Poorer than their parents. What's gone wrong for this generation?

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If you grew up in a developed country after World War II, you were likely to be better off than your parents and grandparents.

For much of the past 70 years, nearly all households in advanced economies have seen their incomes increase, thanks to mostly steady economic and employment growth. Between 1993 and 2005, 98% of households in 25 advanced economies experienced rising real incomes.

But in recent years this trend has ground to a halt, and even gone into reverse. A report by the McKinsey Global Institute, Poorer than their parents? Flat or falling incomes in advanced economies, found that between 2005 and 2014, the real income of up to 70% of households in advanced economies flattened or fell.

Many governments have attempted to soften the blow with lower tax rates and transfers. However, up to a quarter of all households in these countries still saw stagnating or falling disposable incomes during this period.

Italy has been particularly hard hit: 97% of households saw flat or falling incomes between 2005 and 2014. And after accounting for taxes and benefits, this figure rose to 100% of households.

Over 80% of households in the United States saw no growth in real income during this period. That said, as a result of tax cuts and benefits, nearly all families experienced an increase in disposable income.

The report notes: "These findings provide a new perspective on the growing debate in advanced economies about income inequality, which until now has largely focused on income and wealth gains going disproportionately to top earners."

The deep slump and weak recovery following the 2008 financial crisis has been cited as one of the reasons behind this change.

But other long-term factors, such as ageing populations and shifts in the labour market, have been contributing to the phenomenon – and will continue to do so, the report says.

Commenting on the findings in an article for the Financial Times, Richard Dobbs and Anu Madgavkar, partners at McKinsey & Company, wrote: “We believe that this trend is a significant new element in the ongoing global debate about income inequality.”

While falling incomes have not received as much attention as the income growth of top earners, Dobbs and Madgavkar say the topic should be more widely discussed because it “acts as a brake on GDP growth and could also be fuelling social and political disgruntlement”.

The proportion of households with flat or falling incomes could rise to as high as 80% over the next 10 years, the report found.

People are gloomy about the future, and the global economic system: almost one-third of those with flat or falling incomes expect their children to advance more slowly in the future. They also held negative views on free trade and immigration.

It’s not all bad news, though: the report says that it is possible to improve people’s incomes.

Changes in labour-market practices and government taxes and transfers can have an impact on household incomes, as demonstrated in the United States, where lower taxes and increased transfers turned a decline in market income for the majority of households into a rise in disposable income for nearly everyone.

Dobbs and Madgavkar recommend governments look at other measures that can “target and help support incomes of the most vulnerable”, as well as focusing on raising productivity to boost growth and create new jobs.