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A better life everyone can afford: Lifting a quarter billion people to economic empowerment

Lowering the costs of basic goods and services to improve living standards

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At a glance

- **The "empowerment line" gauges progress toward a world in which everyone can meet their essential needs.** This threshold, set well above the international poverty line, is the point at which people can afford a standard basket of essential goods and services and begin to save.

- **Economic growth is rapidly improving living standards in lower- and middle-income countries, but this effect stalls out in advanced economies.** In wealthier countries, higher costs and inequality prevent about 20 percent of the population on average from reaching full economic empowerment.

- **Struggling households benefit from higher incomes only when those gains translate into greater purchasing power.** Comparing economies at every step of the income ladder reveals that the essentials generally become more expensive as countries become wealthier—and these cost increases tend to match or exceed income gains for the bottom 20 percent of households. Housing is the biggest affordability issue for higher- and middle-income economies; food costs are an important differentiator elsewhere.

- **If all countries could lower the costs of essential goods and services to match peers with better affordability at the same income level, almost a quarter of a billion additional people could reach the empowerment line.** These outperformers show that it is possible to limit household expenditures on basic goods and services.

- **While affordability is influenced by policy and the delivery of public services, the private sector has scope to act.** In addition to easing cost burdens for their own workforces and across their value chains, businesses can develop affordable offerings in housing, energy, food, healthcare, and communication. They can find opportunities to pass on productivity-driven savings to consumers and expand low-cost business models into underserved regions and populations.

High costs for the necessities of life have millions feeling as if they can't get ahead. Postpandemic inflation has given prominence to a structural issue that's been brewing for years: the cost of the basics is out of reach for too many households.

The empowerment line, introduced in previous research by the McKinsey Global Institute (MGI), offers a way for public- and private-sector leaders to monitor this issue. It considers the daily expenditure needed to afford a basket of essential goods and services that constitute a frugal but decent living standard (see sidebar, "What is the empowerment line?"). A sharply higher standard than the international poverty line, it is designed to encompass those who are not formally counted as poor but are still unable to make ends meet. As of 2020, 9 percent of the global population lived in extreme poverty, while 60 percent lived below the empowerment line.[1]

This analysis extends our earlier research by analyzing empowerment outcomes for countries of differing income levels. It also highlights a major issue that needs to be tackled to unlock further progress: affordability. Comparing countries, we see the cost of the basics rising in tandem with GDP per capita. Those cost increases largely or wholly eat up the additional income that goes to the bottom 20 percent of the population when a country attains a higher rung on the income ladder. That pattern is one of the factors preventing wealthier countries from achieving universal economic empowerment.

Much of the debate on how to help struggling households centers on boosting incomes and reducing inequality. But the puzzle can't be solved in full without addressing the cost side of the ledger as well. Indeed, if countries with more expensive empowerment baskets could lower those costs to match better-performing peers of similar income levels, some 230 million additional people would be above the empowerment line today. The global population that is fully empowered would grow by about three percentage points.

In advanced and emerging economies alike, the high cost of housing is often the biggest factor keeping a decent standard of living out of reach. In lower-income countries, food costs are also a pressing issue. This creates real stress, since the costs of essential goods and services have been rising faster than overall inflation—and lower-income households devote a larger share of their budget to these items.[2] Putting essentials within reach for everyone would require addressing structural issues, including low productivity growth in sectors such as education and construction, constraints on access and supply, and low levels of competition.

A broad "affordability agenda" could relieve at least part of the burden for households on the margins. Policies and public investment would need to be part of the answer—but the private sector can make a real difference, too. In tackling this issue, companies may find opportunities to boost employee productivity, gain a labor cost advantage, and find new sources of revenue in underserved markets.

Economic empowerment rises with income, but only to a certain point

Most countries gauge progress in living standards by looking at GDP per capita or household income, but that doesn't fully reflect what it takes to get by in a given place. Progress toward economic inclusion requires factoring in both what households bring in *and* what they must pay out. The empowerment line captures those outlays. It can shed light on whether people have sufficient spending power to meet all their fundamental needs (see sidebar "What is the empowerment line?").

Globally, growth fuels economic empowerment

In perhaps the greatest achievement of modern times, more than a billion people have exited extreme poverty over the past three decades. Most were in the fastest-growing lower- and middle-income economies, including China and India.[3] This has produced substantial global progress in human development outcomes such as child mortality and average years of schooling.[4]

A point-in-time view of 120 countries shows that those with higher average incomes typically have larger shares of the population above the empowerment line. Climbing the income ladder is critical: only about 20 percent of the population is fully empowered in lower-income economies, but that share increases to roughly 50 percent in middle-income economies and about 80 percent in higher-income economies. At the global level, this is the crux of the matter, since more than 4.7 billion people had not yet reached the empowerment line as of 2020.[5]

Note that our analysis uses a snapshot of 2022 data and does not track the relationship between GDP per capita and empowerment over time. But academic literature, as well as our own analysis of related metrics, indicates that the point-in-time results across countries also apply to individual countries as they grow. Economic growth is how a country reaches a higher rung on the income ladder—and it is *the* most powerful mechanism for improving living standards in lower- and middle-income economies.[6]

MGI's previous research shows how faster productivity-driven growth could lift incomes and transform lives on a massive scale. Ramping up growth is no easy feat, however. It involves not only maintaining baseline growth in the face of headwinds but also boosting productivity, which requires greater competition, innovation, and labor mobilization.[7] While growth increases incomes on average, ensuring that those below the empowerment line share in the benefits depends on employers creating better jobs and training workers to step into them. This dynamic does not happen without intentional and well-coordinated effort.

In economies where growth has collapsed, the consequences for vulnerable households are immediately apparent. With its long-term economic challenges unresolved, Argentina has recently experienced both stagnation and skyrocketing

What is the empowerment line?

The empowerment line is MGI's estimate of the expenditure required for every individual in a given country to access nutritious food, housing and energy, safe water, transportation, healthcare, education, clothing, and communication, with some minimum spending on recreation or community activities. It implies a frugal life but enables people to focus on more than mere survival.

This is the point at which people can begin to meet some of their material wants and exercise more choices about where and how they live. Critically, the empowerment line also includes a small margin for savings to reduce the risk of falling back into poverty; only beyond this point can people start to build wealth. At a societal level, lifting people meaningfully above poverty is correlated with improved metrics ranging from reduced childhood mortality and longer life expectancy to additional years of schooling and expanded digital and financial inclusion.[1]

Empowerment extends and complements the "living wage" concept that has gained traction for employers and workers to evaluate wages against living costs. Because it is based on consumption, however, it can apply to the entire population (including children, the elderly, and people with disabilities or caregiving responsibilities), not only workers. It is agnostic as to the source of spending power; in addition to reflecting earned wages, it captures spending by people relying on government transfers and retirees spending down accumulated lifetime savings.

To calculate the empowerment line, we use detailed 2022 and 2023 cost-of-living data from the WageIndicator Foundation, which conducts surveys to understand spending on a defined basket of essential goods and services (not the economy-wide basket used in measures of purchasing-power parity, or PPP). For example, housing costs are for a rented two-bedroom apartment in an average urban area, while food costs are for a balanced diet making up 2,100 calories per day (accounting for food differences across economies). We also layer in buffers for savings and social participation.[2] In higher-income economies, housing tends to make up the largest share of the basket (about 40 percent), while food makes up the largest share (approximately 35 percent) in lower-income countries.

These data already reflect the in-kind services provided in a given country. Education or healthcare that is fully provided by the government, for example, lowers the empowerment line. Because the data are based on household surveys, the perception of a safety net also plays a role; public programs that do not fully reach their intended populations may not be fully reflected in empowerment line figures, and households may not consider rebates or tax credits when providing an estimate of their out-of-pocket costs.

Empowerment costs may differ across countries because of varying production costs of essentials, profit margins for producers, and the extent (and effectiveness) of subsidies and other in-kind social benefits. Because details about those components of the empowerment line cannot be discerned from survey data alone, it is beyond the scope of this research to disaggregate them, although that would be a promising area for future research.

In this research, the term "affordability" describes whether it takes relatively high or low expenditures by households to acquire the essential goods and services in the empowerment basket, based on comparing costs across all countries in the same income band. In addition to capturing differences in production costs, this approach captures differences in whether households must pay for goods and services out of their net income or whether they are publicly provided. For example, fully tax-funded education systems are more "affordable" than alternative models that charge fees.

Note that for a subset of 20 very low-income countries, our analysis sets the empowerment line at a standard "floor" of $12 per person per day in PPP terms rather than using a bottom-up calculation of local costs. Although the empowerment basket may actually cost less than $12 in these countries today, this choice reflects the aspiration to set an ambitious global target for minimum living standards, and this requires a higher adjustment in the poorest countries, enabling quality improvements where needed.

Having established the empowerment line, we can then calculate the share of population below it in each country, using consumption data from Oxford Economics and distribution data from World Data Lab, which gets us to a daily per capita spending figure for each country. Like the empowerment line itself, daily spending figures reflect impacts from cash transfers and public income-assistance programs.

There is broad agreement that living wage data quality and methodology (which our research builds on) could be improved, and we acknowledge these limitations.[3] In addition, we estimate the empowerment line at the national level, which does not reflect substantial variations within countries; economic empowerment requires higher levels of consumption in a booming city than in a small rural town, for example. The estimates are calculated on a per capita basis, but at the household level, spending patterns will vary with the number and characteristics (such as work status) of household members.

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[1] *From poverty to empowerment: Raising the bar for sustainable and inclusive growth*, McKinsey Global Institute, August 2023.
[2] We calculate social participation as 10 percent of basic needs, based on WageIndicator Foundation data. That includes the cost of recreation, hobbies, or enrichment activities. It also serves as a buffer to account for any expenses specific to individual countries that may not be reflected in the global framework. We also include a savings buffer equal to 5 percent of the total empowerment basket.
[3] Carlotta Balestra, Donald Hirsch, and Daniel Vaughan-Whitehead, *Living wages in context: A comparative analysis for OECD countries*, OECD Papers on Well-being and Inequalities, working paper number 13, OECD, 2023.

inflation, pushing many middle- and working-class families into precarious circumstances.[8] A serious hunger crisis has developed in Pakistan, where growth ground to a halt in 2023 amid a similar inflationary spiral.[9] This underscores the link between growth and living standards.

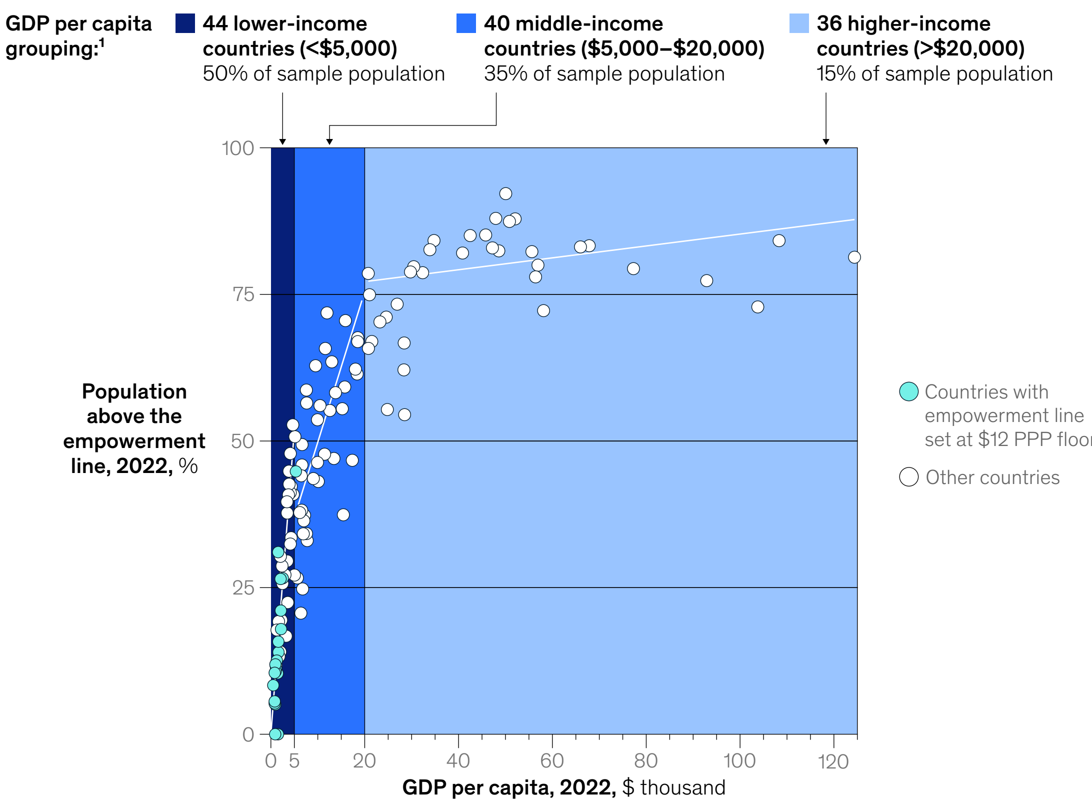
Higher average incomes don't translate into economic empowerment for everyone in wealthier economies

While higher income levels correlate with better empowerment outcomes, that relationship dissolves at the top of the income ladder, once countries exceed about $20,000 in GDP per capita (Exhibit 1). Reinforcing what we see from this static view, research has found a similar pattern over time in Europe. In the continent's lower-income economies, there is a positive, statistically significant relationship between growth and lower material deprivation, but that relationship does not hold for its higher-income economies.[10]

In short, very high levels of general prosperity are not a guarantee of baseline security for everyone. For example, although GDP per capita is more than three times higher in Switzerland than in Spain (in USD terms), their shares of the population below the empowerment line are similar. Even the wealthiest economies have not lifted the last 20 percent or so of the population above the line.

Exhibit 1

Better empowerment outcomes and higher incomes tend to go hand in hand, but the effect plateaus after a certain point.



[1]Total sample = 120 countries representing ~90% of the world's population.
Source: WageIndicator June 2022, October 2022, and January 2023 data sets; World Data Lab; Oxford Economics; World Bank; McKinsey Global Institute analysis

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Boosting incomes is the biggest determinant of empowerment for much of the world, but not in wealthier countries. In fact, differences in GDP per capita alone explain 79 percent of the variations in empowerment outcomes across lower-income economies and 43 percent across the middle-income segment.[11] For these two groups of countries—which happen to be home to more than 85 percent of the world's population—reaching the next rung on the income ladder is key. That is achieved through economic growth, which creates jobs, increases household incomes, and generally expands access to goods and services. However, differing levels of GDP per capita explain less than 15 percent of the differences in empowerment outcomes across the wealthiest countries (Exhibit 2).

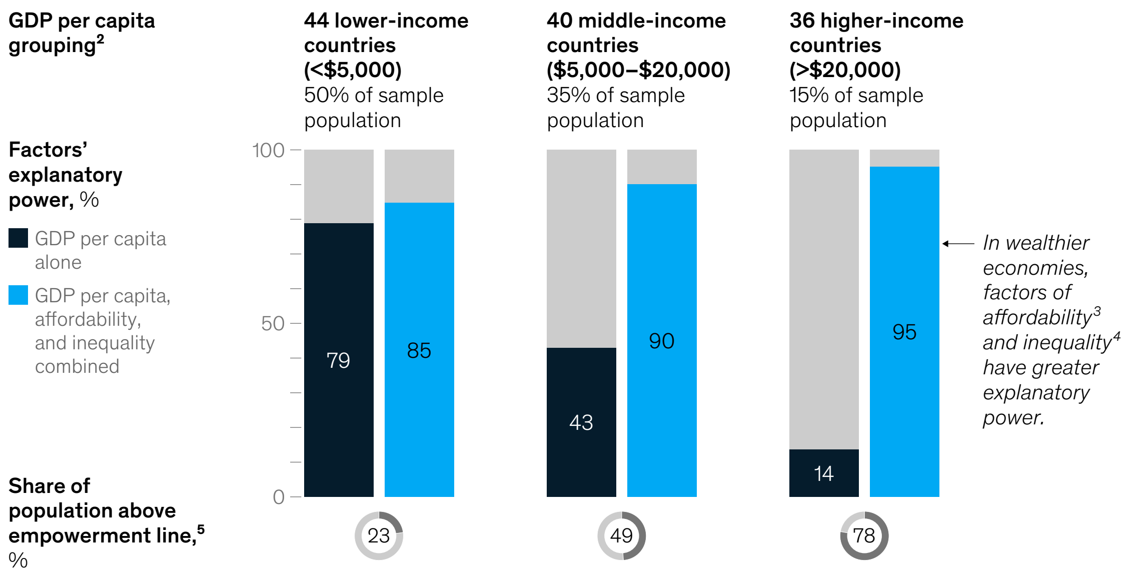
Globally, countries with similar levels of GDP per capita have quite different shares of their populations above the empowerment line; the variations are on average 20 percentage points. These differences matter: keeping income levels constant, if all countries matched the empowerment outcomes of their best-performing peers, 360 million more people would be above the line today.[12]

What else is at work? In short, inequality (the way national income and wealth are distributed) and affordability (how far it goes, especially for those at the bottom). Inequality of wealth and income leaves the poorest segments without the means to fully meet their needs, even in countries where the average income is high.[13] Beyond whether

Exhibit 2

Income gains have a greater influence on empowerment outcomes in lower-income economies than in wealthier economies.

Extent to which income gains, affordability, and inequality factor into people's ability to reach economic empowerment[1]



[1]Results determined by running a linear regression in which GDP per capita is the independent variable and the share of population above the empowerment line is the dependent variable. Values refer to the R-squared values associated with each regression, or the share of the variation in empowerment outcomes explained by GDP per capita. The incremental explanatory power of inequality and affordability is determined by running a multivariable regression in which GDP per capita, inequality, and affordability are the independent variables and the share of population above the empowerment line is the dependent variable. [2]Total sample is 120 countries, representing ~90% of the global population. [3]The cost of the essential goods and services in the empowerment basket. A country with higher affordability has a lower empowerment line than a less affordable country. [4]Inequality in private consumption expenditure (as defined in GDP). [5]Based on a simple average across countries within the income band.
Source: WageIndicator June 2022, October 2022, and January 2023 data sets; World Data Lab; Oxford Economics; World Bank; McKinsey Global Institute analysis

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people have spending power, we also have to look at how much they need to pay out. We use the term "affordability" to describe whether the household expenditures needed to obtain the goods and services in the empowerment basket are relatively high or low for a given country's income level.

For higher-income economies, affordability and inequality together explain an additional 80 percentage points of the variation in empowerment outcomes. Both of these factors individually have greater explanatory power than GDP per capita alone. While it's important to focus on what people at the bottom earn, what households need to spend to acquire the basics merits attention, too. In lower- and middle-income economies, growth still matters above all—but the cost of the basics is even more important to empowerment outcomes than distributional effects.[14]

Two countries at the same income level may have different empowerment costs for a variety of reasons, starting with policy choices about which services are publicly funded and to what extent, and how effectively those services reach the intended recipients. Some of it comes down to local context. In some places, people may need their own cars to get around, for instance; in others, two-wheelers or public transit might suffice. Additionally, the same item might have different quality standards from place to place—for example, apartments in cold climates need extra insulation and glazed windows. Finally, costs can vary for identical items due to issues such as trade restrictions (see sidebar "Estimating the empowerment line across countries").

For the bottom 20 percent of households, high costs for the essentials prevent living standards from rising

Economic growth lifts household incomes—even for those at the bottom. Our point-in-time view of countries across the income ladder shows that an incremental $100 of GDP per capita is associated with an additional $18 to $22 of consumption by households at the 20th percentile of income. If this static view holds over time, income growth should translate into higher spending power across a population.

But higher income levels are also associated with higher costs for life's necessities, including food, rent, energy, and transportation.[15] As a country adds that incremental $100 in GDP per capita, affording the basics takes an additional $18 (Exhibit 3). Income gains for a household in the bottom quintile are almost fully eaten up by higher costs. This effect is most pronounced in wealthier economies, where many households on the margins simply don't see their living standards improve.[16] More prosperous households feel these cost increases, too. But their income gains are large enough to absorb them while still coming out ahead.

Postpandemic inflation has greatly exacerbated the squeeze on household budgets worldwide; the past few years have brought supply chain disruptions as well as global spikes in food and energy prices stemming from the pandemic, geopolitical conflicts, climate change, and blockages of shipping routes.

But it's important to emphasize that the rising cost of living is not only a recent or transitory development. The prices of certain essential goods and services, such as housing, healthcare, and education, tend to increase much faster than overall consumer price indexes.[17] The average consumer benefits from lower relative prices for items such as communication technologies and clothing, while facing higher relative prices for housing, healthcare, and education. For low-income households, this issue is magnified, since essential items account for a disproportionate share of their expenditures.

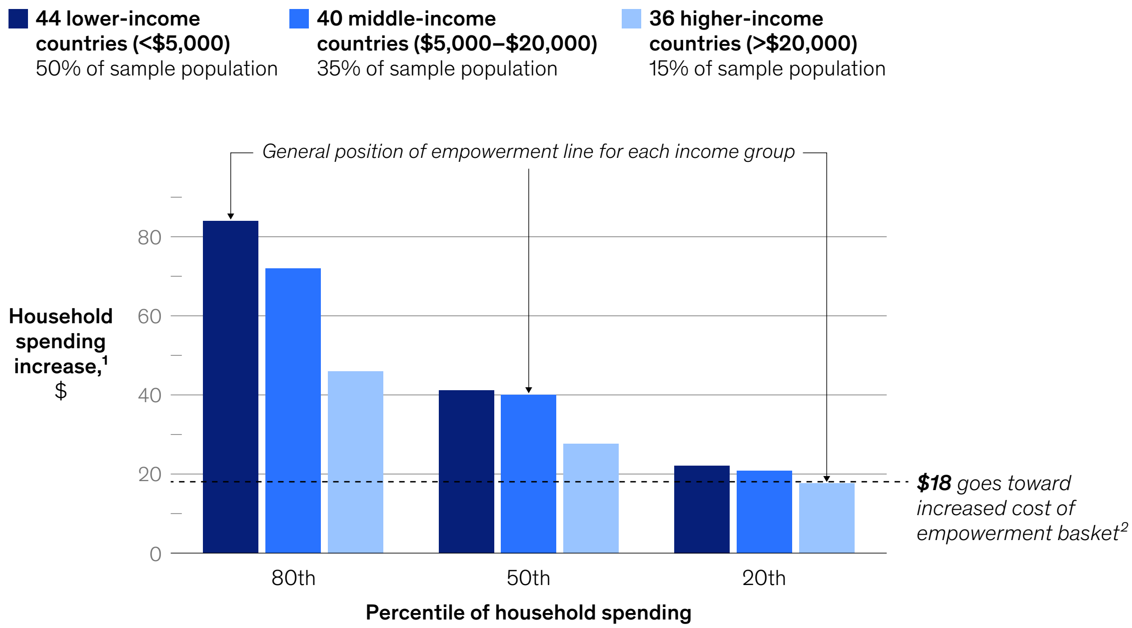
There are structural forces at play in this phenomenon. Labor-intensive sectors, such as healthcare and education, and other low-productivity-growth sectors, such as construction, compete for labor with much higher-productivity sectors; they thus must raise wages at a higher rate than their productivity growth. Although high-productivity sectors such as technology may pay higher wages while lowering prices, low-productivity, labor-intensive sectors tend to pass higher production costs on to consumers.[18]

Beyond productivity and wage dynamics, inefficient markets often drive up the cost of the basics. This could be related to the extent of competition (and trade openness) in a given sector, regulation, or potential supply constraints. Most important is

Exhibit 3

At higher income levels, households have greater ability to consume—but they also face higher costs.

Household spending increase corresponding to a $100 increase in GDP per capita



Note: Analysis based on cross-sectional data across 120 countries as of 2022. Sample countries represent ~90% of the world's population.
[1]Calculated using a separate regression for each income group in which GDP per capita is the independent variable and spending at each of the defined percentiles is the dependent variable.
[2]Calculated using a single regression across countries with GDP per capita above $2,500 in which GDP per capita is the independent variable and empowerment costs are the dependent variable.
Source: WageIndicator June 2022, October 2022, and January 2023 data sets; World Data Lab; Oxford Economics; World Bank; McKinsey Global Institute analysis

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that housing supply is often restricted (by zoning laws, for example) and thus not able to respond to increasing demand related to population growth, migration, or changing preferences.

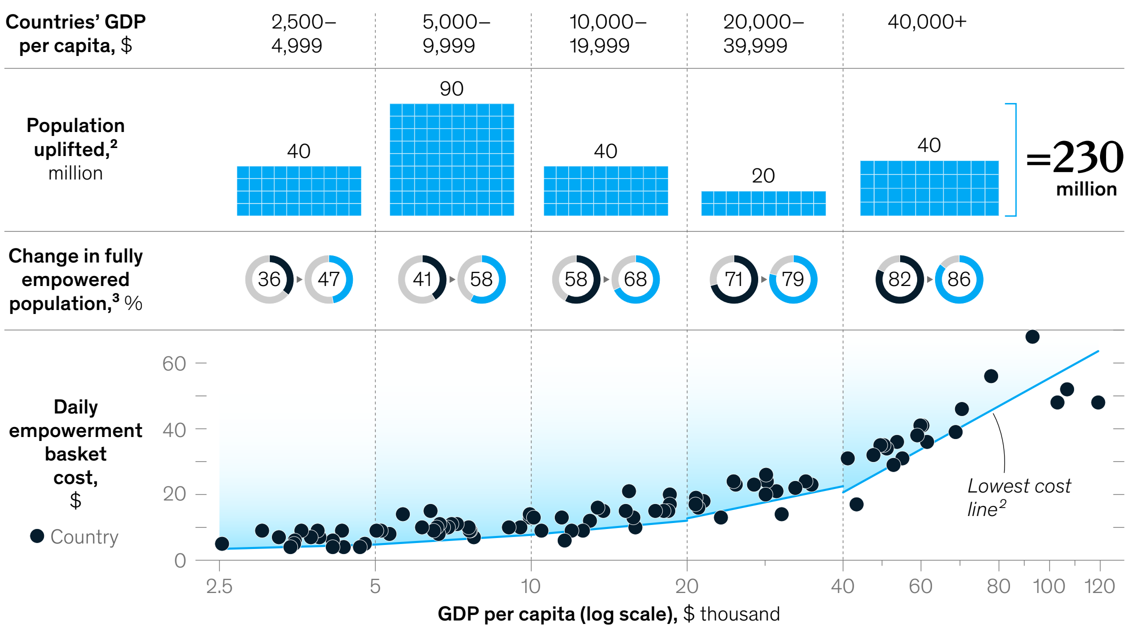
These types of issues add up to daily stress and missed opportunities for billions of people worldwide. Many are unable to save or to exercise choice about where and how they'd like to live. For example, more young adults in higher-income economies are living with their parents, delaying their independence by years; others are not having children because they feel they can't afford it.[19]

If all countries could bring down the costs of the essentials to match the best-performing countries at their income level, we estimate that some 230 million additional people worldwide would reach full economic empowerment (Exhibit 4).[20] This figure is larger than the entire population of Nigeria—and it would boost the share of the global population above the empowerment line by three percentage points (and by five percentage points in our sample countries with GDP per capita above $2,500). Individuals would be relieved of pressure and better able to secure the economic foothold they need to thrive.

Exhibit 4

Making the essentials more affordable could lift 230 million people to full economic empowerment.

Population that could reach the empowerment line if countries lowered the costs of essentials to match those of top performers[1]



[1]Based on 93 countries, representing ~60% of the global population.
[2]230 million people could be lifted above the empowerment line if countries above the "lowest cost line" brought down the costs of essential goods and services to match a set of top performers in the same income band. The "lowest cost line" is calculated as the best-fit line across top-quartile performers on the affordability of the empowerment basket within an income range of +/−25%. Countries more than 1.5 standardized residuals away from the general relationship between GDP per capita and the cost of the empowerment basket are excluded as top-quartile performers. No economy moves below the $12 PPP global empowerment line floor.
[3]Based on a simple average across countries within the income band.
Source: WageIndicator June 2022, October 2022, and January 2023 data sets; World Data Lab; Oxford Economics; World Bank; McKinsey Global Institute analysis

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Housing and food are the biggest affordability issues globally

Four basic items are most significant to the overall cost of the empowerment basket: housing, food, transportation, and healthcare (Exhibit 5). Together these items account for 80 percent of the consumption required to be empowered.

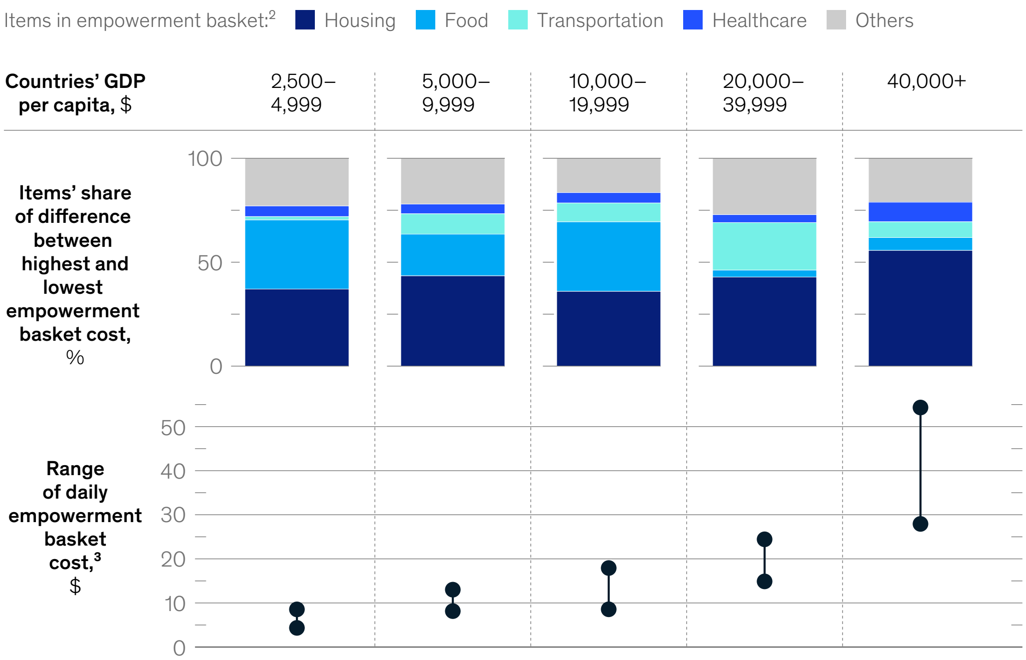
Housing is the biggest affordability challenge in high- and middle-income economies, explaining at least a third of the difference in the cost of a fully empowered life across those countries. Housing interventions can be transformative; conversely, inaction can have a dramatic impact on individuals and families in places where housing markets are distorted. Countries that have prioritized affordable housing are able to lift living standards for a wider swath of the population—and in countries with worsening housing affordability, the issue is becoming untenable.

The swings that could be possible with an emphasis on affordable housing are significant. For example, our estimates imply that if housing costs in Germany were hypothetically 26 percent lower, matching the level of its most affordable peer economy, 3.7 million more people would be lifted above its empowerment line.[21] In Mexico, if housing costs were hypothetically 18 percent lower (again, matching its most affordable peer economy), 2.4 million more people could reach empowerment.

Exhibit 5

Globally, housing and food are the biggest differentiators of empowerment costs across countries.

Distribution of costs driving the difference between the most and least affordable empowerment baskets, 2022,[1] %



[1]Based on 93 countries, representing ~60% of the global population.
[2]Housing, food, transportation, and healthcare account for ~80% of the cost of the empowerment basket. Housing costs are inclusive of energy and other utilities.
[3]Low end of range based on bottom quartile of costs; high end based on top quartile of costs. Costs are derived using bottom-up WageIndicator values except in Bangladesh and Guatemala, both of which have empowerment lines set at the $12 PPP global floor. For these two countries, we assume that costs are distributed in a pattern similar to that seen in bottom-up calculations.
Source: WageIndicator June 2022, October 2022, and January 2023 data sets, Oxford Economics; World Bank; McKinsey Global Institute analysis

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In lower-income economies, food is also a significant cost-of-living factor with a major effect on empowerment. In countries with GDP per capita between $2,500 and $5,000, food costs 2.5 times more in some places than in others.

The housing squeeze has an imbalance of supply and demand at its core

Previous MGI research has found that rising incomes have historically gone together with increasing housing prices.[22] From 2002 to 2018, well before the pandemic, individuals across European Union countries faced an average housing rental cost growth 16 percentage points higher than overall inflation.[23] Now the issue has become even more acute in the pandemic's wake, notably in the major cities of high-income economies, including Australia, Canada, the United States, and multiple countries in Europe.[24]

What helps to explain these rising costs? In short, an imbalance in demand and supply.

On the demand side, a number of factors push costs up. Population growth, particularly among the middle class, is one. In addition, better housing is typically the first thing individuals spend on when they have an upward bump in disposable income, and then, as households build wealth, homes are often their primary store of value.[25] Furthermore, as economies grow, people expect higher-quality living environments and household sizes get smaller,

Estimating the empowerment line across countries

We acknowledge the difficulty of making precise comparisons across countries when looking at issues related to poverty and consumption. For example, economic empowerment implies spending $41 per person per day in the Netherlands and $24 in Japan. Part of this difference comes down to varying general price levels. Accounting for this, however, explains less than 40 percent of the difference between these two countries. In PPP terms, the cost of empowerment would be $47 PPP in the Netherlands and only $29 PPP In Japan.[1] PPP is meant to provide a common benchmark, but it has limitations in the context of this research.

This is explained by several factors, as follows:

— First, essential goods and services in the empowerment basket vary based on local contexts and the extent of public support (see sidebar "What is the empowerment line?"). For example, Japan has nearly universal public healthcare, whereas individuals in the Netherlands are required to contribute to their own standard health insurance premiums.[2]

— Second, PPP does not reflect the composition of the consumption basket at the empowerment line. Consider, for example, the PPP factor for housing, which includes rental and owned units of all sizes.[3] By contrast, the housing component of the empowerment basket only considers renting a two-bedroom apartment in an average urban area and costs borne by the individual.

— Third, the same essential item can vary in quality and characteristics. The average home in Canada has 2.6 rooms per person, while in South Korea, the average home contains 1.5 rooms per person.[4] Quality—not only in housing but also in healthcare, education, food, and other areas—can also vary because some countries have more stringent or extensive regulations than others (for example, more detailed building codes or product safety requirements).

— Fourth, the precise composition of the empowerment basket itself differs slightly across countries. Housing tends to represent a larger share of the basket in higher-income economies than in lower-income economies, and even among higher-income economies, some countries have higher costs of individual items and therefore have a different distribution of items built into the empowerment cost.

The upward shifts in the empowerment line go hand in hand with higher income levels, even in PPP terms. This mirrors a phenomenon described in development literature of national poverty lines rising with income levels. In the case of poverty lines, changing bundles of consumption and higher standards are cited as reasons for an uptick as countries develop.[5]

Separately, we note measurement challenges that affect 20 of the lowest-income countries. As noted earlier, we apply a global empowerment line floor of $12 PPP per person, per day. Costs in these countries may actually be lower, but we chose to make an upward adjustment to account for quality improvements. Applying the $12 PPP floor implies that 23 percent of all lower-income countries' populations on average are above the empowerment line. If we were to use a bottom-up calculation of local costs to all countries, that average would go up to 26 percent. When we apply the floor, economic growth becomes an even more important factor in lifting people above the empowerment line; the variation in empowerment outcomes explained by GDP per capita levels (as shown in Exhibit 2) is 12 percentage points higher compared with results based only on local costs. In nearly all of these countries, GDP per capita is less than $2,500, and the primary challenge is raising this level. As we consider affordability opportunities in the remainder of this research, we exclude these countries to avoid conflating affordability with lowering standards in places where they need to rise.

[1] Using World Bank International Comparison Program PPPs for households' final consumption expenditures. More broadly, a similar trend is observed for national extreme poverty lines expressed in 2017 PPP, which also rise in line with GDP per capita. See *Assessing the impact of the 2017 PPPs on the International Poverty Line and global poverty*, policy research working paper number 9941, World Bank, 2022.
[2] Basic insurance in the Netherlands covers, for example, prescription medication and consulting a general practitioner. Long-term treatments are covered by the state. See, for example, "Health insurance," Government of the Netherlands, March 2024.
[3] *Purchasing power parities and the size of world economies: Results from the 2017 International Comparison Program*, World Bank, 2020.
[4] For rooms per person, see the OECD's Better Life Index on Housing at www.oecdbetterlifeindex.org/topics/housing/.
[5] See, for example, Martin Ravallion and Shaohua Chen, "A proposal for truly global poverty measures," *Global Policy*, volume 4, issue 3, September 2013.

leading to greater costs per person.[26] In "superstar" cities with better job opportunities, demand for housing is especially strong and prices are inelastic.[27] Demand for housing also comes from investors who seek attractive investment opportunities in real estate, particularly in major cities.[28]

On the supply side, years of underinvestment, zoning restrictions, and regulations—as well as local resistance to new builds—have produced housing shortages that have compounded over time.[29] In some locations, vacation rentals are reducing supply and pricing out locals.[30] Increasing interest rates in the past two years have further limited housing supply.[31] New builds have become more expensive because of the price of scarce land in dense cities and because of construction costs that have outpaced inflation.

Both public and private actors could accelerate economic inclusion by putting more weight on affordability

The empowerment line could be a useful tool for galvanizing both public and private efforts to expand inclusion, with a greater emphasis on affordability.

The public sector plays a major role

Much of the debate about how the public sector can improve the well-being of lower-income households revolves around income, inflation, and potential responses such as tax policies, cash transfers, and labor regulation. But the public sector also affects affordability. Most governments deliver public goods and services such as housing, education, and healthcare. Most intervene in markets to a certain extent, perhaps by subsidizing priority goods (such as food or energy), preventing price gouging, ensuring competition, or regulating trade.

One of the roles of government could be to maximize the efficiency of end-to-end value chains (such as food or energy delivery); this could take the form of streamlining regulatory burdens or building modern infrastructure. Boosting the reach of existing in-kind transfer programs could help further bring down households' spending on essential goods. In some cases, policies focused on cost reduction may have a larger impact than those focused on supplementing incomes. In two-thirds of OECD countries, for example, housing rental costs are a greater share of lower-income households' income than total tax and social contribution payments.[32] Whatever strategy governments pursue, it is important to monitor the impact of interventions over time, keeping in mind the potential for unintended consequences.[33]

The private sector could also do more

There's a strong case for companies to care about empowerment. Internally, empowered employees are better able to contribute productively and have less incentive to leave.[34] Moreover, helping employees save on living costs can produce a labor cost advantage, especially for companies that are internalizing those costs by adopting "living wages." Externally, some consumers make purchasing decisions based on a company's reputation as an employer and as a corporate citizen.[35] Empowerment initiatives can enhance brands, and having a reputation for delivering value inspires loyalty. More broadly, helping more families achieve higher living standards creates a virtuous cycle in which more consumers can afford a broader set of products and services. It also contributes to more stable societies and better business environments.

The private sector's role in providing jobs—ideally jobs with stability, benefits, and decent working conditions that pay a living wage—is one of the biggest drivers of empowerment. Establishing these jobs might involve taking a long-term view of the potential for higher productivity through investing in skills, rethinking job roles, and recruiting in ways that expand opportunity for people who might otherwise be stuck in low-wage work.[36] Large multinationals could influence wages and working conditions—for instance, trying to reduce the precariousness of nonstandard employment (such as temporary, part-time, and on-call work) across their broader value chains.

Through innovation, companies can address unmet demand in the lower-cost end of the markets for housing, energy, food, healthcare, and communication. They could develop new affordable offerings and expand low-cost business models into underserved regions and customer segments. There may be opportunities to pass on productivity-driven savings to consumers, particularly in labor-intensive service sectors such as healthcare that have seen high relative price growth and in other low-productivity sectors such as construction.[37]

Indeed, many forward-thinking companies are already embarking on initiatives like these. Further progress starts with identifying profitable ways to deliver positive impact—and the empowerment line could be a useful tool that helps companies prioritize the initiatives with the greatest return on investment.

Economic growth is a prerequisite for empowering households, especially in lower- and middle-income economies. But it's not enough to solve the last piece of the equation. When costs of essentials rise faster than household incomes, people are priced out; this strains individuals, families, communities, and eventually the social fabric. Ensuring that housing, food, education, healthcare, and other essentials are within reach is part of building more balanced economies where everyone has a measure of security and the opportunity to realize their full potential.

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Endnotes

1 "Poverty—overview," World Bank, October 2023; and *From poverty to empowerment: Raising the bar for sustainable and inclusive growth*, McKinsey Global Institute, August 2023.

2 See *The social contract in the 21st century: Outcomes so far for workers, consumers, and savers in advanced economies*, McKinsey Global Institute, February 2020; and Jakub Caisl et al., *The uneven impact of high inflation*, OECD Papers on Well-being and Inequalities, working paper number 18, October 2023.

3 From 1990 to 2013, for example, 1.1 billion people emerged from extreme poverty globally, more than 90 percent of them from countries whose GDP grew at least 5 percent per year. See *Outperformers: High-growth emerging economies and the companies that propel them*, McKinsey Global Institute, September 2018; and *Four decades of poverty reduction in China*, World Bank, 2022.

4 "Children: Improving survival and well-being," World Health Organization, September 2020; and *World development report 2018: Learning to realize education's promise*, World Bank, 2017.

5 *From poverty to empowerment: Raising the bar for sustainable and inclusive growth*, McKinsey Global Institute, August 2023.

6 The relationship between growth and well-being is well documented. The UN's Multidimensional Poverty Index (which combines measures of health, education, and living standards) and the EU's material deprivation rate (which tracks the share of the population that cannot afford items needed to lead an adequate life) show a positive, statistically significant relationship between per capita GDP growth and improved outcomes in these measures across countries. See also Maria Emma Santos, Carlos Dabus, and Fernando Delbianco, "Growth and poverty revisited from a multidimensional perspective," *Journal of Development Studies*, volume 55, issue 2, 2019; this research finds that a 1 percent increase in the economic growth rate leads to a 0.6 percent reduction in the multidimensional poverty index. The relationship between the EU's material deprivation rate and per capita GDP growth is based on data from Eurostat as of March 2024.

7 *Investing in productivity growth*, McKinsey Global Institute, March 2024.

8 Déborah Rey, "Rising poverty grips Argentina as runaway inflation takes its toll," Associated Press, September 27, 2023.

9 Abid Hussain, "Why is Pakistan ranked 99th on the Global Hunger Index?" Al Jazeera, July 26, 2023. For more on the broader relationship between downturns in growth and poverty, see, for example, *Correcting course: Poverty and shared prosperity 2022*, World Bank, 2022; Stephen N. Broadberry and John Joseph Wallis, *Growing, shrinking, and long-run economic performance: Historical perspectives on economic development*, NBER working paper number 23333, 2017; and Heidi Shierholz and Elise Gould, *Poverty and income trends paint a bleak picture for working families*, Economic Policy Institute, September 2010.

10 Based on our analysis, using data from Eurostat as of March 2024, a 1 percent growth rate correlates with a four-percentage-point improvement in material deprivation rates in lower-income European economies.

11 We define lower-income countries as those with GDP per capita of less than $5,000 and middle-income countries as those with GDP per capita of $5,000 to $20,000. For more on our country sample and the regression used to determine the share of variation explained by income, see the technical appendix.

12 A country's peers are defined as other countries within an income range of +/− 25 percent. For more on this calculation, see the technical appendix.

13 Note that the data underlying our analysis measure individual private consumption and how it is distributed across population deciles. In addition to inequality, other factors, such as the propensity to spend, may be at work. For broader research on inequality, see Thomas Piketty and Arthur Goldhammer, *Capital in the twenty-first century*, Belknap Press, 2014; and Emmanuel Saez and Gabriel Zucman, "The rise of income and wealth inequality in America: Evidence from distributional macroeconomic accounts," *Journal of Economic Perspectives*, volume 34, number 4, fall 2020.

14 For more on the methodology behind this finding, see the technical appendix.

15 Quality improvements and shifting relative costs and compositions of empowerment baskets drive these cost increases. However, they can be somewhat offset by growth in public support. Between 2009 and 2019, in-kind transfers as a share of GDP fell slightly in the United States and the European Union and increased slightly in Japan. See "Social benefits to households," OECD, March 2024.

16 Previous MGI research found that between 2000 and 2017, increased spending on housing, healthcare, and education absorbed income gains to varying degrees in ten of 22 countries, with the largest erosion in the United Kingdom. In countries where incomes declined (including Italy, Japan, and Spain), increased spending on the basics further eroded incomes by 6 to 29 percent. See *The social contract in the 21st century: Outcomes so far for workers, consumers, and savers in advanced economies*, McKinsey Global Institute, February 2020.

17 See, for example, Jakub Caisl et al., *The uneven impact of high inflation*, OECD Papers on Well-being and Inequalities, working paper number 18, October 2023.

18 This is the central thesis of "Baumol's cost disease." As mentioned earlier, our analysis is based on cross-sectional data across 120 economies as of 2022. While Baumol's cost disease refers to growth in wages and productivity over time in an economy, it can help to explain why costs of empowerment tend to increase with income. In higher-productivity economies, wages across sectors increase, even in sectors with relatively low productivity. See William J. Baumol and William G. Bowen, "On the performing arts: The anatomy of their economic problems," *American Economic Review*, volume 55, number 2, 1965; William J. Baumol, *The cost disease: Why computers get cheaper and health care doesn't*, Yale University Press, 2012; and William D. Nordhaus, *Baumol's diseases: A macroeconomic perspective*, NBER working paper number 12218, May 2006.

19 See, for example, "More adults living with their parents," UK Office for National Statistics, May 10, 2023; Daniel de Visé, "More adult children are living with their parents. Parents are not pleased," *Hill*, December 16, 2022; and Claire Cain Miller, "Americans are having fewer babies. They told us why," *New York Times*, July 5, 2018.

20 See the technical appendix for full details on the methodology behind this estimate.

21 In 2022, almost 12 percent of the German population lived in households that were overburdened by housing costs (that is, total housing costs, net of housing allowances, represented more than 40 percent of the total disposable household income, net of housing allowances). The comparable shares were 7.4 percent in Austria and 7.7 percent in Belgium. See "Housing cost overburden rate by age, sex and poverty status," Eurostat, March 2024.

22 *The social contract in the 21st century: Outcomes so far for workers, consumers, and savers in advanced economies*, McKinsey Global Institute, February 2020.

23 Based on a weighted average by population across 27 EU countries, using Harmonised Index of Consumer Prices (HICP) from Eurostat. The HICP measures the change over time in the prices of consumer goods and services acquired, used, or paid for by euro area households.

24 See, for example, "Australian houses are less affordable than they have been in decades," *Economist*, January 2024; "Canada turns to a post-war strategy to battle housing crisis," Reuters, December 12, 2023; and *Housing affordability remains stretched amid higher interest rate environment*, International Monetary Fund, January 2024.

25 Greg Howard and Jack Liebersohn, "Why is the rent so darn high? The role of growing demand to live in housing-supply-inelastic cities," *Journal of Urban Economics*, volume 124, 2021. Previous MGI research has found that household real estate is the largest form of wealth globally, and for many households, their home is their largest asset. Rising home values were also associated with low-interest-rate environments in the decade preceding the COVID-19 pandemic, though that relationship is not in the scope of this analysis. See *The rise and rise of the global balance sheet: How productively are we using our wealth?* McKinsey Global Institute, November 2021.

26 The quality of housing for populations in the bottom quintile of the income distribution improves as economies get richer. At the same time, the average household size decreases, and the number of rooms per household member increases. See, for example, "Housing conditions," OECD, March 2024; *Total population living in a dwelling with a leaking roof, damp walls, floors or foundation, or rot in window frames or floor*, Eurostat, August 2024; and "Household size and composition," United Nations, 2022.

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Sinai, "Superstar cities," *American Economic Journal: Economic Policy*, volume 5, number 4, November 2013.

28 See, for example, Nick Gallent, Dan Durrant, and Neil May, "Housing supply, investment demand and money creation—a comment on the drivers of London's housing crisis," *Urban Studies*, volume 54, issue 10, May 2017; and Mi Zhou, Yurong Qiao, and Jiahong Guo, "Separating the consumption and investment demands for housing: Evidence from urban China," *Heliyon*, volume 9, issue 10, October 2023.

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33 Such consequences include inefficiencies and market distortions resulting from subsidies and price controls. For example, rent control policies might reduce the supply of rental housing. See, for example, Elizabeth Van Heuvelen, "Back to basics: Subsidy wars," *Finance & Development*, IMF, June 2023; and Rebecca Diamond, Timothy McQuade, and Franklin Qian, "The effects of rent control expansion on tenants, landlords, and inequality: Evidence from San Francisco," *American Economic Review*, volume 109, number 9, September 2019.

34 Natalia Emanuel and Emma Harrington, *The payoffs of higher pay: Elasticities of productivity and labor supply with respect to wages*, October 2020.

35 Enrique Bianchi, Juan Manuel Bruno, and Francisco J. Sarabia-Sanchez, "The impact of perceived CSR on corporate reputation and purchase intention," *European Journal of Management and Business Economics*, 2019.

36 See, for example, *Rewriting the script: LA's opportunity for inclusive economic growth*, McKinsey & Company, December 2023; *The future of work after COVID-19*, McKinsey Global Institute, February 2021; *Reskilling China: Transforming the world's largest workforce into lifelong learners*, McKinsey Global Institute, January 2021; and Tanya Milberg, "The Reskilling Revolution is upon us—by 2030, 1 billion people will be equipped with the skills of the future," World Economic Forum, April 2023.

37 Previous MGI research has found that improving productivity in construction, healthcare, and education, and keeping food prices in line with best-performing peer countries, could lower empowerment costs by 9 percent globally, on average. See *From poverty to empowerment: Raising the bar for sustainable and inclusive growth*, McKinsey Global Institute, August 2023, and *Reinventing construction through a productivity revolution*, McKinsey Global Institute, February 2017.