 (or earliest) and 2018 (or latest).
3 Housing, healthcare, education, food, transportation, clothing, communications, recreation, and furnishings; other categories are restaurants and hotels, alcohol and tobacco, and miscellaneous goods and services.

Source: McKinsey Global Institute analysis

Employment has risen to record levels, primarily driven by alternative work, and some aspects of work quality have improved

The share of the working-age population in employment has risen strongly in our 22 sample countries since the 2008 financial crisis, to 71 percent. In 2018, 45 million more working-age people were employed than in 2000 (Exhibit E2).[6] The rise is relatively consistent across countries, with the employment rate in 2018 higher than the level in 2000 in 18 of the countries; the exceptions were Denmark, Greece, Norway, and the United States.

6 Eurostat Labor Force Survey, 2019; OECD Employment database, 2019. Demographics are an underlying reason for this trend, because the working-age population is declining in many countries.

In the United States, although the proportion of unemployed people (those actively seeking jobs) fell from 4.0 percent in 2000 to 3.9 percent in 2018, the lower employment rate relative to 2000 was due to a rising share of discouraged workers (those not seeking a job).[7]

Alternative work arrangements have gained in prominence over the past two decades, typically in the form of self-employment, temporary work, part-time work, workplace fissuring, and zero-hour contracts. The rise of alternative work arrangements has enabled greater labor market participation: for example, part-time paid work was the primary driver of the increase in overall employment between 2000 and 2018. Its share rose in 18 out of 21 countries, by an average of 4.1 percentage points, equivalent to 29 million jobs, while that of full-time employment declined by 1.4 percentage points.[8]

Opportunities expanded particularly strongly for women. Of the 45 million additional workers since 2000, 31 million are women. Female employment increased by 6.3 percentage points between 2000 and 2018. The growth in female employment in this period is seen almost everywhere except Norway and the United States, where it has declined by 1.3 and 2.2 percentage points, respectively. Some 14 million additional male workers were employed during this period, although their share of the working-age population fell by 0.4 percentage point on average.

Workers are also seeing improvements in some nonwage aspects of work quality. In 18 out of 19 countries surveyed by the OECD, workers report they are facing less strain in their jobs. More workers report receiving increased on-the-job training and express greater optimism about their opportunities for job progression. Certain worker benefits have improved, including parental leave and access to paid holidays. For those who want flexibility, the rise of alternative work arrangements has been a positive trend, and one that has enabled more women to enter the labor force.

Work and wage polarization has increased based on skills, and wages and incomes have stagnated for many workers

New work opportunities have benefited high-skill, high-wage workers and low-skill, low-wage workers, relative to the middle, which has been squeezed.[9] Between 2000 and 2018, the number of people in middle-skill, middle-wage occupations dropped by seven million in 16 European countries and the United States, although this trend has been slowing, particularly in the United States.

The polarization of work opportunities into high-skill and low-skill occupations (or high-wage and low-wage work in the United States) is due in part to the shift from manufacturing to service-sector jobs as well as a shift toward high-skill or low-skill jobs within industries, as a result of automation and globalization.[10] The growth in high-skill jobs offers real opportunities for workers to move up the income ladder if they are able to raise their skill levels. At the same time, it implies declining opportunities and wage stagnation for a significant share of the workers employed in middle-skill jobs.

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7 US Bureau of Labor Statistics, 2019. See Chad Bown and Caroline Freund, *The problem of US labor force participation*, Peterson Institute for International Economics, working paper number 19-1, January 2019.

8 Eurostat Labor Force Survey, 2019; OECD Employment database, 2019. The exceptions are New Zealand, Norway, and Sweden. Data missing for South Korea. Part-time includes both voluntary (3.2 percentage points) and involuntary (0.9 percentage point).

9 A note on the definition of skills: in this report, we have followed the OECD's classification of skills (see the technical appendix for details). However, it should be noted that in most data sets, skills tend to be measured on the basis of credentialed or professionalized skills or of educational attainment. This tends to leave out skilled workers whose skills are not measured in this way and not always captured in the data collection. Also, some data sets in our sample measure skill while others measure wage. For these reasons, in several places we use these terms interchangeably or as proxies for each other to capture the polarization of the labor market in the United States and European Union. Some researchers recognize that middle-skill jobs are typically those in the middle of the wage distribution in the United States. *OECD employment outlook 2017*, OECD, 2017; David Autor, "Work of the past, work of the future," *AEA Papers and Proceedings*, May 2019, Volume 109, pp. 1–32.

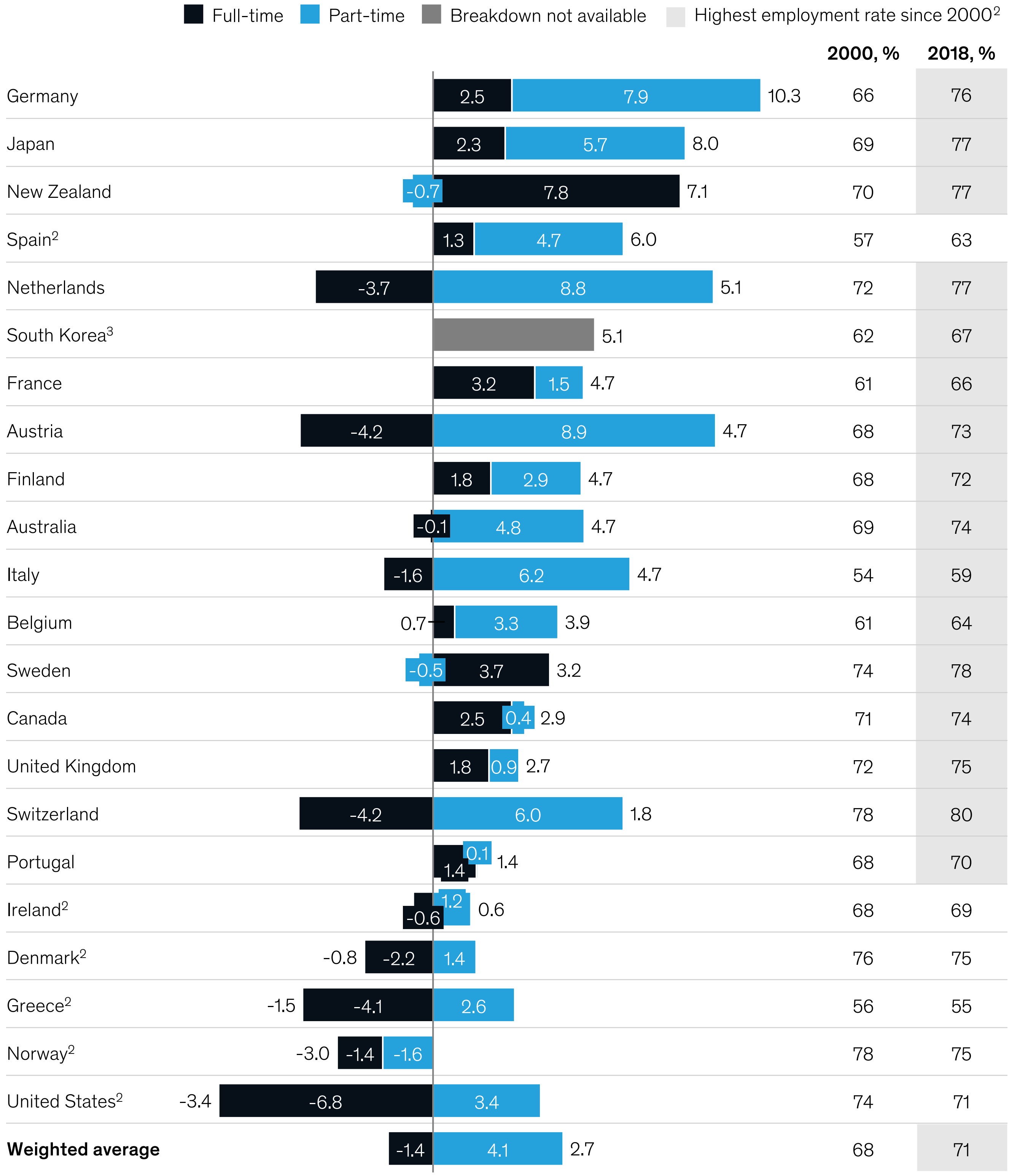
10 *OECD employment outlook 2017*, OECD, 2017; World Development Indicators, World Bank.

Exhibit E2

Employment in advanced economies is at historically high levels and has recovered after the financial crisis in most countries, largely due to rising part-time employment.

Change in employment rate, percent of working-age population (15–64 years), 2000–18

Percentage points[1]



1 Calculated as employed people in working-age population (15–64) as a share of working-age population. Weighted by employment rates for each country by their share of total population aged 15 and over.

2 Denmark, Greece, Ireland, Norway, and Spain peaked in 2007–08 , whereas United States peaked in 2000.

3 Employment by full-time and part-time employment is not available for South Korea.

Note: figures may not add up to 100% due to rounding.

Source: OECD; McKinsey Global Institute analysis

0.7%

Annual average growth in real wages between 2000 and 2018 in our 22 sample countries

Wage stagnation has been a persistent challenge for many workers (Exhibit E3). Between 2000 and 2018, average wages grew just 0.7 percent per year in our 22 countries.[11] Although wage growth was positive in 20 out of 22 countries, the average growth rate was less than 1 percent over 18 years, and less than half the average annual GDP growth of 1.6 percent during the same period.[12] Moreover, wage growth substantially slowed even when comparing periods not directly affected by the pre-crisis economic boom and the crisis-related slump: average real wages grew by 1.6 percent annually between 1995 and 2000, but in 2013–18, growth fell to just 0.7 percent per year. Average real wage growth slowed in 19 out of 22 countries during the latter period, affecting as many as 200 million workers.[13]

Median income grew even more slowly than wages, by just 0.4 percent annually between 2000 and 2016, indicating unequal wage growth across income groups. Our previous research has showed that between 65 and 70 percent of households in 25 advanced economies faced flat or declining real market incomes (wages and income from capital) in the decade including the crisis.[14] Relative poverty rates even after taxes and transfers rose between 2000 and 2016; the share of the working-age population earning less than 50 percent of household median income increased from 11 percent to 13 percent over that period, equivalent to 14 million people in the 22 countries.

Global trends, including technology, globalization, and shifts in industry structure and employment arrangements, underlie many of the labor market changes

Work is changing in part because of global trends such as technological innovation and globalization. In the United States and 15 European countries, between 20 and 30 percent of the working-age population, or more than 160 million people, now engages in independent work, with a growing proportion leveraging digital platforms to do so. About 70 percent say they do so by choice.[15] Technological innovation has also created new types of work that did not previously exist, from drivers on ride-hailing apps and big data translators to professional video gamers and social media influencers.

These trends have been something of a double-edged sword. They have brought favorable outcomes in the aggregate and contributed to overall economic growth and, in some cases, job growth and opportunity creation. The trends have benefited individuals directly and indirectly, specifically as consumers and savers.[16] For workers who engage in independent work by choice, digital platforms have created opportunities. At the same time, these trends have contributed to work polarization, and outcomes have been less favorable for some. Growing automation adoption is proving disruptive for many workers, especially in sectors such as manufacturing that are highly susceptible.[17] Globalization, especially the build-out of value chains (that is, outsourcing) and the labor-cost arbitrage that sometimes accompanied it at the start of the 21st century, has taken a toll on some occupations and workers in advanced economies. More recently, the latter trend has started to shift as the proportion of globalization driven by low-cost labor arbitrage has declined in the aggregate.

Accompanying these disruptive trends is a shift in employment arrangements that made labor markets more flexible and increased the responsibility of individual workers for their

11 The US private sector Job Quality Index compares the number of jobs paying above and below the weekly average wage, called high-quality and low-quality jobs, respectively. The concentration of high-quality jobs declined from 94.9 in 1990 to 79.0 in July 2019, and the average wage gap between high- and low-quality jobs has widened since 2004. See Daniel Alpert et al., *The US private sector Job Quality Index*, Cornell Law School, November 2019.

12 World Economic Outlook database, IMF, October 2019.

13 Estimated as 37 percent of the working-age population (share of middle-wage, middle-income occupations based on 16 European countries and the United States). Excludes Germany, New Zealand, and South Korea, where growth was positive.

14 *Poorer than their parents? Flat or falling incomes in advanced economies*, McKinsey Global Institute, July 2016.

15 *Independent work: Choice, necessity, and the gig economy*, McKinsey Global Institute, October 2016.

16 See *Globalization in transition: The future of trade and value chains*, McKinsey Global Institute, January 2019; *"Tech for Good": Smoothing disruption, improving well-being*, McKinsey Global Institute, May 2019; David H. Autor, David Dorn, and Gordon H. Hanson, "The China shock: Learning from labor-market adjustment to large changes in trade," *Annual Review of Economics*, October 2016, Volume 8.

17 Daron Acemoglu and Pascual Restrepo, *Robots and jobs: Evidence from US labor markets*, NBER working paper number 23285, March 2017.

Exhibit E3

Average real wages stagnated while relative poverty increased.

	Change in 5-year CAGR of real average wages,[1] 1995–2000 vs 2013–18, percentage points	**CAGR** 1995–2000, %	**CAGR** 2000–18, %	**Change in relative poverty rate after taxes and transfers,** share of working-age population,[2] 2000–16, percentage points	2000, %[3]
South Korea	1.5	0.6	1.7	1.6	11.1
New Zealand	1.2	0.4	1.6	0.4	9.3
Germany	0.8	0.7	0.8	3.5	6.7
Denmark	-0.1	1.3	1.3	2.6	4.4
Japan	-0.2	0.3	0.0	0.0	13.6
Spain	-0.3	-0.1	0.2		NA
Netherlands	-0.3	0.2	0.5	2.5	6.3
Austria	-0.4	0.8	0.6	0.8	8.8
France	-0.4	1.1	1.0	1.5	7.0
Italy	-0.7	0.9	0.1	3.2	10.7
Switzerland	-0.9	0.9	0.8		NA
Belgium	-1.4	1.4	0.2	2.3	7.0
Finland	-1.4	1.8	1.0	1.7	5.5
United States	-1.7	2.8	0.9	1.8	13.7
Canada	-1.9	2.2	1.2	0.2	12.2
Australia	-2.2	2.0	0.9	-0.3	9.7
Norway	-2.4	2.6	2.0	3.5	6.0
Sweden	-2.6	3.6	1.5	3.4	5.2
Portugal	-2.7	2.5	-0.2	1.5	11.1
Ireland	-2.9	3.4	1.5	-0.9	10.8
United Kingdom	-2.9	3.2	0.8	0.5	9.6
Greece	-3.0	3.3	-0.2	5.1	10.3
Weighted average[4]	-0.9	1.6	0.7	1.7	11.1

1 N=22. Compound annual growth rate (CAGR) for average wages represents 5 years ending with date listed (e.g., 1995–2000 for 2000). Average wages are in 2018 dollars, which have been converted using average exchange rate for 2018 and CPI for 2018.

2 Poverty rate after taxes and transfers is measured as share of working age population whose income falls below 50 percent of median household income of total population. Definition of poverty rate changes in 2012. To create a long time series, income definition prior to 2011 was used until 2011 and new income definition was used after 2012. Exceptions are Austria, Canada, and Finland, for which new income definition is available earlier than 2012. Data availability by country varies. Figures for most countries cover 2000–16. Exceptions are: Austria, 2007–16; Belgium, Portugal, Greece, 2004–16 ; Denmark, 2000–15; Finland, Norway, Sweden, 2000–17; Ireland, 2004–15; Japan, 2000–15; South Korea, 2006–17; New Zealand, 2000–14.

3 2000 or earliest year available.

4 Weighted average is average of full set of countries weighted by their share of total population aged 15 and over.

Source: OECD; McKinsey Global Institute analysis

own employment and wage outcomes. For example, employment protection that governs the dismissal of regular workers and hiring of temporary workers has decreased over the past two decades, according to OECD research. Some argue that reducing employment protection increases the flexibility of labor markets, since it enables firms to respond quickly to changes in the business environment while also enabling workers to find jobs that best match their skills.[18] However, lower employment protection is likely to make workers more vulnerable to job displacement during difficult economic times and could lead to lower investment in the current workforce, thereby reducing the growth of good jobs.[19] Wage negotiation mechanisms have also been changing: the share of workers governed by collective agreements declined in 14 of our 22 countries, by five percentage points on average, with the most significant declines in Germany, Greece, and Ireland.[20]

In addition to technology, globalization, and changes in employment arrangements, other factors have also played a role. These include a shifting balance between capital and labor, the growing role of intangibles such as intellectual property products, changes in industry structure, mix, and performance, and "superstar" effects, as a small proportion of large firms captures a larger share of income. For example, the labor share of income has been declining in advanced economies; in the United States, it fell by 5.4 percentage points between 1998–2002 and 2012–16. Had this decline not occurred, the average worker would be paid $3,000 more in real terms.[21]

For consumers, discretionary goods and services are cheaper, but cost of housing and other basics has risen

The past two decades have seen strongly contrasting outcomes for individuals as consumers. We assessed nine goods and services in some detail: communications, clothing, recreation, and furnishings, consumption of which is primarily discretionary in nature; transportation and food, which are both discretionary and basic; and housing, healthcare, and education, which are primarily basic in nature. While the cost of discretionary goods and services has been falling and creating consumer surplus, the cost of basics—especially housing, which accounts for 24 percent of household consumption—has risen much faster than general consumer prices and is absorbing a substantial part of households' income. Given that the ratio of discretionary goods to basics varies across income groups, this is particularly challenging for lower-income individuals (often young or old).

~90%

Decline in cost of data between 2012 and 2017, as usage surged tenfold

For most discretionary goods and services, availability has expanded, costs have fallen, and consumer surplus has risen

Prices for clothing, communications, recreation, and furnishings are falling relative to general consumer prices in all regions (Exhibit E4).[22] Holding all else constant (volume of goods and services consumed, prices of other goods and services, and wages in real terms), the average person can work six fewer weeks a year and still consume the same amount of these categories as in 2000 in ten sample countries. This has drastically improved affordability and access, leading to expanded consumption of discretionary goods and services; for instance, between 2012 and 2017, the cost of data fell by almost 90 percent and usage surged tenfold in nine countries in our sample.[23] Food costs tracked general consumer prices, while transportation costs were higher in Europe but lower in the United States.

18 See "Protecting jobs, enhancing flexibility: A new look at employment protection legislation," in OECD employment outlook 2013, OECD, 2013.
19 Dani Rodrik and Charles Sabel, *Building a good jobs economy*, working paper, November 2019.
20 Collective agreements are legal agreements negotiated at the firm, sector, or national level that cover mutually agreed-upon wage levels, wage increases, and nonworking conditions such as vacation arrangements, training, and employment protections, among other factors.
21 *A new look at the declining labor share of income in the United States*, McKinsey Global Institute, May 2019.
22 As measured by the all-items Harmonised Index of Consumer Prices calculated by Eurostat for 15 European economies in our sample and the United States. The index attempts to capture quality changes, but the European Central Bank says, "Work is underway … to ensure that all countries use comparable techniques for quality adjustment."
23 Strategic Analytics, 2018.

Technology has helped unlock new consumption in discretionary categories. Some of it takes the form of "free" services for consumers, such as social media, communications, and information services (although consumers often pay for these services through providing their personal data and through advertising costs factored into the prices of goods and services). The combination of falling prices and improving quality has led to an increase in consumer surplus, the wedge between what consumers are willing to pay and what they actually pay for goods and services.[24]

Globalization has increased competition in traded goods such as clothing and electronics, as China, Vietnam, and other emerging economies have become key lower-cost manufacturing centers. This has led to significant price improvements, greater choice, and increased availability for consumers in advanced economies that are the focus of this research.

Institutional moves to deregulate markets for some discretionary goods and the reduction of trade barriers to allow for greater competition have played a role in improving economic outcomes for consumers. Between 2000 and 2013, the OECD index for product-market regulation fell in telecommunications, transportation, and utilities by 33 percent on average for 22 advanced economies.[25] Overall, price declines were steepest in markets that are most exposed to technology, globalization, and deregulation, such as communications, while sectors less exposed to these trends have improved less significantly.

The cost of housing and, in some countries, education and healthcare has soared, absorbing much of the income gains for many

Unlike the cost of many discretionary goods, the costs of housing, healthcare, and education have risen faster than general consumer prices across countries in our sample, meaning that the same consumption level requires a higher share of income.[26] Holding all else constant, consumers in ten countries in our sample would have to work an average of an additional four weeks a year (ranging from zero in Japan to ten weeks in Australia) to consume the same amount of housing, healthcare, and education that they did two decades ago. Basics that have risen the most have tended to be non-traded or in markets with significant supply constraints that limit competitive dynamics.

Housing is the primary cause of this loss in purchasing power in most countries since it accounts for about one-fourth of consumption spending on average (ranging between 17 and 28 percent).[27] Housing costs have increased significantly in almost all 20 countries for which data are available, accounting for 39 percent of the change on average in 15 European countries and the United States between 2002 and 2018. Japan and South Korea were the exceptions; housing costs there tracked general consumer prices.

Healthcare prices increased sharply in Australia and the United States. In the United States, healthcare represents 9 percent of spending and is the second most significant driver of the change in consumer prices, accounting for 17 percent. In Europe, where private spending on healthcare is lower, healthcare constituted just 3 percent of the change in consumer prices. Education costs jumped in all countries except Japan, and almost doubled in the

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24 For example, the OECD has estimated that quality and price changes in the broadband market from 2006 to 2010 increased consumer surplus by $1,035 per subscriber on average for the 22 countries. Shane Greenstein and Ryan McDevitt, *Measuring the broadband bonus in thirty OECD countries*, OECD, 2012. National income statistics do not include free services, so consumption of discretionary goods and services may be higher in reality. See Hal Varian, "The value of the internet now and in the future," *Economist*, March 10, 2013.

25 The index measures product-market regulation on a scale of 0 to 6; the average of sector indexes fell from 3.1 to 2.1. Methodology for 2018 data has been changed and is not comparable to earlier periods.

26 Consumer prices of housing include actual rentals, maintenance, and utilities, and exclude housing purchases or imputed rents (although house prices, rents, and mortgage interest costs could move differently over short periods, the relationship is strong in the long run). Healthcare consumer prices include medical products, outpatient services, and hospital services, and exclude health insurance (which is part of miscellaneous goods and services). Education consumer prices include pre-primary and primary, secondary, post-secondary, and tertiary education as well as education not definable by level.

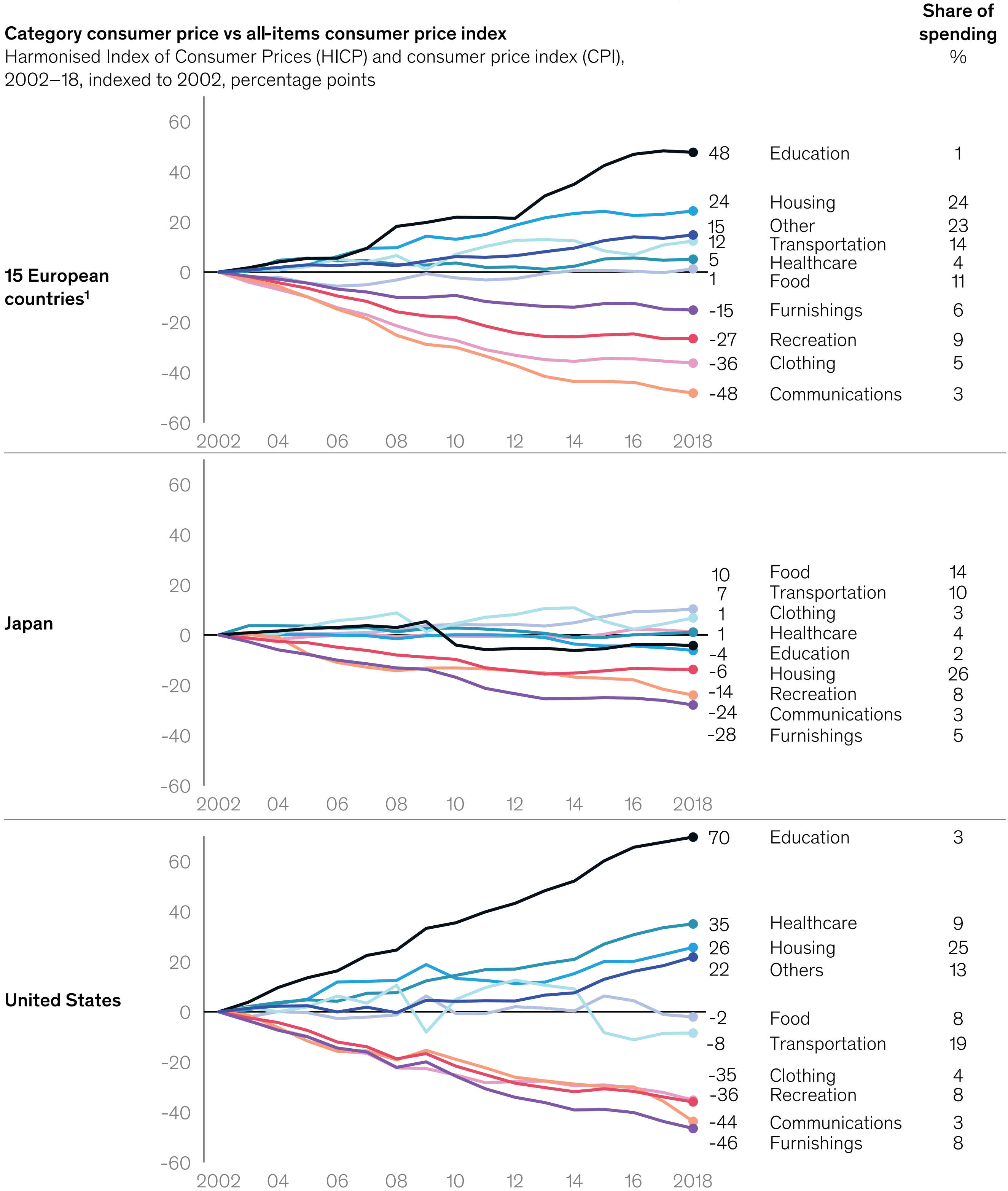
27 On average, home ownership is 66 percent in our country sample, from a low of 43 percent in Switzerland to a high of 83 percent in Norway.

Exhibit E4

Consumer prices of discretionary goods and services such as communications fell significantly, while basics such as housing outpaced general consumer prices in 15 European countries and the United States, and Japan witnessed relatively moderate variations.

Category consumer price vs all-items consumer price index

Harmonised Index of Consumer Prices (HICP) and consumer price index (CPI), 2002–18, indexed to 2002, percentage points



1 Consumption-weighted average of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and United Kingdom (data not included for Switzerland).

Note: Value of 0 can be interpreted as “consumer prices in this category match all-items consumer price index.” Others category includes alcohol and tobacco, restaurants and hotels, and miscellaneous goods and services (omitted for Japan due to missing data, representing 25% of consumption). Housing includes actual rentals, maintenance, and utilities but excludes housing purchases or imputed rents. Healthcare includes medical products, outpatient services, and hospital services; but excludes health insurance (which is part of miscellaneous goods and services). Education includes pre-primary and primary, secondary, post-secondary non-tertiary, and tertiary education, and education not definable by level.

Source: Eurostat; Harmonised Index of Consumer Prices; Japan Statistics Bureau; McKinsey Global Institute analysis

United Kingdom partly due to cuts in university fee subsidies that started in 2010; however, education accounts for just 2 percent of total consumption spending on average.

The increase in housing, healthcare, and education spending for consumers absorbed income gains to varying degrees in ten of our 22 countries between 2000 and 2017 (Exhibit E5). In countries where incomes increased (albeit more slowly than they had in the past), the largest erosion—107 percent of incremental income—was in the United Kingdom, meaning that the gains in income have been entirely absorbed by increased spending on basic goods and services.[28] In France, these price increases absorbed 87 percent of income gains. In countries where incomes declined —Italy, Japan, and Spain—increased spending on basics further eroded incomes by 6 to 29 percent.

1.1 pp

Decrease in housing overcrowding rates on average in the 22 countries

Rising costs of basics have come with improvements in some aspects of quality

Although data on quality of goods and services are often not comprehensive and can be difficult to measure, some evidence suggests improving outcomes. For example, housing overcrowding rates fell, albeit marginally, by 1.1 percentage points on average over the past two decades for our 22 countries.[29] Healthcare has seen major improvements: life expectancy at 65 has increased from 18 to 20 years, mortality from cancer decreased by an average of 15 percent between 2000 and 2016, and diabetes mortality declined by 20 percent between 2000 and 2015.[30] Technology promises to drive further improvements, with innovations such as predictive diagnosis algorithms, health monitor implants, and synthetic biology.

Access to education has also improved. Tertiary attainment rates increased from 28 to 42 percent of the 25- to 64-year-old population between 2000 and 2017, equivalent to more than 155 million people. The largest increases were in Ireland and South Korea, at 24 percentage points. Innovations and online courses have democratized access to knowledge. However, PISA scores for reading, science, and mathematics declined by 2 percent on average between 2000 and 2018.[31]

Individual and institutional savings have declined at a time when they matter more

Increasing longevity and declining birth rates are making saving for retirement both a greater imperative and a greater challenge. While access to and variety of saving and investment options have expanded, many households are not saving at all, and median wealth growth has been falling.

Improved life expectancy and aging are challenging both institutional and individual savings

As people live longer due to scientific and technological progress, the number of expected years spent in retirement in our 22 sample countries has increased, from 16 in 1980 to 20 in 2018.[32] These gains and expansions in productive working life are a hallmark of progress in the 21st century, yet they also pose a considerable challenge for both institutional and individual savers. Institutional pensions, whether provided by the public sector or by employers, will need to adjust to higher pension payouts and lower receipts, even after accounting for longer working lives. Individual savers will need to save more for themselves for their longer lives and to compensate for the shortfall in institutional saving. Although attractive investment opportunities are needed to ensure that individuals build their savings, the current economic

[28] For income, we consider the OECD data on household net adjusted disposable income, which includes wages and salaries, property income, social benefits in cash, and social transfers in kind (which also include healthcare-related transfers). The breakdown of household consumption is based on OECD national accounts data, which includes only household spending (excluding government spending) on various categories, including healthcare. See the technical appendix for details.

[29] OECD Affordable Housing database, 2019. Overcrowding is defined as the minimum number of rooms required for each couple, single adult, and child. See the technical appendix.

[30] Global Burden of Disease Collaborative Network, 2016; OECD Health statistics, 2019.

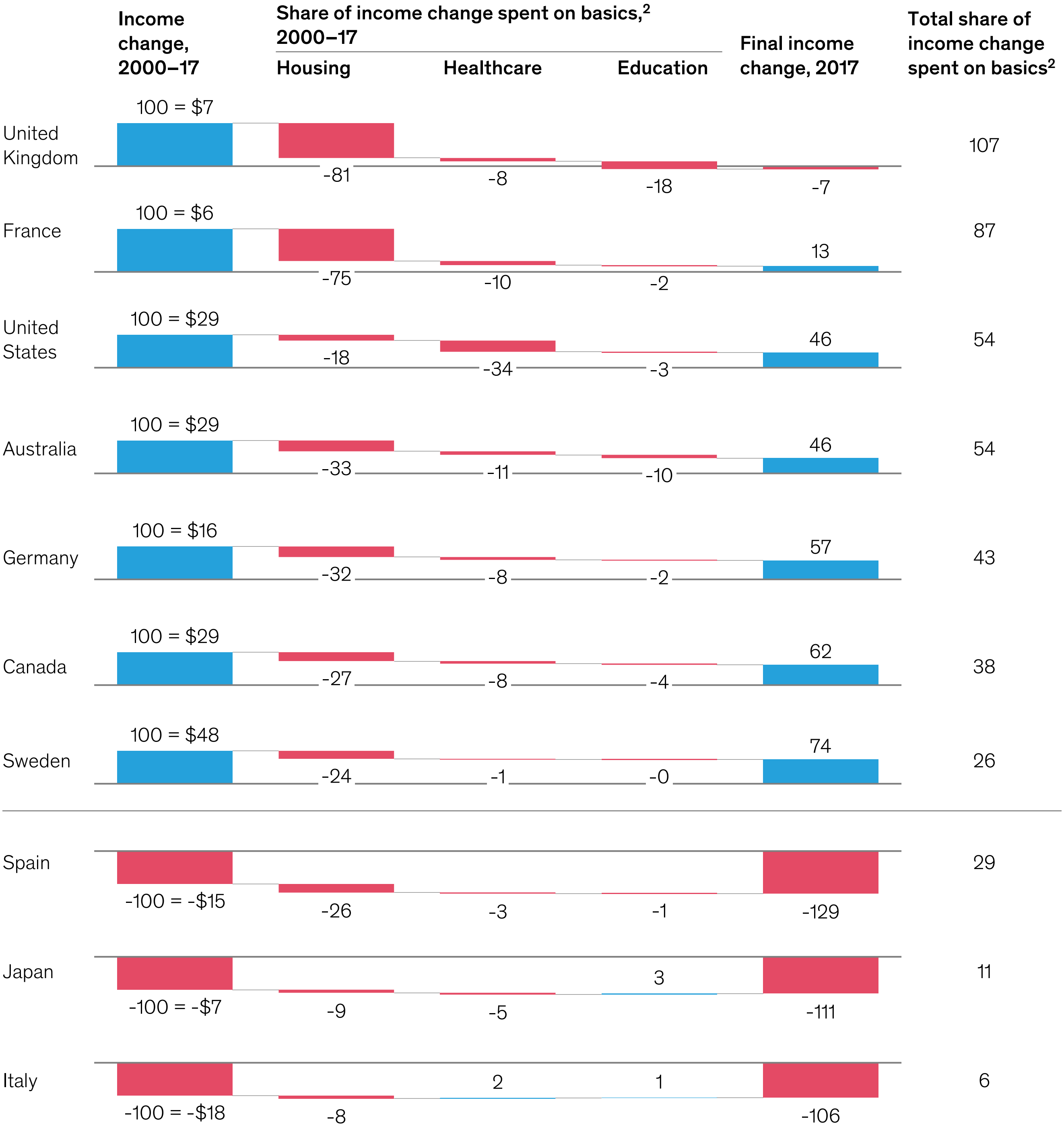
[31] OECD Education database, 2019.

[32] Expected number of years in retirement, OECD Employment database, 2019.

Exhibit E5

A significant amount of income gains was spent on basic goods and services, primarily housing.

Income and spending changes for average households, 2000–17[1]
Indexed to income in starting year, %



1 Values expressed in real terms (i.e., adjusted for general consumer price increase). Starting date for Australia and Spain is 2001. Germany, Japan, Sweden, and UK databased on an average of results from OECD national accounts and household budget surveys (UK income change is based only on household budget survey due to data inconsistencies); figures for remaining countries are based on OECD national accounts due to data availability.
2 We defined basic goods and services as housing, healthcare, and education.
Note: Household incomes rose between 2000 and 2017 in some countries. Household income can be affected by changes in tax rates or government transfers and incorporates other forms of income such as capital income. All of these factors can contribute to a rise in household income (incremental income) while growth in wages and salaries is low or negative. Not to scale. Figures may not sum to 100% because of rounding.

Source: OECD national accounts data; Eurostat household budget surveys; McKinsey Global Institute analysis climate and the much-debated topic of secular stagnation raise questions about whether this is feasible.[33]

In response, more than half of OECD countries have raised the statutory retirement age, and some, including Denmark, Finland, Italy, and Sweden, now explicitly link the retirement age to life expectancy. By 2060 the normal retirement age will approach 66, which represents an increase of 1.5 years for men and 2.1 years for women compared with 2015.[34] Life expectancy has been increasing at a faster rate, however, which means that the proportion of an average life spent in retirement will continue to rise.

Governments and private-sector institutions concerned about fiscal sustainability have taken action over the past two decades to shift a larger responsibility to individuals for their own retirement savings. The net pension replacement rate that an average worker can expect to receive from her or his mandatory pension has decreased by 11 percentage points for the average person in our 22-country sample.[35] Net replacement rates, which measure how effectively a pension system provides a retirement income to replace preretirement earnings, now range from 92 percent in Italy to just 28 percent in the United Kingdom. Individuals need to increase their private savings in order to meet the net replacement rates provided by the government or private-sector employers in the early 2000s (Exhibit E6).

Many pension systems have changed from defined-benefit plans, for which institutions guarantee a minimum return and thus bear the market risk, to defined-contribution ones, for which individuals bear the market risk.[36] In 17 countries on average, the share of assets under management in defined-contribution plans rose by two percentage points between 2007 and 2017.[37] Countries that faced the largest decreases in the share of defined-benefit assets include Italy, which saw a drop of 13 percentage points, from 30 to 17 percent, and the United States, where assets dropped 11 percentage points, from 53 to 42 percent. This also raises the importance of financial literacy, particularly as financial products have become more complex.[38]

To compensate for the extended period in retirement and decreasing institutional savings in most countries, household private savings would need to increase. However, with widespread stagnation in wage and income growth in many economies and the increasing cost of basics, the household saving rate has fallen in half of our sample countries by more than five percentage points since 2000.[39] Moreover, household saving is concentrated on a subset of all households: across a broad range of our sample countries, surveys show that more than half of individuals did not save for old age in 2017, and a quarter did not save any money at all (Exhibit E7).[40] In France, Italy, and Spain, over two-thirds of adults did not save for old age in 2017. Similarly, 40 percent of Americans cannot come up with $400 in an emergency.[41]

[33] Secular stagnation, first proposed by Alvin Hansen in the 1930s, is a theory that says demographic factors are driving slower economic growth. Lawrence Summers, after the 2008 financial crisis, cited it in explaining the slow post-crisis recovery in advanced economies. However, others such as Ben Bernanke dispute Summers's theory, arguing that a global savings glut is the driving force behind the slow recovery. See Lawrence H. Summers, "The age of secular stagnation: What it is and what to do about it," *Foreign Affairs*, March/April 2016; Ben S. Bernanke, *Why interest rates are so low, part 3: The global savings glut*, Brookings Institution, April 1, 2015.
[34] *Pensions at a glance*, OECD, 2017
[35] The OECD defines the net pension replacement rate as the individual net pension entitlement divided by net preretirement earnings, taking into account personal income taxes and social security contributions paid by workers and pensioners.
[36] Defined-benefit pensions provide a guaranteed payment in retirement, typically based on an employee's salary and the length of time worked for an employer. Defined-contribution pensions depend on the amount of money paid into the scheme by an employee or an employer and the rate of return on investment.
[37] Simple average. Weighting by assets under management would increase the ratio to six percentage points due to the disproportionate size of the United States market.
[38] Annamaria Lusardi and Olivia S. Mitchell, *The economic importance of financial literacy: Theory and evidence*, National Bureau of Economic Research working paper number 18952, April 2013.
[39] National accounts at a glance, OECD 2019.
[40] The Global Findex Database 2017: Measuring financial inclusion and the fintech revolution, World Bank, 2018.
[41] Lawrence H. Summers, "Do Americans really need to be more thrifty?," *Washington Post,* January 7, 2020.

Exhibit E6

Net replacement rates from mandatory pensions have declined in 16 out of 22 countries by an average of 11 percentage points, and net pension wealth covers just ten years on average.

	Net replacement rate from mandatory pensions[1]				
	Change, 2004–18 Percentage points	**2004, %**	**2018, %**	**Net pension wealth, 2018[2]** Years	**Expected years in retirement, 2018[3]**
Greece	-49	100	51	11	24
Canada	-44	95	51	10	21
United Kingdom	-42	70	28	6	21
Switzerland	-24	68	44	9	21
Japan	-22	59	37	8	18
Germany	-20	72	52	11	21
Sweden	-15	68	53	10	20
Finland	-15	79	64	12	21
Norway	-14	65	52	10	20
Australia	-11	52	41	7	22
Spain	-5	88	83	14	24
Netherlands	-4	84	80	15	21
Austria	-3	93	90	17	22
United States	-2	51	49	9	18
South Korea	-1	44	43	9	15
Ireland	-1	37	36	7	20
Italy	3	89	92	15	23
Belgium	3	63	66	12	23
New Zealand	3	40	43	10	18
France	5	69	74	14	25
Portugal	10	80	90	15	19
Denmark	17	54	71	10	20
Weighted average	-11	65	54	10	20

1 Net replacement rate for mandatory pensions for male workers; data missing for female workers prior to 2010. Net pension replacement rate is identical for men and women except in Australia (2010–18), Switzerland (2018), and Austria (2004).

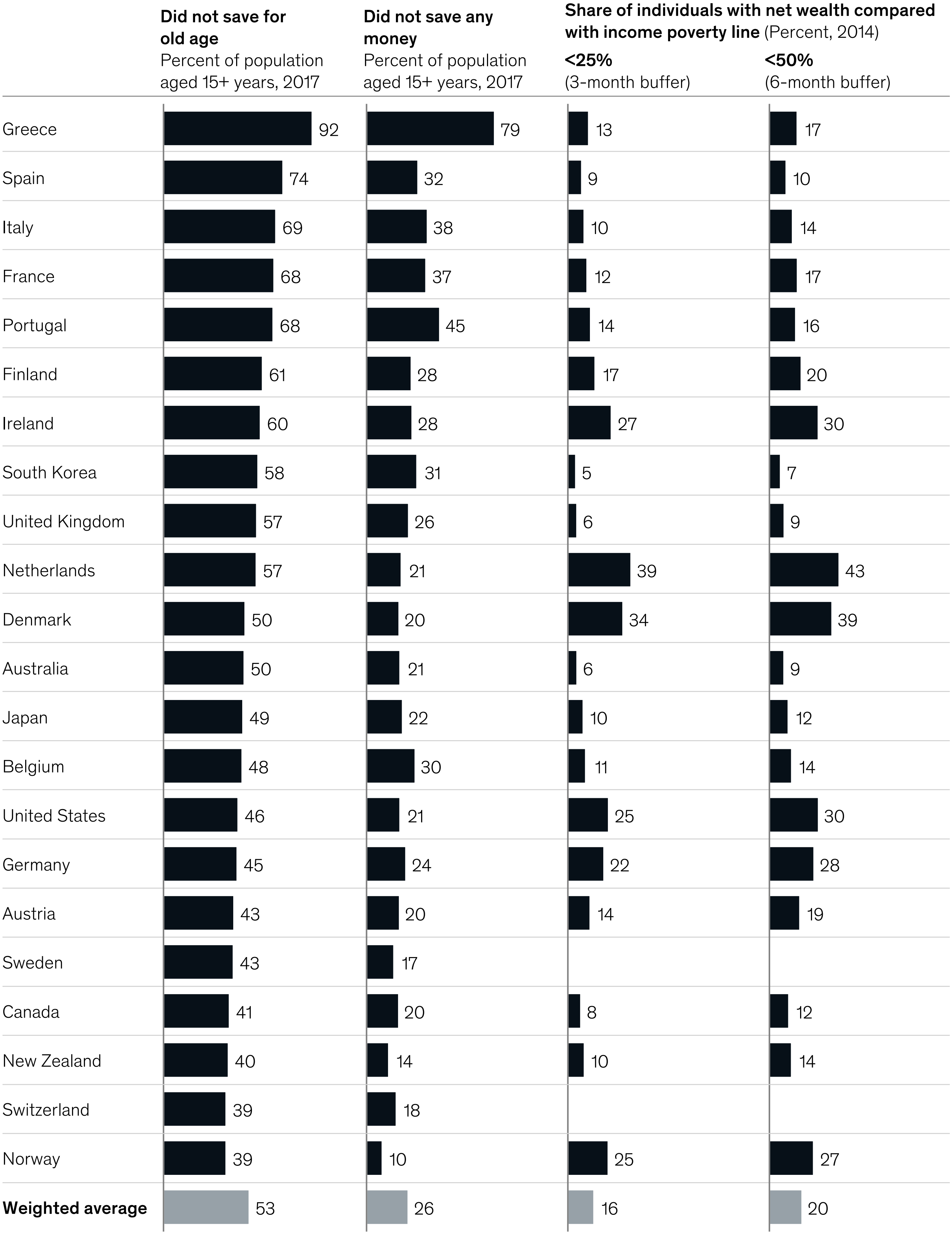
2 Net pension wealth is present value of flow of pension benefits, taking account of taxes and social security contributions that retirees have to pay on their pensions. It is affected by life expectancy and by age at which people take their pensions, as well by as indexation rules. This indicator is measured as a simple average of multiple of annual net earnings for men and women. Assumes individuals consume their average net earnings each year in retirement.

3 Expected years in retirement for both men and women taken as a simple average of male and female expected years in retirement.

Source: OECD; McKinsey Global Institute analysis

Exhibit E7

Over half of individuals in advanced economies did not save for old age, a quarter did not save any money, and 20 percent do not have enough wealth to cover six months of basic costs.



Source: World Bank Financial Inclusion Indicators; OECD; McKinsey Global Institute analysis

Opportunities to save have expanded, but savings and returns have been low for many, and indebtedness has risen

For those who do save, the internet has made saving, tracking, and investing wealth easier. Technology and the opening up of global markets have created many more opportunities, providers, products, and available services, and often at lower cost. Digital banking, digital savings, and new fintech products such as robo-advisers mean that good-quality investment advice is increasingly available with lower minimum deposit thresholds and lower fees.[42]

However, returns on investment have been low for many households, largely due to low productivity growth and low interest rates in most advanced economies. Personal wealth growth has been low or even negative since 2000 for about 170 million people (or 21 percent of the population over 15) in our 22 sample countries.[43] These are likely to be the same people who see the increasing cost of basics absorbing a large portion of their income gains.

While real mean individual net wealth has recovered to pre-crisis levels in many countries, real median net wealth has not recovered in 13 countries since the financial crisis; it declined from $104,371 to $80,659 on average in our 22 sample countries between 2007 and 2018 and has only just started to rise again.[44] Growth in real mean net wealth has also been sluggish since the crisis: annual growth has been close to zero for most of the post-crisis period. In the 22 countries in our sample, between 2015 and 2017 the real growth rate for mean net wealth was just 1 percent per year, and it was negative in seven countries (Belgium, Canada, Finland, Japan, the Netherlands, Norway, and the United Kingdom).

Lower-wealth households are particularly affected. They often lack access to higher-return capital market instruments, as their lack of financial capital means they cannot bear the risk. For example, in France, return on assets and portfolios for the bottom wealth decile was negative 0.2 percent between 1970 and 2014, compared with a positive 6.4 percent for the top wealth decile. Similarly, the bottom five deciles in the United States earned returns of between negative 1.9 and positive 0.8 percent, compared with 2.0 to 6.0 percent for the top five deciles.[45]

23%

Share of US households with zero or negative net worth in 2017, up from 16% in 2001

The proportion of individuals with zero or negative net worth has risen significantly in recent decades. In the United States, for example, the share of households with zero or negative net worth rose to 23 percent in 2017 from 16 percent in 2001. In some countries, debt has also become a more significant issue; on average, 13 percent of households are heavily indebted, with debt-to-asset ratios above 75 percent in 2014. The real net wealth of the bottom decile in the United States fell from negative $23,240 to negative $69,408 between 1999 and 2017.[46]

Young people between 15 and 30 years old, who make up about 180 million individuals in our sample countries, are especially affected. In France, in 1970, the average 30-year-old had 61 percent of average adult wealth; by 2010, that had almost halved to 32 percent.[47] In the United States, the equivalent figures for the average 30- to 34-year-old were 69 percent in 1984 and just 31 percent in 2017. In the United Kingdom, some 53 percent of people aged 22 to 29 had no savings. Of those who did, about 40 percent had less than £1,000 in the bank.[48]

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42 *The new dynamics of financial globalization,* McKinsey Global Institute, August 2017; Jill E. Fisch, Marion Laboré, and John A. Turner, "The emergence of the robo-advisor," in *The Disruptive Impact of FinTech on Retirement Systems*, Julie Agnew and Olivia S. Mitchell, eds.,Oxford, UK: Oxford University Press, August 2019.

43 Assumes that 47 percent of the population over 15 saved for old age, on average in 22 countries, based on World Bank Financial Inclusion Indicators data. Of these, 50 percent have low or negative wealth growth in countries in which median wealth growth has been less than 1 percent since 2000, and 20 percent in countries with median wealth growth greater than 1 percent; calculated using wealth data from Credit Suisse, *Global wealth databook 2018*, 2018.

44 Credit Suisse, *Global wealth databook 2018*, 2018. Deflated using the OECD CPI deflator.

45 Panel Study of Income Dynamics, public use data set. Produced and distributed by the Survey Research Center, Institute for Social Research, University of Michigan, Ann Arbor, MI, 2019.

46 The extremely indebted households in the bottom decile differ from households in the second decile in a number of ways; they tend to be younger, to be better educated, and to have higher incomes.

47 Bertrand Garbinti, Jonathan Goupille-Lebret, and Thomas Piketty, *Accounting for wealth inequality dynamics: Methods, estimates and simulations for France (1800–2014)*, WID.world working paper series number 2016/5, World Inequality Database, 2016.

48 *How well are you doing compared with other young people?,* UK Office of National Statistics, October 2019.

Institutions have shifted responsibility for outcomes to individuals

Across the three arenas, changes in outcomes for individuals are propelled not only by disruptive global trends and slow GDP growth since the global financial crisis, but also by the evolution of the social contract itself, through the changing roles of public- and private-sector institutions, and interventions that shape individual or institutional responsibility for economic outcomes.

We developed two composite indexes to understand the role of institutions in the social contract and how these roles have shifted over the past two decades. The first gauges the extent to which institutions are intervening in the marketplace to manage market outcomes for individuals. The second focuses on the extent to which government spending cushions individual economic outcomes. Putting the indicators for market intervention and public-sector spending together highlights movements in the social contract.[49]

Exhibit E8 summarizes the shifts in both indexes at an aggregate level, and Exhibit E9 shows the shifts for each country. Our results suggest that in 19 out of 22 countries, institutions are intervening less in the marketplace, while governments in 18 out of 22 countries have somewhat stepped up their spending.[50] Some of the biggest changes in the extent of market intervention are a decline in employment protection for workers on temporary contracts, a substantial reduction in product-market regulations, and a sharp fall in the net replacement rate for mandatory pensions. In public-sector spending, the biggest change came from pensions, for which public spending in the 22 countries rose by 1.9 percentage points on average. This in turn was almost entirely a function of demographic change, namely longer life spans. Healthcare spending also rose by 1.1 percentage points; aging explains about 30 percent of that increase.

On average, market intervention by institutions declined by 13 points, while public-sector spending increased by three percentage points of GDP. This shift to lower market intervention and increased public-sector spending occurred in 15 out of 22 countries. The direction is broadly consistent, independent of the starting point of a country's institutional setup, for three groups of countries: (1) countries where both market intervention and public spending are high, such as Austria, Belgium, France, and the Scandinavian countries; (2) countries where intervention is high and public spending middling, such as Germany and the Netherlands; and (3) countries where market intervention is lower and public spending is also relatively low. This latter set includes Japan, South Korea, Switzerland, the United Kingdom, and the United States.

This general trend toward lower market intervention has had significant implications for individuals, especially as workers and savers, given the role that institutions have played historically in cushioning individual outcomes in these two arenas. Workers find they need to seek employment in an increasingly flexible market, negotiate terms individually, and adapt to work fragility. As institutions are less able to provide generous retirement benefits, individuals find they need to actively prepare for retirement and manage their own assets.

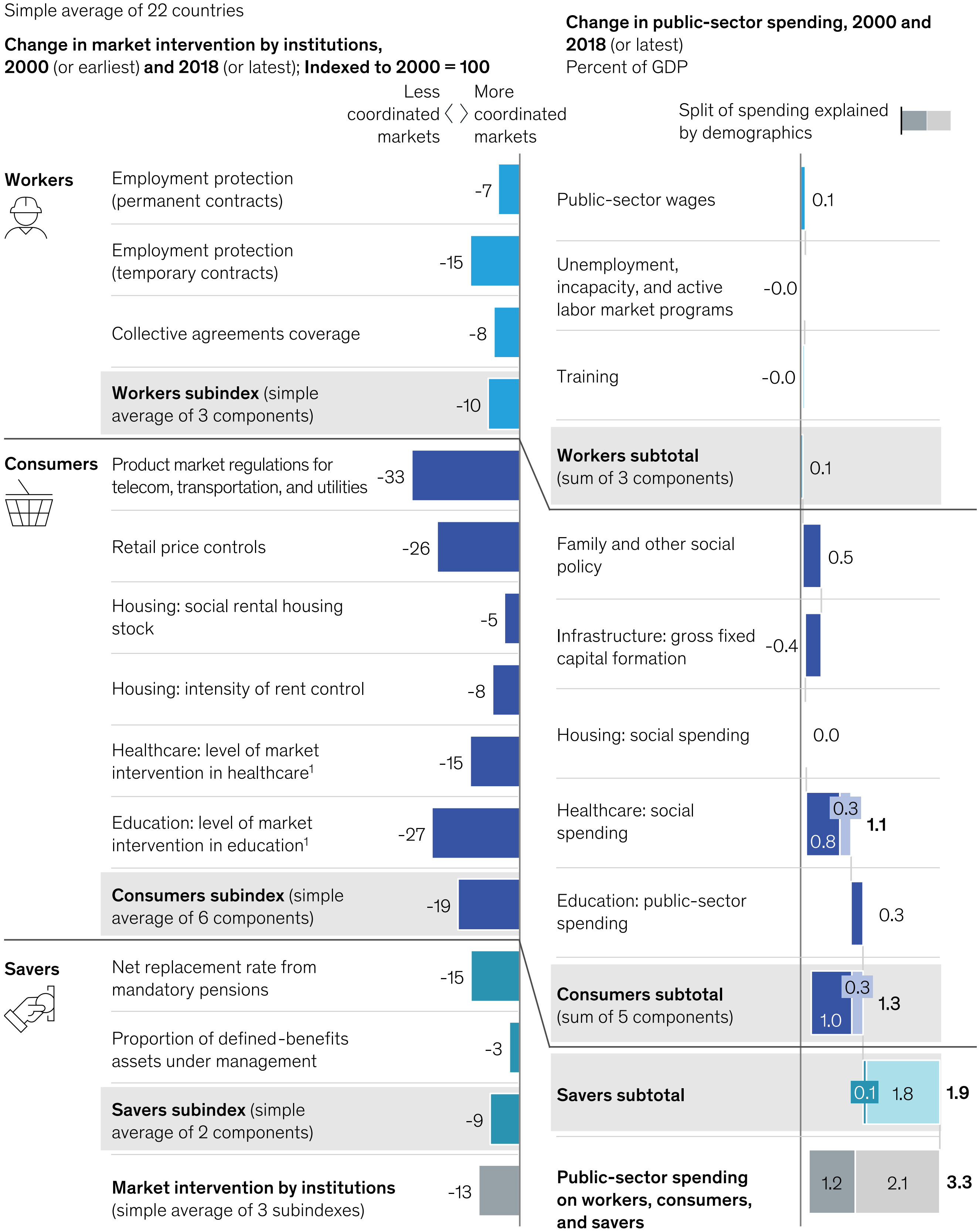
Some individuals are choosing to take responsibility for their own outcomes and have been able to take advantage of the opportunities created by these institutional shifts, such as the expansion of new technology-enabled work opportunities. But many individuals have not been able to adapt to the profound changes in the social contract and face challenging economic outcomes as a consequence.

49 We drew on research that distinguishes between different degrees of "coordinated" versus "liberal" market economies—that is, the institutional arrangements that govern how actors such as firms and employees interact with one another. In liberal market economies, firms and market mechanisms primarily drive exchanges between individuals and institutions, including in such areas as industrial relations, vocational training and education, corporate governance, interfirm relations, and relations with employees. More coordinated market economies rely more heavily on nonmarket forms of interaction. These can include factors such as employee protection and coordinated provision of vocational training. See Peter Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford, UK: Oxford University Press, 2001; and Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Princeton, NJ: Princeton University Press, 1990.

50 Indicators for this included the level of public-sector wages, active labor market programs, and government spending on training; spending on housing, healthcare, education, infrastructure, and family and other social policies; and pension spending.

Exhibit E8

The role of institutions changed for workers, consumers, and savers.

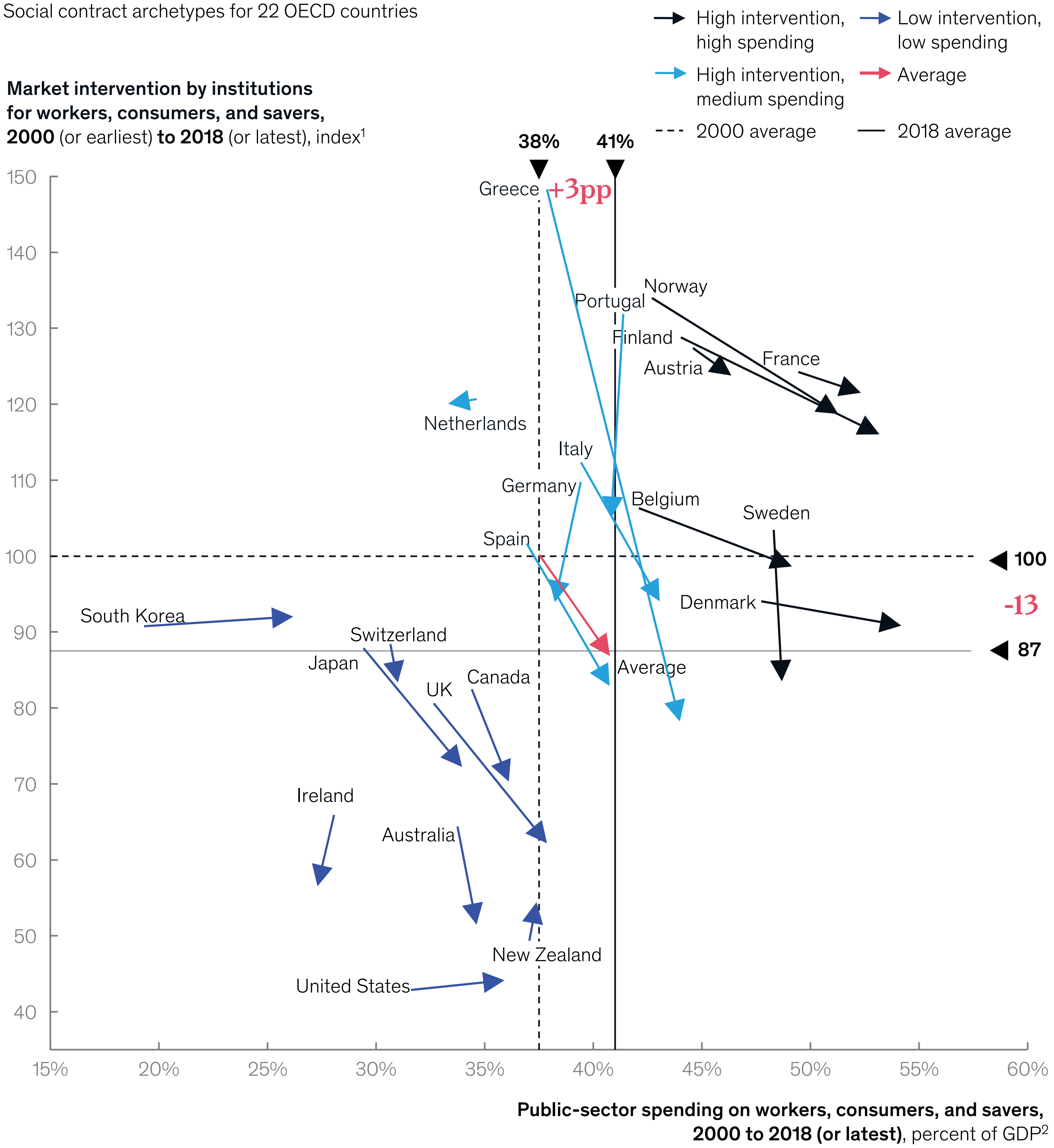


[1] Index to proxy role of institutions: inverse of out-of-pocket voluntary spending in healthcare, and private spending.
Note: Direction of some indicators flipped to show positive/negative outcome.
Source: OECD; Eurostat; World Bank; ILO; national accounts data; national housing authorities and institutes; Konstantin Kholodilin: intensity of rent control index; McKinsey Performance Lens' Global Growth Cube; McKinsey Global Institute analysis

Exhibit E9

Market intervention for workers, consumers, and savers declined by 13 points, although public-sector spending increased by three percentage points on average.

Social contract archetypes for 22 OECD countries



1 Composite index for workers, consumers, and savers weighted equally. Components include workers: employment protection (permanent contracts), employment protection (temporary contracts), and collective agreement coverage; consumers: product market regulations, retail price controls, social rental housing stock, intensity of rent control, inverse of voluntary out-of-pocket spending on healthcare, inverse of private spending on education; savers: net replacement rate from mandatory pensions, defined benefits assets under management.

2 Includes public-sector wages, total social spending (directed at individuals and households) for unemployment, active labor market programs, training, family and other social policies, healthcare, housing, pensions, public spending on education, and government gross fixed capital formation for infrastructure.

Note: Our social contract archetypes are not intended to judge which type of social contract is better or worse. Different countries prioritize certain values that shape their social contract.

Source: Hall and Soskice (2001); OECD; Eurostat; ILO; World Bank; national accounts data; national housing authorities and institutes; Konstantin Kholodilin: intensity of rent control index; McKinsey Performance Lens' Global Growth Cube; McKinsey Global Institute analysis

95M

low-skill, low-income individuals have been especially affected by a declining income share, higher housing costs, and falling savings

Outcomes for workers, consumers, and savers vary considerably by socioeconomic group

The greater individualization of the social contract in each of the three arenas has led to considerable varation among social and economic groups (Exhibit E10). Most socioeconomic groups have benefited in some areas, such as expansion in employment opportunities and the falling cost of discretionary goods and services. However, the extent to which they have gained differs, and certain groups have experienced some of the negative shifts in outcomes more starkly.

— **High-skill, high-income individuals have fared well.** Economic outcomes for the top two quintiles of the population (by income and wealth levels) in our 22 countries have improved since 2000, with those in the top quintile particularly benefiting. Considering occupational groups, approximately 115 million high-skill, high-wage workers in Europe and the United States have seen their employment share rise strongly, by almost four percentage points between 2000 and 2018, and their compensation has also grown. Saving rates for high-income groups rose as a share of disposable income between 2010 and 2015, and their overall share of total wealth has also risen.[51]

— **Middle-skill, middle-income workers have been squeezed out of the labor market.** Roughly 120 million middle-skill, middle-wage jobs in Europe and the United States have been "hollowed out" as jobs in this segment decline—although recent data suggest a slight recovery for middle-wage workers in the United States.[52] Our findings confirm this development: workers in the middle income quintile have experienced negative outcomes in employment, with the employment share dropping by more than 6 percent between 2000 and 2018, especially in Belgium, France, and Greece.

— **Consumption and savings outcomes have been worse for many low-skill, low-income individuals.** Notwithstanding the attention paid to the middle class, some 95 million low-skill, low-wage individuals in Europe and the United States have been especially affected, even though their employment share has risen. The share of total income for the bottom two quintiles declined by 1.2 percentage points between 2000 and 2017, from 20.4 to 19.2. As consumers, lower-income groups have been especially hard hit, particularly by the housing market. The cost of a minimally acceptable house is 43 percent of income for households in the poorest income quintiles compared with 7 percent of income for the richest households.[53] With rising costs of basics, the biggest deterioration has been in capacity to save, with median savings for the lowest wealth quintile as a share of disposable income dropping by 14 percent on average in Germany, Spain, Sweden, and the United Kingdom. The share of total wealth of the bottom 60 percent, already very low at 7.6 percent, has fallen to 7.3 percent.

— **Young people have fared less well than the elderly.** In general, young people between 15 and 30 years old have experienced deteriorating outcomes in all three arenas, while the elderly over the age of 65 have, with few exceptions, broadly benefited (Exhibit E11). The young, who make up about 180 million individuals in our sample countries, have difficulty obtaining well-paid, high-quality jobs and have a harder time climbing on the housing ladder, with much lower wealth than that age group two decades ago. Compounding the problem is the rising cost of housing; the cost of a minimally acceptable house is 23 percent of incomes for young people between 15 and 30 years old, versus 14 percent for people over 65. By contrast, old-age relative poverty is falling almost everywhere.

[51] See Annie Lowrey, "The hoarding of the American dream," *Atlantic,* June 16, 2017.

[52] See, for example, John Komlos, "Hollowing out of the middle class: Growth of income and its distribution in the US, 1979–2013," *Challenge*, 2018, Volume 61, Issue 4; Peggy Hollinger, "A hollowing middle class," *OECD Observer*, 2012; Nelson D. Schwartz, "Recovery finally yields big gains for average worker's pay," *New York Times*, January 6, 2017.

[53] See *Tackling the world's affordable housing challenge*, McKinsey Global Institute, October 2014. Definitions of minimum socially acceptable housing vary from country to country but include factors such as distance to work, access to a working toilet, and minimum space requirements.

Exhibit E10

Outcomes by income and wealth group: High-income groups have benefited, while low- and middle-income groups face negative outcomes.

Average of primarily 8 countries: France, Germany, Japan, Italy, Spain, Sweden, United Kingdom, and United States[1]

Worse than average — Better than average — No data

	Expectation	Outcome	Average	Income/wealth quintile: Lowest	2	3	4	Highest
Workers	**Access**	**Change in employment share** for low-, middle-, and high-skill, -wage occupations in 16 European countries and United States, percentage points, 2000–18	-	2.7	-	-6.6	-	3.9
	Compensation	**Change in real median wage** for low-, middle-, and high-wage occupations in United States, percent, 2000–18	3.8	5.3	-	1.1	-	7.3
		Change in share of income in 17 countries,[2] percentage points, 2000–17 (or latest)	-	-0.6	-0.6	-0.2	0.1	1.2
Consumers	**Prices and affordability**	**Change in share of spending** on housing, healthcare, and education in Germany, Spain, and United States, percentage points, 2000–17	5.7	9.1	7.1	5.5	4.0	2.7
	Access	**Cost of minimum acceptable housing** in Japan, United Kingdom, and United States, percent of disposable income, 2014	13	43	22	15	11	7
	Quality of outcomes	**Change in rate of housing overcrowding** in France, Germany, Italy, Spain, Sweden, and United Kingdom, percentage points, 2005–17	-0.1	0.9	0.2	-0.3	-1.3	0.1
		Change in share of people who rate health as good/very good in 10 countries,[3] percentage points, 2005–17	3.4	4.0	-	3.4	-	2.8
Savers	**Participation**	**Median savings** as share of disposable income in Germany, Spain, Sweden, and United Kingdom, percent, 2015	20	-14	9	20	29	40
		Change in median savings as share of disposable income in Germany, Spain, Sweden, and United Kingdom, percentage points, 2010–15	1.6	-3.1	-1.7	0.5	2.1	3.5
	Sufficient wealth	**Change of share of wealth in 16 countries,[4]** percentage points, 2009–16	-	-0.1	-0.1	-0.1	-0.9	1.2
	Returns on wealth	**Rate of return on wealth assets** by quintile in France and United States, percent, 2014 and 2017	2.8	0.0	0.6	3.2	4.4	5.8

1 We focused on 8 countries and 11 indicators due to limited data covering both socioeconomic group and country. As a result, this chart focuses on a narrower set of outcomes to illustrate differences across socioeconomic groups. Data availability for each indicator and country varies.
2 Data missing for Australia, Japan, New Zealand, South Korea, and Sweden.
3 Countries include Australia, Canada, Japan, Germany, France, Italy, Spain, Sweden, United Kingdom, and United States.
4 Mapping data on change in share of wealth in bottom 60 percent to 1st, 2nd, and 3rd quintiles, average of top 5 percent and 10 percent to 4th quintile; and top 1 percent to 5th quintile.

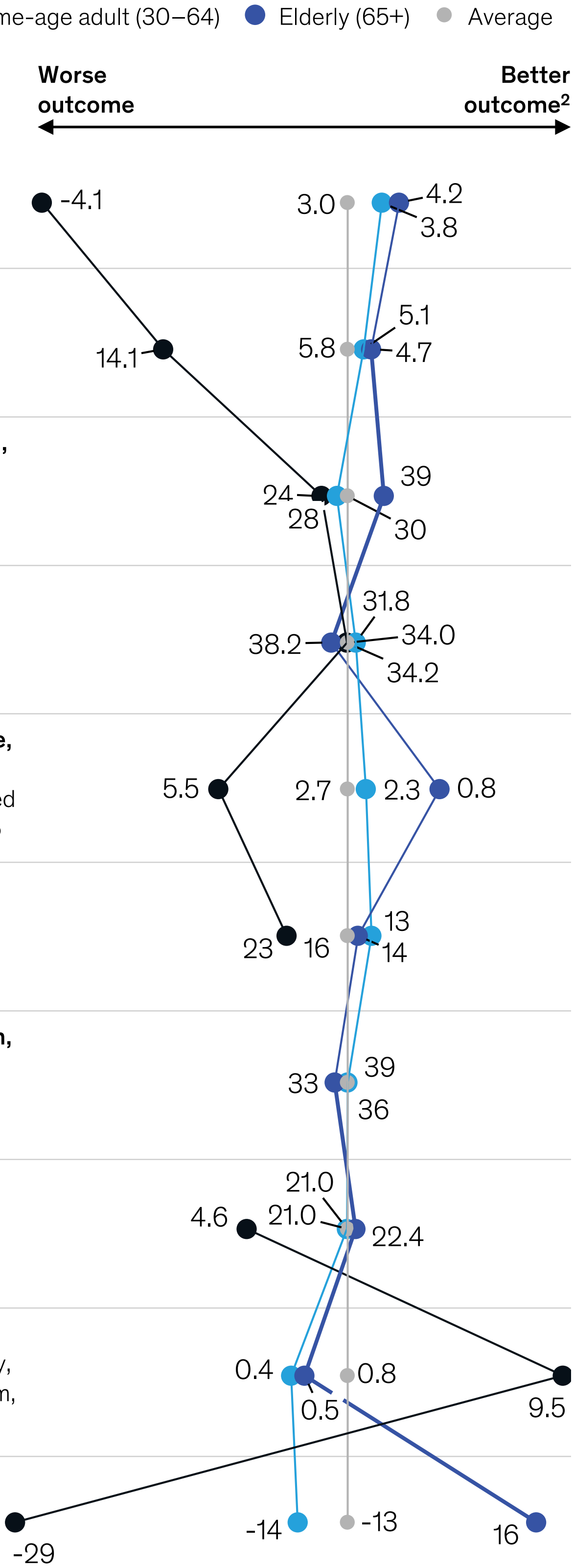
Source: Eurostat; US Department of Labor; UNU-Wider; World Bank; national statistics agencies; McKinsey Global Institute analysis

Exhibit E11

Outcomes by age group: Younger generations are facing challenges.

Average of primarily 9 countries: Canada, France, Germany, Japan, Italy, Spain, Sweden, United Kingdom, and United States[1]

	Expectation	Outcome
Workers	**Access to work**	**Change in employment rate,** average of 22 countries, percentage points, 2000–18
		Unemployment rate, average of 22 countries, percent, 2017[3]
	Compen-sation	**Median equivalized net income growth,** average of France, Germany, Italy, and United Kingdom, percent, 2004–17
Consumers	**Prices and affordability**	**Share of housing, healthcare, and education in spending,** average of Germany, Italy, Spain, Sweden, and United Kingdom, percent, 2015[3]
		Change in share of housing, healthcare, and education in spending, average of Germany, Italy, Spain, Sweden, and United Kingdom, percentage points, 1999–2015
	Access	**Cost of minimum acceptable housing,** cities in United Kingdom and United States, percent of income, 2014[4]
		Share of people with tertiary education, average of Canada, France, Germany, Italy, Japan, United Kingdom, and United States, percent, 2017[5]
Savers	**Participation**	**Savings rate,** average of Germany, Italy, Spain, Sweden, and United Kingdom, percent of disposable income, 2015
		Change in savings rate as percent of disposable income, average of Germany, Italy, Spain, Sweden, and United Kingdom, percentage points, 2010–15
	Sufficient wealth	**Change in average adult wealth,** France, percentage points, 1970–2010



1 Data limitations affected calculation of outcomes for workers, savers, and consumers by both age group and country. As a result, we focused on a narrower set of illustrative outcomes.
2 Position of points are calculated as: (indicator value – average value)/average value; signs are reversed if a higher number indicates a worse outcome, e.g., sign for unemployment is reversed.
3 Youth mapped to under 30; adult is averaged of 30–44 and 45–59; and elderly is 59 and over.
4 Average cost of minimum acceptable housing in all cities with data availability.
5 Youth not tracked because large proportion in/not eligible for tertiary education.

Source: Eurostat; OECD; US Department of Labor; national statistics agencies; McKinsey Global Institute analysis

85 cents

The amount a woman earns on average for every $1 a man earns in the 22 sample countries

— **Women have seen improvements but still lag behind men.** Women have made significant strides in catching up with men in the labor market, with over two-thirds of job growth from 2000 to 2018 attributable to women, and the number of working women rising from 175 million to 206 million. Yet parity remains elusive; the share of working women increased from 44 to 46 percent between 2000 and 2018. The gender pay gap has narrowed from 80 to 85 cents for every dollar a man earns. It ranges from a low of 96 cents in Belgium to a high of 65 cents in South Korea.[54] Unsurprisingly, as savers, women have a median level of net wealth that is just 62 percent of men's, although the gap narrowed in the past two decades.[55]

— **Minorities continue to face challenges.** For minorities in some countries such as the United States, families struggling the most tend to be black or Hispanic. The wealth of the median white family was ten times higher than that of the median black family and 7.5 times higher than that of the median Hispanic family in 2016.[56] Moreover, automation trends may be widening the racial wealth and income gap; for example, African Americans may have a higher rate of job displacement compared with other groups in 13 community archetypes analyzed, adding up to almost 19 million people by 2030.[57]

— **Rural areas in Europe and the United States fell behind.** Even within countries, outcomes for workers in certain geographic regions could be more challenging than in others. Urban areas saw faster employment recovery following the global financial crisis.[58] In the United States, previous MGI research has shown that more than two-thirds of job growth since 2007 has been concentrated in 25 cities and particular counties; our ongoing research in Europe highlights similar local and regional patterns.[59]

Adapting the social contract for the 21st century

Much has improved for individuals as workers, consumers, and savers in the first two decades of the 21st century—a period of massive upheaval and progress in technology, globalization, changing market dynamics, and a financial crisis. More progress through technological advances and innovation and more economic growth are expected. It is important that these gains are sustained and opportunities fully captured and expanded. As we have discussed in more detail in our other research, this can happen through continued economic and productivity growth; business dynamism; investment in economies, technology, and innovation; and continued focus on job growth and opportunity creation, and on competitiveness of companies and economies in a rapidly shifting global economy.[60]

54 Gender pay gap looks at median wages and does not adjust for different types of occupations, experience, responsibility, or performance of men and women. See "Gender wage gap statistics," OECD, 2019.
55 Average of eight European countries (Austria, Belgium, Germany, Netherlands, Spain, France, Greece, and Italy). See Eva Sierminska, *Wealth and gender in Europe*, European Commission, 2017.
56 Ana Kent, Lowell Ricketts, and Ray Boshara, *What wealth inequality in America looks like: Key facts and figures*, Federal Reserve Bank of St. Louis, August 14, 2019. An analysis of outcomes for individuals from different ethnicities in our 22 sample countries is not possible because of a lack of comparable data.
57 *The future of work in black America*, McKinsey & Company, October 2019.
58 *OECD Regional Outlook 2019: Leveraging megatrends for cities and rural areas*, OECD, 2019.
59 *The future of work in America*, McKinsey Global Institute, July 2019; *The future of work in Europe*, McKinsey Global Institute, forthcoming.
60 See, for example, the following McKinsey Global Institute reports: *AI, automation, and the future of work: Ten things to solve for*, June 2018; *Solving the productivity puzzle: The role of demand and the promise of digitization*, February 2018; *A future that works: Automation, employment, and productivity*, January 2017; and *Digital globalization: The new era of global flows*, February 2016.

200M

Approximate number of workers in the 22 countries affected by wage stagnation

At the same time, some outcomes have been challenging for many individuals. We highlight ten key problems that will need addressing in order to achieve better and more inclusive outcomes for individuals. We focus on those affecting large numbers of individuals and those likely to persist unless addressed, given current trends.[61]

1. **Persistent income polarization and wage stagnation.** The uneven distribution of economic gains and prolonged wage stagnation are taking place at a time of positive aggregate growth. Wage stagnation has affected roughly 200 million people in the 22 countries in our sample.[62] This could worsen given the impact of technology and automation.[63] What can be done to enable a higher share of income going to labor?

2. **Work fragility and transition supports in an evolving present and future of work.** Employment-related risks are rising and employment protection is on the wane, partly because of the increase in alternative work arrangements and growing challenges posed by automation and digitization. This issue is critical in a world in which, for example, 28 percent of workers are in independent work and that proportion is growing.[64] With automation, between 40 million and 150 million workers in advanced economies may need to switch job categories.[65] Therefore, how can flexible, dynamic labor markets be supported, while also reducing fragility for workers?

3. **Challenge of affordable housing.** Rising housing costs have grown considerably faster than inflation in many markets and are absorbing much of the income gains of low- and middle-income households; roughly 165 million people in the 22 countries are overburdened by housing costs.[66] The housing challenge also has cascading effects on individuals as workers. What can be done to unlock supply and other constraints?

4. **Rising expense of and growing demand for healthcare and education.** Healthcare and education costs have risen above general consumer prices. This significantly affects more than 125 million individuals who spend more than ten percent of their budgets on healthcare and education, as well as nearly 245 million people who are primarily supported by public funding.[67] The need for more healthcare and education is likely to rise as people live longer, and as the nature of work changes and reskilling and lifelong learning become more important. How can technology and the competitive dynamics that benefited discretionary goods and services be harnessed to make healthcare and education more affordable as well as adapt to changing needs?

5. **The growing savings and retirement problem.** In a century of longer life expectancy and aging, how can the capacity and incentives for individuals to save more, and more effectively, be expanded? Although aggregate wealth is growing, approximately 440 million people reported that they did not save for old age.[68]

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61 We provide high-level estimates for the number of individuals affected to give a rough order of magnitude. The list is not exhaustive or in order of priority.

62 Estimated as 37 percent of the working-age population (share of middle-wage, middle-income occupations based on 16 European countries and the United States). Excludes Germany, New Zealand, and South Korea, where wage growth was positive. OECD Population statistics, 2019.

63 See *Jobs lost, jobs gained: Workforce transitions in a time of disruption*, McKinsey Global Institute, January 2018.

64 Average of six countries (France, Germany, Spain, Sweden, United Kingdom, United States). See *Independent work: choice, necessity, and the gig economy*, McKinsey Global Institute, 2016.

65 Sum of Germany, Japan, and United States and other advanced economies; *Jobs lost, jobs gained: Workforce transitions in a time of disruption*, McKinsey Global Institute, January 2018.

66 Estimated as the 15+ population spending more than 40 percent of disposable income on housing. OECD Affordable Housing database, 2019.

67 Estimated as the population aged 15 to 24 years and over 60 in Australia and the United States, where healthcare and education spending as a share of household consumption is 10 and 12 percent, respectively, and the corresponding population of the other 20 countries in our sample where spending ranges from 3 to 7 percent. OECD Population statistics, 2019.

68 Equivalent to 53 percent of the population aged 15 and up in our 22-country sample. Financial inclusion indicators, World Bank; OECD Population statistics, 2019.

6. **The multiple pressures on low-income individuals.** Roughly 335 million low-income individuals in the 22 countries face difficulties as workers, consumers (especially with respect to basics such as housing), and savers, and their position has grown more precarious than it was in 2000.[69] How can social safety nets and other supports be revamped for the current era and challenges? What market-based mechanisms can be established to assist them?

7. **A new era of challenging outcomes for the under-30 generation.** Young people between 15 and 30 years old, who currently number 180 million, have less access than previous generations to well-paid, stable employment, affordable housing, and decent savings. What can be done to support younger generations in an era of more precarious work and rapidly changing labor-market skill dynamics?

8. **The persistent gender and race gaps.** Although more than 205 million working women have made strides in the labor market, they continue to lag behind men in employment, wages, and savings , and overall wealth. Similarly, the racial wealth and income gap in some countries, such as the United States, is both persistent and growing.[70] How can opportunities presented by the future of work be harnessed to narrow the gap?

9. **The growing challenges of place.** Certain regions and local economies, mostly in Southern Europe and in declining industrial areas in the United States, where more than 215 million people live, have not recovered fully from the global financial crisis, which continues to weigh on individual outcomes. Some have not kept pace with or benefited from the changes driven by technology, globalization, and shifting focus of market and economic activity, as well as investment, many of which could persist.[71] What can be done to better integrate regional labor markets into the growing economy?

10. **The risk of unsustainable government funding.** Tax collection and government revenue generation are not keeping pace with government spending, which has risen to support individuals coping with global trends. Healthcare and pension systems in particular are coming under stress because of aging populations. What can be done to ensure the sustainability of these public budgets?

Some institutions—public, private, and social—and individuals are starting to adapt and take action. Public-sector actions include new labor laws in some countries to protect those in alternative working arrangements. The United Kingdom, for example, has conducted a comprehensive review of modern working practices.[72] Several state- and national-level commissions are under way; the Aspen Institute's Future of Work initiative aims to identify concrete ways to address challenges facing American workers and businesses.[73] In housing, some cities are rethinking zoning and density laws to encourage supply, while others are proposing policies to limit rent increases.

In the private sector, one sign of a broader reappraisal came from the Business Roundtable in August 2019. The organization, made up of CEOs of major US companies, announced its members are redefining the purpose of a corporation as caring and delivering value for employees, customers, suppliers, and communities, as they do with shareholders.[74] A number of companies are moving to retrain their workforces, for example, while others are providing benefits to workers, including for child care and healthcare.[75] Several technology firms have announced plans to build housing for their workers, given the shortage of affordable

[69] Estimated as the population over 15 years in the bottom two quintiles of the income distribution. OECD Population statistics, 2019.
[70] OECD Population statistics, 2019. United States Census, 2010. Racial data availability for most countries in our sample is limited.
[71] *The future of work in America*, McKinsey Global Institute, July 2019; *The future of work in Europe*, McKinsey Global Institute, forthcoming.
[72] Kevin Barrow, "Two years since the Taylor Review: What next?," *HR*, October 1, 2018.
[73] The Aspen Institute, *Future of Work Initiative*, 2019.
[74] "Business Roundtable redefines the purpose of a corporation to promote 'an economy that serves all Americans,'" Business Roundtable, August 19, 2019.
[75] "Building the workforce of tomorrow, today," *McKinsey Quarterly*, November 2018.

accommodation near where they are located. Such initiatives tend to be selective and limited to high-skill, high-wage jobs at large corporations, however.

The social sector and other institutions, including philanthropic foundations and faith-based charities, are also playing a larger role in addressing some key challenges. And, as has happened for generations, families are helping their younger members with education and housing. In the United Kingdom, for example, parents collectively give £6.3 billion to support their children onto the housing ladder, high enough to rank them the tenth-largest mortgage lender in the country.[76]

Finally, individuals themselves are changing their behavior in light of these changes to the social contract. Many workers are opting for independent work as their primary source of income or to supplement their existing income.[77] Automation requires new and different workforce skills, and individuals today have many more opportunities to prepare themselves and learn or improve skills than they used to. Courses on online platforms are increasingly accessible, and lifelong learning is helping individuals to stay ahead.

While many actors are beginning to respond to these challenges to varying degrees through a variety of mechanisms, most efforts seem early, localized, and relatively small in scale and scope, compared with the extent of the challenges. Moreover, many have yet to fully take into account the effect of factors including climate change likely to impact work and other economic aspects of the social contract. Much of the impact of climate change is likely to be regressive, affecting economically vulnerable individuals the most. Therefore, concerted action is needed on two fronts: first, to make sure that the gains of the 21st century so far are sustained and scaled, and the potential for even more opportunities and economic prosperity is fully realized. Second, to make sure that the outcomes for individuals in the next 20 or more years of the 21st century are better and more inclusive than in the first 20 and that they increase broad and inclusive prosperity.

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[76] "Bank of mum and dad 'one of UK's biggest mortgage lenders,'" BBC News, August 27, 2019.
[77] *Independent work: Choice, necessity, and the gig economy*, McKinsey Global Institute, October 2016.

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