Incomes declining or stagnant for the vast majority in “rich” countries

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16 July 2016

A significant majority of the population in 25 of the world’s most advanced countries experienced declining or stagnating incomes between 2005 and 2014, according to a McKinsey Global Institute report released this month.

An estimated 540 million to 580 million people, 65 to 70 percent of the population of those countries, had real incomes that were flat or fell during this period. These countries, whose total population is 800 million, account for half of the world’s economic output.

Never before in the post-World War II period has such a large section of workers in the advanced capitalist countries faced such a decline or stagnation in income. In contrast, during the period between 1993 and 2005, the study estimates that only 2 percent of the population in the same countries experienced similar conditions.

The authors of the study are clearly concerned about the political impact of this unprecedented change, particularly on the new generation of the working class. Hence the study’s title: “Poorer than their Parents: Flat or Falling Incomes in Advanced Economies.”

The study points out that the sharp decline in wage and salary income was only partly offset by government transfer payments, with the result that some 20 percent of the population in the countries studied saw an actual decline in real income during the decade ending in 2014. The mechanisms varied from country to country, from the Swedish welfare state spending to the extended unemployment benefits and food stamps provided in the United States, although these have largely expired.

The study warns that declining economic growth makes the continuation of such transfer payments increasingly problematic: “Over time, declining earning power for large swaths of the population could limit demand growth in economies and increase the need for social spending and transfer payments, even as tax receipts from workers with stagnating incomes limit capacity to fund such programs. The impact could be more than purely economic, however, if the disconnect between GDP growth and income growth persists.”

In the cautious bureaucratic jargon of the McKinsey researchers, “more than purely economic” carries a freight load of meaning: it signifies the recognition by this business think tank that the deterioration of working-class living standards has revolutionary implications.

The McKinsey study examines dramatic changes in the social standing of broad swathes of the population which undergird the growing social crisis worldwide. The reports’ authors make warnings for their policy-maker and business-leader readership. They write, “Without a return to much stronger GDP growth in advanced economies—and potentially even if GDP growth were to accelerate—the trend will likely persist, as a result of deep shifts in demographics and labor markets.” They conclude that “not advancing” could have “corrosive social and economic consequences.”

The report warns that this sharp reversal for the vast majority of the population will only deepen if current economic trends continue. Should the rate of economic growth fail to increase, McKinsey predicts that 70 to 80 percent of the population in the same countries, the bottom 7 to 8 deciles of income earners, will be worse off or the same as they are now in a decade. Even if economic growth returns to its rate prior to 2008, up to 40 percent of the population in advanced countries will be worse off or the same in 2025.

The researchers at McKinsey based their findings on a detailed study of six countries: the United States, Sweden, the UK, France, Italy, and the Netherlands, then projected the results over 25 countries. In contrast to researchers such as Thomas Piketty, who have focused on income inequality, the authors tracked the earnings of income brackets over time. For example, they traced if the bottom five percent of earners had a lower or higher average income between 2005 and 2014. Using this data they then projected it onto 19 countries at similar levels of economic development.

In four of the six countries that formed the basis of the study, 70 percent or more of the population had lost income or remained stagnant. In Italy, wracked by economic crisis, 97 percent of the country lost income. In the United States, 81 percent lost income or stayed the same.

Together, the six countries saw an average five percent decline in the share of their national GDP that went to wage workers (in Britain, the decline was sharpest, at 13 percent). The report highlights that the workers' share of GDP declined despite growing labor productivity, which has traditionally led to income gains.

The lowest decile of income earners in several countries experienced the sharpest decline in their living standards. In France, the bottom decile of earners lost 20 percent of its income during this period. Italy had about the same rate. In Sweden, despite faring better than the other countries more generally, the lowest decile of the country made 15 percent less than they did in 2005.

In France, Italy and the United States, the researchers had more detailed data that allowed them to track the difference in income changes for different generations. They concluded that in these three countries "less-educated workers, and especially younger ones, have been most affected." The recession and "weak recovery in some of the countries have led to persistently high levels of youth unemployment, preventing young people across advanced economies from launching careers."

In the United States, the only section of the population that did not lose or stagnate in income level was the upper-middle class, the 80th to 95th percentile of the population, which made significant gains. (The figure for the top 5 percent showed a drop, but this is likely a statistical anomaly, tied to decisions to hold onto stock portfolios rather than sell them, which would be necessary to record the whopping capital gains delivered by the soaring stock market).

The McKinsey report is one of a series of recent studies depicting record inequality and stagnating or deteriorating living standards for the broad mass of society. It reflects the deep blows the ruling class has struck against workers, of all backgrounds and nationalities, in the past eight years.

In the aftermath of the 2008 global financial crisis global economic growth slowed considerably. The International Monetary Fund and other leading global financial bodies warned that the world had entered into a period of unprecedented stagnation in which traditional forms of macro-economic stimulus, namely cheap credit and quantitative easing, were no longer effective. The leading capitalist countries continue to provide some of the lowest interest rates in history to the major banks and corporations. Far from improving conditions for working people, or returning the economy to pre-crisis conditions of investment and growth, the cheap-interest rate regime has led to a new gigantic bubble which dwarfs 2008. When this bursts, corporations will not just be at risk but governments too, who have taken on considerable debts to keep the system afloat.

Throughout this process the ruling class has pushed "structural reform" as their banner. Structural reform means, in plain English, taking away the retirement, benefits, wages, and health care that working people rely on to survive. Many companies, such as the American auto manufacturers, have been able to wrestle billions in new profits from this. However, the attacks have not gone far enough to restore these companies, and the banks they answer to, to pre-2008 growth. They also have the contradictory effect of destroying the consumer demand necessary for expansion, exacerbating the economy's reliance on credit and further inhibiting production growth.