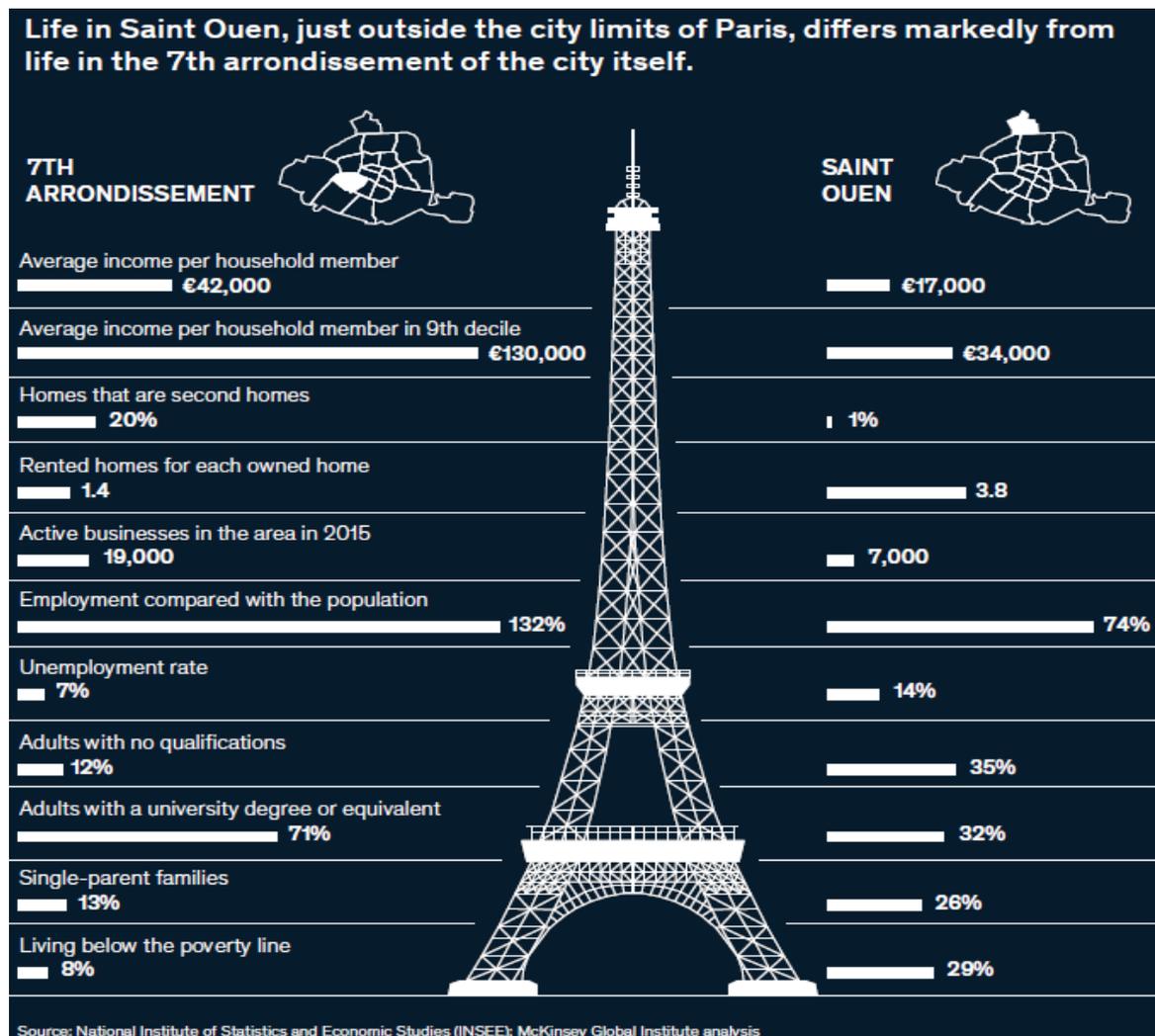


Regulating Inequalities – possible paths forward

Inequality has been a growing concern of researchers, policy makers, business leaders and citizens around the world for decades. Though the share of the global population below the poverty line (\$1.90 per day) has fallen from nearly 28% in 2000 to just under 9% in 2019¹, inequality within many advanced economies has risen sharply. Driven primarily by inequalities of opportunity such as access to strong education and healthcare, changes in the employment environment such as automation and external factors like climate change and globalization, many people are being left behind. Examples of stagnant wages and frail economies where costs are rising faster than incomes for a large portion of individuals are everywhere, including in the host city of this year's remote intervention, Paris (*see Exhibit 1*). Though persistent challenges exist with inequality, meaningful change can be achieved through new consensus among policy makers, business leaders, civil society organizations and citizens.

Exhibit 1



¹ World Bank

But now, due to the COVID-19 pandemic that is threatening lives and livelihoods across the globe, it will take even more focus to keep inequality from being accelerated and exacerbated. Though the pandemic is affecting nearly everyone, our research shows that those most at risk of tragic health and economic consequences are already vulnerable. In Europe and the UK, 59 million jobs (or 26% of total employment) are at risk, and nearly 80% of them are held by those without post-secondary education—a group that faced significant challenges even before the pandemic². Furthermore, small and medium-sized enterprises (SMEs) which make up two-thirds of global employment and half of global GDP are particularly susceptible to failure due to the crisis³. Their revenues have dropped severely, their operations are less flexible than those of large corporations and their sector representation is disproportionately concentrated in the hardest-hit industries.

In the US, our research shows that minority-owned SMEs and minority SME employees are even further at risk. Minority-owned SMEs were twice as likely to be classified as financially “at risk” or “distressed” by lenders prior to the crisis, and 51% of minority SME jobs are now at risk compared to 47% of those performed by white workers⁴. Together with a host of other factors, the pandemic and the global response to it will play a critical role in determining how inequality evolves.

Even beyond the immediate impact of the pandemic, several long-term challenges like access to education, climate change and workforce reskilling must be addressed to dampen further increases in inequality. Solutions for each of these issues can help reduce inequality in the long term, but it will take serious collaboration between the public, private and social sectors to make a meaningful impact.

Access to quality education can reduce rising inequality by equipping students with the skills they will need to be successful, engaged members of the workforce. Currently, almost half of employers globally find it difficult to recruit young people with the skills needed for the job, and very little has changed in classrooms around the world to adapt to the rise of digitization and increased technology in the working world. Governments must work together with industry to improve access to education and focus future curricula on problem solving and an enhanced focus on STEM and vocational training programs to help prepare students and reduce further increases in inequality.

At McKinsey, we’re investing in Generation, the nonprofit we founded dedicated to transforming education to employment systems that train and place diverse adults of all ages into careers that would otherwise be beyond their reach. Since launching in 2015, over 37,000 individuals have graduated from Generation in 14 countries around the world. On average in 2019, graduates achieved an income uplift of 3.9 times their

² McKinsey article “[Safeguarding Europe’s livelihoods: Mitigating the employment impact of COVID-19](#)”

³ McKinsey article “[Setting up small and medium-size enterprises for restart and recovery](#)”

⁴ McKinsey article “[COVID-19’s effect on minority-owned small businesses in the United States](#)”

earnings prior to the program⁵. Together with other public, private and social institutions, we will continue to do our part to promote education access and outcomes to battle inequality.

On the climate front, negative socioeconomic impacts could be felt from decreased livability to threatened food systems to the destruction of physical and natural capital if actions are not taken immediately. In India, by 2030, increased heat and humidity will put 80-100 million people at a 3% annual risk of heat waves beyond survivability. Additionally, ocean warming could reduce fish harvests for the 650-800 million people that rely on fishing revenue to survive⁶. To curtail these devastating effects, policy makers and business executives must accelerate risk recognition and turn climate science and insights into actions that will put the world on a safer 1.5 degree pathway.

Finally, automation and digitization will redefine how people work and put many at risk of job displacement if significant reskilling efforts are not undertaken. Nearly 60% of occupations have 30% of tasks that are automatable, while nearly 10% of occupations have more than 90% automatable tasks. Though overall job growth is expected, 75 to 375 million people globally will need to switch occupations or learn new skills⁷. Unfortunately, minorities and people with lower education levels will be most at risk of displacement with 4x higher risk for workers with a high school diploma or less. To address this challenge, corporations—not just governments—must take the lead on developing plans to build skills, manage transitions and reshape the workforce through training programs and capability building.

At McKinsey and through the McKinsey Global Institute, we're continuing major ongoing efforts to research and find solutions for the above challenges on automation and the future of work. We have published reports and convened global leaders on the topics of "Tech for Good" and "Tech for Inclusiveness" where we highlight the many ways that technology can be a tool for unlocking economic growth and access to education for hundreds of millions of people around the world. We will continue these efforts, among others, to fight inequality on multiple fronts.

Inequality is not a condition that can be eradicated, but its rise can be dulled or reversed and its causes and outcomes addressed. For all the differing views, inequality is an issue that is both unpredictable and potentially volatile, especially given the COVID-19 pandemic. For policy makers, business leaders, and other stakeholders, there must be a new urgency to work together to build social consensus and find effective solutions for a more inclusive and equal future.

⁵ Generation Annual Report

⁶ McKinsey article "[Climate risk and response: Physical hazards and socioeconomic impacts](#)"

⁷ McKinsey article "[Jobs lost, jobs gained: What the future of work will mean for jobs, skills, and wages](#)"