The next normal arrives: Trends that will define 2021—and beyond

The COVID-19 pandemic has changed the world, and its effects will last. Here are some factors that business leaders should keep in mind as they prepare for the next normal.

by Kevin Sneader and Shubham Singhal
Businesses have spent much of the past nine months scrambling to adapt to extraordinary circumstances. While the fight against the COVID-19 pandemic is not yet won, with a vaccine in sight, there is at least a faint light at the end of the tunnel—along with the hope that another train isn’t heading our way.

2021 will be the year of transition. Barring any unexpected catastrophes, individuals, businesses, and society can start to look forward to shaping their futures rather than just grinding through the present. The next normal is going to be different. It will not mean going back to the conditions that prevailed in 2019. Indeed, just as the terms “prewar” and “postwar” are commonly used to describe the 20th century, generations to come will likely discuss the pre-COVID-19 and post-COVID-19 eras.

In this article, we identify some of the trends that will shape the next normal. Then we discuss how they will affect the direction of the global economy, how business will adjust, and how society could be changed forever as a result of the COVID-19 crisis.

Part one: How the COVID-19 crisis and the recovery are shaping the global economy

The return of confidence unleashes a consumer rebound

There are lines outside stores, but they are often due to physical-distancing requirements. Theaters are dark. Fashions are in closets rather than on display. If the Musée du Louvre were open, the lack of tourists might even create the opportunity for an unobstructed view of the Mona Lisa. In these and other ways, consumers have pulled back.

As consumer confidence returns, so will spending, with “revenge shopping” sweeping through sectors as pent-up demand is unleashed. That has been the experience of all previous economic downturns. One difference, however, is that services have been particularly hard hit this time. The bounce back will therefore likely emphasize those businesses, particularly the ones that have a communal element, such as restaurants and entertainment venues.

That isn’t to say that consumers will act uniformly. McKinsey’s most recent consumer survey, published in late October, found that countries with older demographics, such as France, Italy, and Japan, are less optimistic than are those with younger populations, such as India and Indonesia. China was an exception—it has an older population but is conspicuously optimistic.

But China’s profile proves a larger point. The first country to be hit by the COVID-19 pandemic, it was also the first to emerge from it. China’s consumers are relieved—and spending accordingly. On Singles Day, November 11, the country’s two largest online retailers racked up record sales. That wasn’t just a holiday phenomenon. While manufacturing in China came back first, by September, so had consumer spending. Except for international air travel, Chinese consumers have begun to act and spend largely as they did in precrisis times. Australia also offers hope. With the pandemic largely contained in that country, household spending fueled a faster-than-expected 3.3 percent growth rate in the third quarter of 2020, and spending on goods and services rose 7.9 percent.1

How fast and deep confidence will recover is an open question. In late September, for example, the US consumers surveyed were more optimistic than before but still cautious, reporting that they planned to buy holiday gifts for fewer people and keep an eye on discretionary spending.2 Only around a third had resumed out-of-home activities, compared with 81 percent of consumers in China, 49 percent in France—and just 18 percent in Mexico. New lockdowns and, critically, the rollout of COVID-19 vaccines have and will affect those numbers. The point is that spending will only recover as fast as the rate at which people feel confident about becoming mobile again—and those attitudes differ markedly by country.

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Leisure travel bounces back but business travel lags

People who travel for pleasure will want to get back to doing so. That has been the pattern in China. The CEO of one major travel company told us that, beginning in the third quarter of 2020, business was “pretty much back to normal” when referring to growth. But it was a different normal: domestic travel was surging, but international travel was still depressed given pandemic-related border restrictions and concerns about health and safety.

In China as a whole, hotel occupancy and the number of travelers on domestic flights were more than 90 percent of their 2019 levels at the end of August, and over the October Golden Week holiday, more than 600 million Chinese hit the road, around 80 percent of last year’s figure. Because of confidence in the country’s health and safety measures, domestic travel is almost back to the level seen prior to the pandemic, and high-end domestic travel is actually ahead of it.

By definition, leisure travel is discretionary. Business travel is less so. In 2018, business-travel spending reached $1.4 trillion, which was more than 20 percent of the total spending in the hospitality and travel sector. It also brings in a disproportionate share of profits—70 percent of revenues globally for high-end hotels, for example. During and after the pandemic, though, there is a question about business travel: Exactly when is it necessary? The answer is almost certain to be not as much as before. Video calls and collaboration tools that enable remote working, for example, could replace some onsite meetings and conferences.

The larger context is also informative. History shows that, after a recession, business travel takes longer than leisure travel to bounce back. After the 2008–09 financial crisis, for example, international business travel took five years to recover, compared with two years for international leisure travel.

Regional and domestic business travel will likely rebound first; some companies and sectors will want to resume in-person sales and customer meetings as soon as they safely can. Peer pressure may also play a part: once one company gets back to face-to-face meetings, their competitors may not want to hold back. All told, however, a survey of business-travel managers found that they expect business-travel spending in 2021 will only be half that of 2019.

While business travel will return at scale, and global economic growth will generate new demand, executives in the field think that it may never recover to the 2019 level.

In short, leisure travel is driven by the very human desire to explore and to enjoy, and that has not changed. Indeed, one of the first things people do as they grow more prosperous is to travel—first close to

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4 World Travel & Tourism Council, wttc.org.

home and then further afield. There is no reason to believe that the rise in global prosperity will reverse itself or that human curiosity will diminish. But the effective use of technology during the pandemic—and the economic constraints that many companies will face for years after it—could augur the beginning of a long-term structural change in business travel.

The crisis sparks a wave of innovation and launches a generation of entrepreneurs

Plato was right: necessity is indeed the mother of invention. During the COVID-19 crisis, one area that has seen tremendous growth is digitization, meaning everything from online customer service to remote working to supply-chain reinvention to the use of artificial intelligence (AI) and machine learning to improve operations. Healthcare, too, has changed substantially, with telehealth and biopharma coming into their own.

Disruption creates space for entrepreneurs—and that’s what is happening in the United States, in particular, but also in other major economies. We admit that we didn’t see this coming. After all, during the 2008–09 financial crisis, small-business formation declined, and it rose only slightly during the recessions of 2001 and 1990–91. This time, though, there is a veritable flood of new small businesses. In the third quarter of 2020 alone, there were more than 1.5 million new-business applications in the United States—almost double the figure for the same period in 2019.6

Yes, many of those businesses are single-person establishments that could well stay that way—think of the restaurant chef turned caterer or the recent college graduate with a cool new app. So it’s intriguing that the volume of “high-propensity-business applications” (those that are likeliest to turn into businesses with payrolls) has also risen strongly—more than 50 percent compared with 2019. Venture-capital activity dipped only slightly in the first half of 2020.

The European Union has not seen anything like this response, perhaps because its recovery strategy tended to emphasize protecting jobs (not income, as in the United States). That said, France saw 84,000 new business formations in October, the highest ever recorded,7 and 20 percent more than in the same month in 2019. Germany has also seen an increase in new businesses compared with 2019; ditto for Japan. Britain is somewhere in between. A survey published in November 2020 of 1,500 self-employed people found that 20 percent say they are likely to leave self-employment when they can.8 At the same time, however, the number of new businesses registered in the United Kingdom in the third quarter of 2020 rose 30 percent compared with 2019, showing the largest increase seen since 2012.9

On the whole, the COVID-19 crisis has been devastating small business. In the United States, for example, there were 25.3 percent fewer of them open in December 2020 than at the beginning of the year (the bottom was in mid-April, when the figure was almost half).10 US small-business revenue fell more than 30 percent between January and December 2020.11 But we’ll take good news where we can get it, and the positive trend in entrepreneurship could bode well for job growth and economic activity once recovery takes hold.

Digitally enabled productivity gains accelerate the Fourth Industrial Revolution

There’s no going back. The great acceleration in the use of technology, digitization, and new forms of working is going to be sustained. Many executives reported that they moved 20 to 25 times faster than they thought possible on things like building supply-chain redundancies, improving data security, and increasing the use of advanced technologies in operations.12

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8 “Hours and incomes of self-employed workers stayed low over summer,” LSE, November 10, 2020, lse.ac.uk.
How all that feeds into long-term productivity will not be known until the data for several more quarters are evaluated. But it’s worth noting that US productivity in the third quarter of 2020 rose 4.6 percent, following a 10.6 percent increase in the second quarter, which is the largest six-month improvement since 1966.13 Productivity is only one number, albeit an important one; the startling figure for the United States in the second quarter was based in large part on the biggest declines in output and hours seen since 1947. That isn’t an enviable precedent.

More positively, in the past, it has taken a decade or longer for game-changing technologies to evolve from cool new things to productivity drivers. The COVID-19 crisis has sped up that transition in areas such as AI and digitization by several years, and even faster in Asia. A McKinsey survey published in October 2020 found that companies are three times likelier than they were before the crisis to conduct at least 80 percent of their customer interactions digitally.14

That evolution has not always been a seamless or elegant process: businesses had to scramble to install or adapt new technologies under intense pressure. The result has been that some systems are clunky. The near-term challenge, then, is to move from reacting to the crisis to building and institutionalizing what has been done well so far. For consumer industries, and particularly for retail, that could mean improving digital and omnichannel business models. For healthcare, it’s about establishing virtual options as a norm. For insurance, it’s about personalizing the customer experience. And for semiconductors, it’s about identifying and investing in next-generation products. For everyone, there will be new opportunities in M&A and an urgent need to invest in capability building.

The COVID-19 crisis has created an imperative for companies to reconfigure their operations—and an opportunity to transform them. To the extent that they do so, greater productivity will follow.

Part two: How businesses are adjusting to the changes prompted by the COVID-19 crisis

Pandemic-induced changes in shopping behavior forever alter consumer businesses

In nine of 13 major countries surveyed by McKinsey, at least two-thirds of consumers say they have tried new kinds of shopping.15 And in all 13, 65 percent or more say they intend to continue to do so. The implication is that brands that haven’t figured out how to reach consumers in new ways had better catch up, or they will be left behind. We expect that,

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15 Surveyed countries were Brazil, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, South Africa, Spain, United Kingdom, and the United States. The countries where fewer than two-thirds of respondents had tried new shopping behaviors were the United Kingdom (63 percent), France (56 percent), Germany (50 percent), and Japan (30 percent).
in developing markets—Brazil and India, for example—the pandemic will accelerate digital shopping, albeit from a low base. Consumers in continental Europe have bought more online but aren’t as enthusiastic as those in Britain and the United States to continue doing so.

Specifically, the shift to online retail is real, and much of it will stick. In the United States, the penetration of e-commerce was forecast in 2019 to reach 24 percent by 2024; by July 2020, it had hit 33 percent of total retail sales.\(^6\) To put it another way, the first half of 2020 saw an increase in e-commerce equivalent to that of the previous ten years.\(^7\) In Latin America, where the payments and delivery infrastructure isn’t as strong, e-commerce use doubled from 5 to 10 percent. In Europe, overall digital adoption is almost universal (95 percent), compared with 81 percent at the start of the pandemic. In normal times, getting to that level would have taken two to three years. Strikingly, the biggest increases came in countries that had previously been relatively cautious about shopping online. Germany, Romania, and Switzerland, for example, had the three lowest online-penetration rates prior to the COVID-19 crisis; since then, usage increased 28, 25, and 18 percentage points, respectively—more than in any other markets.

Dig a little deeper, though, and there are some cautionary notes, such as the conspicuous lack of brand loyalty among online buyers. Perhaps most telling, in a recent McKinsey survey, only 60 percent of consumer-goods companies say they are even moderately prepared to capture e-commerce-growth opportunities.\(^8\) As one executive told us, “when it comes to selling directly to consumers, we don’t really know where to start.” That concern is certainly valid. Direct-to-consumer selling requires the development of new skills, capabilities, and business and pricing models. But the trend is clear: many consumers are moving online. To reach them, companies have to go there, too.

**Supply chains rebalance and shift**

Think of it as “just in time plus.” The “plus” stands for “just in case,” meaning more sophisticated risk management. The COVID-19 pandemic revealed vulnerabilities in the long, complicated supply chains of many companies. When a single country or even a single factory went dark, the lack of critical components shut down production. Never again, executives vowed. So the great rebalancing began. As much as a quarter of global goods exports, or $4.5 trillion, could shift by 2025.

Once businesses began to study how their supply chains worked, they realized three things. First, disruptions aren’t unusual. Any given company can expect a shutdown lasting a month or so every 3.7 years. Such shocks, then, are far from shocking: they are predictable features of doing business that need to be managed like any other.

Second, cost differences among developed and many developing countries are narrowing. In manufacturing, companies that adopt Industry 4.0 principles (meaning the application of data, analytics, human–machine interaction, advanced robotics, and 3-D printing) can offset half of the labor-cost differential between China and the United States. The gap narrows further when the cost of rigidity is factored in: end-to-end optimization is more important than the sum of individual transaction costs. That’s one reason why agencies such as the US Department of Defense are diversifying their networks of suppliers for essentials, such as in healthcare manufacturing and microelectronics.

And third, most businesses do not have a good idea of what is going on lower down in their supply chains, where subtiers and sub-subtiers may play small but critical roles. That is also where most disruptions originate, but two-thirds of companies say they can’t confirm the business-continuity

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\(^8\) Ibid.
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arrangements with their non-tier-one suppliers. With the development of AI and data analytics, companies can learn more about, audit, and connect with their entire value chains.

None of those things means that multinationals are going to ship all or most of their production back to their home markets. There are good reasons to take advantage of regional expertise and to be in place to serve fast-growing consumer markets. But questions on security and resiliency mean that those companies are likely to be more thoughtful about the business cases for such decisions.

The future of work arrives ahead of schedule
Before the COVID-19 crisis, the idea of remote working was in the air but not proceeding very far or fast. But the pandemic changed that, with tens of millions of people transitioning to working from home, essentially overnight, in a wide range of industries. For example, according to Michael Fisher, president and CEO of Cincinnati Children’s Hospital Medical Center, there were 2,000 telehealth visits recorded at the organization in all of 2019—and 5,000 a week in July 2020. Fisher thinks telehealth could account for 30 percent of all healthcare visits in the future. In Japan, fewer than 1,000 institutions offered remote care in 2018; by July 2020, more than 16,000 did.

The McKinsey Global Institute (MGI) estimates that more than 20 percent of the global workforce (most of them in high-skilled jobs in sectors such as finance, insurance, and IT) could work the majority of its time away from the office—and be just as effective. Not everyone who can, will; even so, that is a once-in-several-generations change. It’s happening not just because of the COVID-19 crisis but also because advances in automation and digitization made it possible; the use of those technologies has accelerated during the pandemic. Microsoft CEO Satya Nadella noted in April 2020 that “we’ve seen two years’ worth of digital transformation in two months.”

There are two important challenges related to the transition to working away from the office. One is to decide the role of the office itself, which is the traditional center for creating culture and a sense of belonging. Companies will have to make decisions on everything from real estate (Do we need this building, office, or floor?) to workplace design (How much space between desks? Are pantries safe?) to training and professional development (Is there such a thing as remote mentorship?). Returning to the office shouldn’t be a matter of simply opening the door. Instead, it needs to be part of a systematic reconsideration of what exactly the office brings to the organization.

The other challenge has to do with adapting the workforce to the requirements of automation, digitization, and other technologies. This isn’t just the case for sectors such as banking and telecom;

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instead it’s a challenge across the board, even in sectors not associated with remote work. For example, major retailers are increasingly automating checkout. If salesclerks want to keep their jobs, they will need to learn new skills. In 2018, the World Economic Forum estimated that more than half of employees would need significant reskilling or upskilling by 2022.

Evidence shows that the benefits of reskilling current staff, rather than letting them go and then finding new people, typically costs less and brings benefits that outweigh the costs. Investing in employees can also foster loyalty, customer satisfaction, and positive brand perception.

Workforce development was a priority even before the pandemic. In a McKinsey survey conducted in May 2019, almost 90 percent of the executives and managers surveyed said their companies faced skill gaps or expected to in the next five years. But only a third said they were prepared to deal with the issue. Successful reskilling starts with knowing what skills are needed, both right now and in the near future; offering tailored learning opportunities to meet them; and evaluating what does and doesn’t work. Perhaps most important, it requires commitment from the top that inculcates a culture of lifelong learning.

The biopharma revolution takes hold

The announcement of several promising COVID-19 vaccines has been a much-needed shot of good news. There will be challenges to rolling out these vaccines on the scale needed, but that does not lessen the accomplishment.

Unlike previous vaccines, many of which use an inactivated or attenuated form of a virus to create resistance to it, the vaccines created by Moderna and the BioNTech–Pfizer partnership use mRNA. This platform has been under development for years, but these are the first vaccines that have secured regulatory approval. The “m” is for “messenger” because the molecules carry genetic instructions to the cells to create a protein that prompts an immune response. The body breaks down mRNA and its lipid carrier within a matter of hours. (WHO lists 60 candidate COVID-19 vaccines that have advanced to clinical trials; many don’t use mRNA.)

Just as businesses have sped up their operations in response to the COVID-19 crisis, the pandemic could be the launching point for a massive acceleration in the pace of medical innovation, with biology meeting technology in new ways. Not only was the COVID-19 genome sequenced in a matter of weeks, rather than months, but the vaccine rolled out in less than a year—an astonishing accomplishment given that normal vaccine development has often taken a decade. Urgency has created momentum, but the larger story is how a wide and diverse range of capabilities—among them, bioengineering, genetic sequencing, computing, data analytics, automation, machine learning, and AI—have come together.

Regulators have also reacted with speed and creativity, establishing clear guidelines and encouraging thoughtful collaboration. Without relaxing safety and efficacy requirements, they have shown just how quickly they can collect and evaluate data. If those lessons are applied to other diseases, they could play a significant role in setting the foundation for the faster development of treatments.

The development of COVID-19 vaccines is just the most compelling example of the potential of what MGI calls the “Bio Revolution”—biomolecules, biosystems, biomachines, and biocomputing. In a report published in May 2020, MGI estimated that “45 percent of the global disease burden could be addressed with capabilities that are scientifically conceivable today.” For example, gene-editing technologies could curb malaria, which kills more than 250,000 people a year. Cellular therapies could repair or even replace damaged cells and tissues. New kinds of vaccines could be applied to noncommunicable diseases, including cancer and heart disease.

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The potential of the Bio Revolution goes well beyond health; as much as 60 percent of the physical inputs to the global economy, according to MGI, could theoretically be produced biologically. Examples include agriculture (genetic modification to create heat- or drought-resistant crops or to address conditions such as vitamin-A deficiency), energy (genetically engineered microbes to create biofuels), and materials (artificial spider silk and self-repairing fabrics). Those and other applications feasible through current technology could create trillions of dollars in economic impact over the next decade.

**Portfolio restructuring accelerates**

The COVID-19 crisis provoked divergent, even dramatic, reactions, with some industries taking off and others suffering badly; the effect was to shake up historic norms. When the economy settles into its next normal, such sectoral differences can be expected to narrow, with industries returning to somewhere around their previous relative positions. What is less obvious is how the dynamics within sectors are likely to change. In previous downturns, the strong came out stronger, and the weak got weaker, went under, or were bought. The defining difference was resilience—the ability not only to absorb shocks but to use them to build competitive advantage. Over the course of a decade, companies can expect losses of 42 percent of a year’s profits from disruptions.23

In October 2020, McKinsey evaluated 1,500 companies by “Z-Score,” which measures the probability of corporate bankruptcy. The higher the score, the stronger the company’s financial position. The research found that the top 20 percent of companies (the “emerging resilients”) that had improved their Z-Scores during the current recession had increased their earnings before interest, taxes, depreciation, and amortization by 5 percent; the others had lost 19 percent.24 The emerging resilients, the evidence shows, are pulling away from the pack.

The implication is that there is a resiliency premium on recovery. Top performers won’t sit on their strengths; instead, as in previous downturns, they will seek out ways to build them—for example, through M&A. That’s why we expect to see substantial portfolio adjustment as companies with healthy balance sheets seek opportunities in a context of discounted assets and lower valuations. In fact, that may already be happening: deal making began to pick up midyear.

A second factor that tilts the odds in favor of portfolio restructuring is the availability of private capital. Special-purpose acquisition companies, which merge with a company to take it public, are “having a moment” in 2020, as McKinsey recently noted.25 Through August 2020, they had accounted for 81 out of 111 US IPOs.

Much more important is private equity (PE). Globally, PE firms are sitting on almost $1.5 trillion of “dry powder”—unallocated capital that’s ready to be invested. The COVID-19 crisis has hurt in some ways, with global deal value down 12 percent compared with the first three quarters of 2019 and deal counts down 30 percent.26 On the other hand, global fundraising has stayed strong—$348.5 billion through September 2020, on par with the previous five years—and deal making in Asia has more than doubled.27 The PE industry has a reputation of zigging when others are zagging, making deals in difficult times. And it has history on its side: returns on PE investments made during global downturns tend to be higher than in the good times. Put it all together, and we don’t think the PE industry is going to keep its powder dry for much longer; there are simply going to be too many new investment opportunities.

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Green, with a touch of brown, is the color of recovery

All over the world, the costs of pollution—and the benefits of environmental sustainability—are increasingly recognized. China, some of the Gulf States, and India are investing in green energy on a scale that would have been considered improbable even a decade ago. Europe, including the United Kingdom, is united on addressing climate change. The United States is transitioning away from coal and is innovating in a wide array of green technologies, such as batteries, carbon-capture methods, and electric vehicles.

To cope with the 2008–09 financial crisis, there were substantial government stimulus programs, but few of them incorporated climate or environmental action. This time is different. Many (though by no means all) countries are using their recovery plans to push through existing environmental policy priorities:

— The European Union plans to dedicate around 30 percent of its $880 billion plan for COVID-19-crisis plan to climate-change-related measures, including the issuance of at least $240 billion in “green bonds.”
— In September 2020, China pledged to reduce its net carbon emissions to zero by 2060.
— Japan has pledged to be carbon neutral by 2050.
— South Korea’s Green New Deal, part of its economic-recovery plan, invests in greener infrastructure and technology, with the stated goal of net-zero emissions by 2050.
— While campaigning, US president-elect Joe Biden pledged to invest $2 trillion in clean energy related to transportation, power, and building.
— Canada is linking recovery to climate goals.
— Nigeria plans to phase out fossil-fuel subsidies and to install solar-power systems for an estimated 25 million people.
— Colombia is planting 180 million trees.

The imperative for businesses is clear along two fronts. First, businesses need to respond to the sustainability concerns of investors. It’s possible, albeit speculative, that the COVID-19 crisis foreshadows what a climate crisis could look like: systemic, fast moving, wide ranging, and global. There is a case, then, for businesses to take action to limit their climate risks—for example, by making their capital investments more climate resilient or by diversifying their supply chains.

More significantly, the growth opportunities that a green economy portends could be substantial. BlackRock, a global investment company with around $7 trillion in assets under management, noted in its 2021 Global Outlook that, “contrary to past consensus,” it expects that the shift to sustainability will “help enhance returns” and that “the tectonic shift towards sustainable investing is accelerating.” Green growth opportunities abound across massive sectors such as energy, mobility, and agriculture. Just as digital-economy companies have powered stock-market returns in the past couple of decades, so green-technology companies could play that role in the coming decades.

Part three: How the COVID-19 crisis could change society

Healthcare systems take stock—and make changes

Healthcare system reform is difficult. While caution is necessary when lives are involved, one consequence is that modernization is often slower than it needs to be. Learning from the experiences associated with COVID-19 can show the way to build stronger postpandemic healthcare systems.

Consider the case of South Korea. When the MERS virus struck in 2015, resulting in the deaths of 38 Koreans, the government was stung by widespread public criticism that it had not responded well. As a result, it took action to improve its pandemic preparedness—and it was ready when COVID-19 hit in January 2020. Large-scale testing, as well as tracing and quarantine measures, began almost immediately. And it worked. While the country began seeing a significant increase in new cases in December, fewer than 1,000 South Koreans died from COVID-19 in all of 2020.

No doubt, governments all over the world will set up task forces, inquiries, and commissions to examine their actions related to the COVID-19 crisis. The key is to go beyond the temptation simply to assign blame (or credit). Instead, the efforts need to be forward thinking, with an emphasis on turning the painful lessons of COVID-19 into effective action.

Being better prepared for the next pandemic, on both national and international levels, has to be a high priority. Too often, investments in prevention and public-health capabilities are undervalued; the experience of COVID-19 demonstrates how costly, in both lives and livelihoods, such thinking can be. An upgrade of public-health infrastructure and the modernization of healthcare systems, including the wider use of telemedicine and virtual health, are two areas to address.

Business will also have a role. Employers should take the opportunity to learn from the pandemic how to redesign workplaces, build healthier work environments, and invest effectively in employee health.

The hangovers begin as governments tackle rising debt

The scale of the fiscal response to the COVID-19 crisis was unprecedented—and three times bigger than seen for the 2008–09 financial crisis. In the G-20 alone, fiscal packages are estimated at more than $10 trillion. Few question the humanitarian and economic cases for strong action. But even in an era of low interest rates, the reckoning could be painful.

In February 2020, Janet Yellen, who is Joe Biden’s choice to become Secretary of the Treasury, said that “the US debt path is completely unsustainable under current tax and spending plans.” Since then, the US federal government has allocated trillions in COVID-19-crisis relief. That has put the country into new fiscal territory, with the US public debt projected to be bigger than the economy in fiscal year 2021—the first time that has been the case since shortly after World War II.

Canada is projecting a deficit of 343 billion Canadian dollars—an increase of more than 1,000 percent over the deficit in 2019—pushing national debt above 1 trillion Canadian dollars for the first time. In

As the pandemic recedes, governments will have to figure out how to address their fiscal difficulties. Although interest rates are generally low, that could mean raising taxes or cutting spending—or both.

China, the $500 billion fiscal stimulus will raise the country’s fiscal deficit to a record 3.6 percent of GDP. In the United Kingdom, debt rose to more than £2 trillion, a record and more than 100 percent of GDP. In the eurozone, the combined budget deficits in October were 11.6 percent of GDP, compared with 2.5 percent in the first quarter of 2020; total debt hit a record 95 percent of GDP. That looks comparatively trivial compared with Japan, which has the world’s highest debt-to-GDP ratio, at more than 200 percent. And while debt repayments from 73 poor countries have been frozen, the obligations still exist.

As the pandemic recedes, governments will have to figure out how to address their fiscal difficulties. Although interest rates are generally low, that could mean raising taxes or cutting spending—or both. Doing so could risk slowing the recovery and stimulating political backlash. But high levels of public debt carry their own costs, crowding out private debt and limiting the resources available to governments as they service their debt.

While interim measures, such as improving government operations, monetizing assets, and reducing fiscal leakages, can be helpful, the long-term answer is growth and productivity. That’s largely how the United States managed to reduce its national debt from 118 percent of GDP in 1946 to a low of 31 percent in 1981.30 Promoting growth will require supportive regulation, well-trained workforces, and the continued diffusion of technologies. Most of all, it will require individuals, businesses, and governments to be willing to embrace change.

Paying down debt isn’t exciting to do. But for economic stability—and in fairness to future generations—it needs to be taken seriously, not kicked down the road.

**Stakeholder capitalism comes of age**

The idea that businesses should seek to serve the interests of consumers, suppliers, workers, and society, as well as shareholders, isn’t new. The American chocolate maker Milton S. Hershey put it this way more than a century ago, “business is a matter of human service.” In 1759, capitalism’s philosopher king Adam Smith noted in *The Theory of Moral Sentiments* that the individual is “sensible too that his own interest is connected with the prosperity of society, and that the happiness, perhaps the preservation of his existence, depends on its preservation.”31 Moreover, the free market itself has been a positive social force, fueling the economic growth that has brought dramatic advances in health, longevity, and general prosperity around the world.

Even so, there is widespread distrust for business as usual, as a number of surveys and elections have shown. That’s where stakeholder capitalism comes in—as a bridge between businesses and the communities of which they are a part. The COVID-19 crisis has highlighted the interconnectedness of business and society. “It will be a true inflection point,” says Rajnish Kumar, chairman of the State Bank of India.32 “And whatever we learn through this process—it must not go to waste.”

The increasing prominence of the idea of stakeholder capitalism is more than just talk (although there is admittedly still a good deal of talk). For example, companies that become certified B Corporations are legally required to consider the interests of all stakeholders in their decision making, including by changing their governance structures to that effect. The first B Corporations were certified in 2007; now, there are more than 3,500 of them.

None of that means that companies should eschew the pursuit of profit. As some of our colleagues recently noted, “There is a term for an enlightened

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30 Kimberly Amadeo, “US national debt by year compared to GDP and major events,” Balance, October 9, 2020, thebalance.com.
company with the most perfect intentions that does not make money: defunct. Instead, it’s an argument to infuse profit, a readily measured metric, with a sense of purpose—something that humans naturally seek.

We do not believe there is a conflict between the two. In a study that looked at 615 large- and midcap US publicly listed companies from 2001 to 2015, MGI found that those with a long-term view—something that’s a core of stakeholder capitalism—outperformed the rest in earnings, revenue, investment, and job growth. And a McKinsey Global Survey in February 2020 found that a majority of the executives and investment professionals surveyed said they believed that environmental, social, and governance programs already create short- and long-term value and will do so even more five years from now.

Stakeholder capitalism isn’t about being the most woke or about fending off pesky activists. It’s about building the trust—call it the “social capital”—that businesses need to keep doing business. And it’s about recognizing that creating long-term shareholder value requires more than just focusing on shareholders.

In March 2020, some of our McKinsey colleagues argued that the COVID-19 crisis could be the “imperative of our time.” A month later, we noted that it could bring a “dramatic restructuring of the economic and social order.” We stand by those assertions. The COVID-19 pandemic has been an economic and human catastrophe, and it’s far from over. But with vaccines beginning to roll out, it’s possible to be cautiously optimistic that the next normal will emerge this year or next.

And we believe that, in some ways, that normal could be better. With good leadership, from both business and governments, the changes we described—in productivity, green growth, medical innovation, and resiliency—could provide an enduring foundation for the long term.


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