

Social, Healthcare and Public Entities Practices

America 2021: Rebuilding lives and livelihoods after COVID-19

To America's leaders, innovators, and changemakers: the post-World War II recovery offers lessons for the post-COVID-19 future.

by Kevin Sneader and Shubham Singhal



Call it D-Day, with the “D” standing for “deliverance.” As the COVID-19 vaccines begin to roll out, it is possible to believe that the worst will be behind us in the next year—just as the original D-Day, in June 1944, augured the end of World War II in Europe 11 months later.

Last July, we argued that there were lessons from the postwar era for our own. We noted that Japan, the United States, and Western Europe won the peace, enjoying more than a generation of economic growth that delivered broad-based prosperity while cutting debt, inequality, poverty, and unemployment (Exhibit 1). That was no miracle, we wrote: the long, strong postwar recovery was the product of “good policies, political commitment, and hard work.” With will and imagination, we believe that record can be replicated today.

In this article, we look specifically at the United States, which has lost tens of thousands more people to the pandemic than it did to military service in

World War II! Just as in 1945, the country faces the challenge of recovery. We therefore focus on what the country can do to foster economic competitiveness and social mobility and thus create strong foundations for long-term renewal.

Institute measures to promote productivity growth

“Productivity isn’t everything, but, in the long run, it is almost everything.”

— economist Paul Krugman

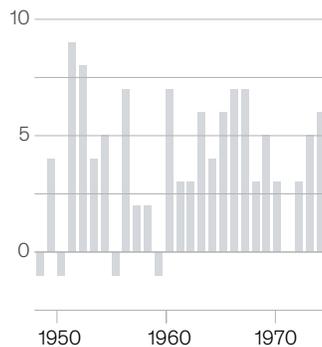
One of the essential features of the strong and deep economic performance after World War II was strong productivity growth (Exhibit 2)—2.8 percent a year from 1947 to 1973.² The United States took effective actions that helped to boost productivity. While private sector deployed the technology developed in wartime to boost peacetime commercial ventures, the government helped expand human

Exhibit 1

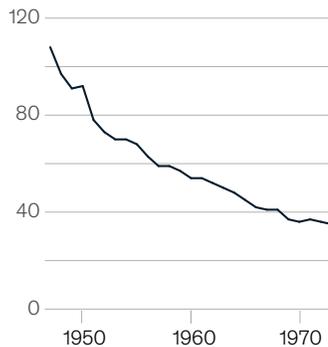
The postwar era, from 1947–73, saw strong, broad-based economic growth.

US economy post WWII to 1973

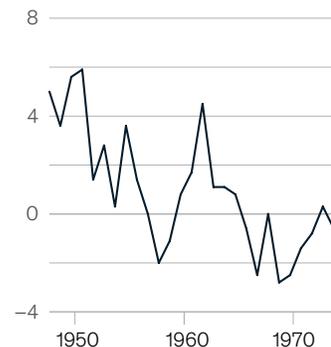
GDP growth, % change



US gross federal debt, % of GDP



Income inequality for families, % change in Gini coefficient¹

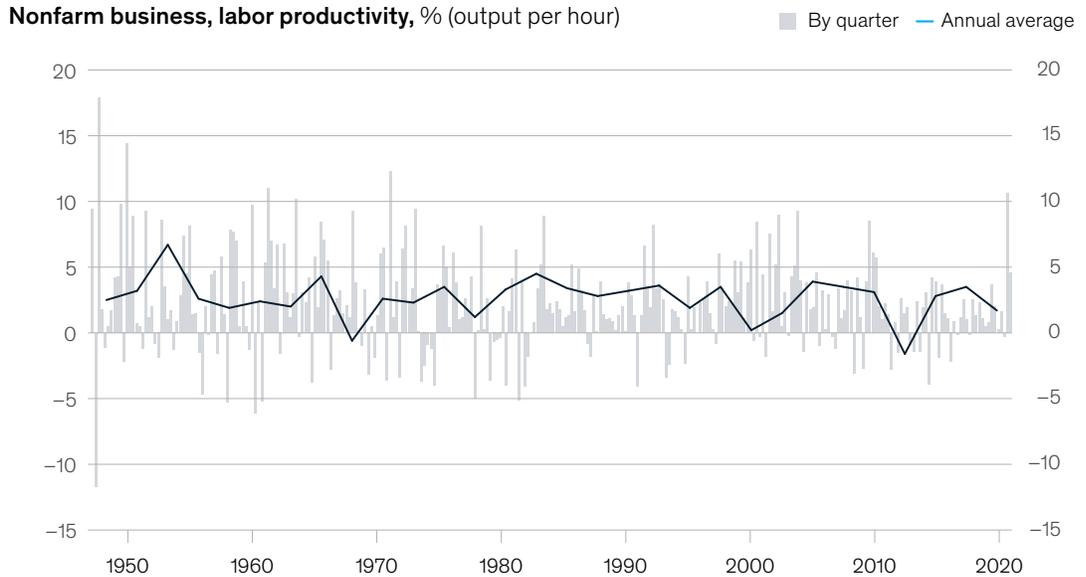


¹The Gini coefficient measures income distribution. A Gini coefficient of zero stands for perfect equality, whereas a Gini coefficient of 1 (or 100%) stands for maximum inequality. The higher the Gini coefficient, the higher the degree of inequality. Source: US Census Bureau, Current Population Survey, March 1948–99

¹ *America’s Wars*, Department of Veterans Affairs, va.gov.
² “Labor productivity and costs,” US Bureau of Labor Statistics, bls.gov.

Exhibit 2

Productivity was particularly strong in the 1950s and 1960s but has been weak in the last decade.



Source: US Bureau of Labor Statistics

capital and infrastructure. Highlights include the GI Bill, which widened educational opportunity, low-interest business and housing loans to veterans, and the creation of the interstate highway system.

Only through higher productivity can wages and living standards improve. So it is concerning that productivity growth averaged a desultory 1.4 percent a year from 2007 to 2019. The year of the pandemic, however, was different. In the second and third quarters of 2020—the latest period for which data are available—productivity grew at the fastest rate since 1965: 4.6 percent in the third quarter and more than 10.0 percent in the second.

Part of this was because of catching up after the big falls in output and hours earlier in the year—a phenomenon that cannot be the basis for long-term policy. But another part can be attributed to digital

acceleration, which COVID-19 undeniably boosted, such as the effective transition to remote working. 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.³

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 consumer transactions digitally.⁴ In the past, it has typically taken a decade or more for new technologies to penetrate the workplace and eventually show up in the form of productivity growth. The hope is that the need to react to the COVID-19 pandemic might accelerate that process, setting the United States up for a productivity surge.

³ "How COVID-19 has pushed companies over the technology tipping point—and transformed business forever: McKinsey Global Survey results," October 5, 2020, McKinsey.com.

⁴ Ibid.

Enabling businesses to boost technology adoption and innovation

There are proven “catch up” approaches that help boost productivity, including removing barriers to competition in services, cutting red tape that impedes business formation (and dissolution), and allowing more effective reallocation of human and financial resources as new technologies emerge and productivity gains shift across industries. Additionally, the productivity of the public sector and regulated sectors, such as healthcare, has been notably slow to improve and will need to be addressed.

Perhaps more important, as the experience during the COVID-19 crisis shows, productivity in the future will take different forms than those that took pride of place in the postwar era. Using existing technologies could help create \$2 trillion in value in the next decade in just four areas: mobility, healthcare, manufacturing, and retail. For example, road traffic could be made safer and faster by developing smart technology that communicates with a variety of networks. All these areas require a supportive regulatory framework that does not seek to protect incumbent companies but instead encourages an adaptable workforce, the flow of information, and an innovative mindset. While the means of getting there will be different, in terms of productivity, the ends are the same as in the postwar era.

Building the necessary infrastructure and social capital

Productivity growth does not just happen; the conditions need to be right. For a start—and we know this has been said before—America’s physical infrastructure could and should be much better. The focus could be on projects with the highest likelihood of significant economic returns and benefits to quality of life. These projects should be completed as efficiently as possible—every dollar that is overspent is one that cannot be applied to other projects, reducing the related social benefits. Although the US national debt is historically high—almost near the 1946 record—interest rates are low. And there is catching up to do. Infrastructure

spending as a share of GDP has been declining since the post-financial-crisis stimulus, contributing to an estimated backlog of \$2.1 trillion.

In addition to the usual suspects—roads, water, transport, power, bridges—there is a distinctly 21st-century priority in the form of digital infrastructure. COVID-19 has accelerated the use of digital technologies in business—by as much as three to four years in some industries. But the pandemic has also highlighted the gaps in digital provision. Just as 19th-century farmers needed roads and railroads to participate in the broader economy, today’s Americans need digital to do the same. Too many cannot, either because of a lack of high-speed access (78 percent coverage in rural areas at the beginning of 2019) or lack of affordability. In terms of education, such deficits are likely to have damaging long-term effects, particularly on Black, Hispanic, and poorer school-children, whose parents are also the most likely to have been economically hurt by the COVID-19 crisis. For both economic opportunity and racial equity, then, broadening digital access should be a high priority.

Then there is what might be called the social infrastructure. The pandemic has demonstrated that there are also economic costs to systemic weaknesses in the US health system. In October, the McKinsey Global Institute (MGI) estimated that poor health costs the United States as much as 16 percent of GDP, or \$3.2 trillion, in the form of premature deaths and lost productivity. Health is not only a cost, then, but also an investment.

Effective action can also bring significant economic benefits. In the most recent Global Competitiveness Index, the United States ranked second of 141 countries surveyed (Singapore was first). Looking at the dozen factors reviewed, the United States ranked in the top 10 in seven, but only 13th in infrastructure, 27th in adoption of information and communications technology (ICT), and 55th in health. Doing better on these dimensions would improve both lives and livelihoods.

Support individuals so that they can benefit from the coming economic transition

“As digitization, automation, and AI [artificial intelligence] reshape whole industries and every enterprise, the only way to realize the potential productivity dividends from that investment will be to have the people and processes in place to capture it. Managing this transition well, in short, is not just a social good; it’s a competitive imperative.”

— “Retraining and reskilling workers in the age of automation,” McKinsey Global Institute, January 2018

We wouldn’t change a word of that. The future of advanced economies like the United States depends largely on the quality of their human capital. The demand for technological skills is accelerating, and the supply is not keeping up. For example, in a recent international comparison of adult skills, the United States ranked 29th out of 39 countries in

numeracy, with its overall score well below average. And in social terms, it is critical to address the precarious economic footing of too many people, particularly the 70 million working Americans who do not have a college degree. That cohort not only has been disproportionately hurt by COVID-19 but also is more vulnerable to automation. In today’s fast and fundamentally changing global economy (Exhibit 3), that means working with businesses, unions, and other entities to categorize the skills the economy will need; identifying best practices and effective programs; and supporting efforts to provide them.

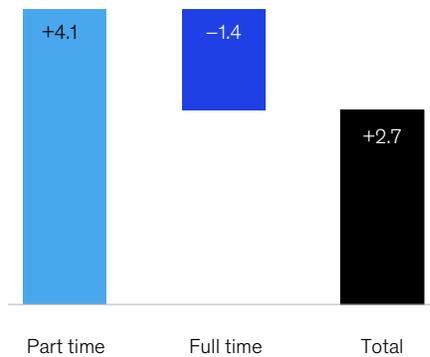
The good news is that this may be the equivalent of pushing on an open door; almost two-thirds of US private-sector executives surveyed said it was the responsibility of business to take the lead in closing skills gaps. There could, however, be a role for government in reskilling those who have been laid off due to technological disruption or who have not yet entered the labor force. As has happened throughout history, we expect new jobs will more

Exhibit 3

Outcomes for many workers have changed.

Full-time work in the OECD has been declining ...

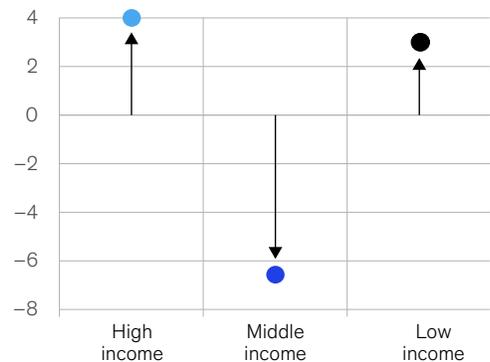
Change in employment rate, 2000–18, percentage points



Source: McKinsey Global Institute analysis

... in a polarized labor market

Europe and US employment share change 2000–18, percentage points



The private sector is the engine that powers the creation of the jobs and wealth without which government can do little.

than replace those lost due to artificial intelligence (AI), automation, and digitization. But we accept that these transitions can be painful. Therefore, it is important for both social and economic reasons to reduce the hurt and help people to adapt.

It is also worth remembering that not all workers want to, or will, spend their days in front of screens or graduate from four-year colleges. Skills gaps also exist in critical areas like welding and sheet-metal work—skilled trades that are expected to grow and that deliver solid middle-class outcomes. And yet the US apprenticeship system is falling short. Although the number of registered apprentices has grown from 398,000 in fiscal year 2011 to 633,000 in 2019, most of these are in the construction industry. And in the context of a workforce of almost 158 million people, it is not enough. A particular opportunity that is consistent with President Biden's stated goals could be to encourage efforts to develop apprenticeships related to green technologies.

Finally, social policy could be revised to better match today's economic realities, such as the rise of part-time and gig work. Government policies related to work, unemployment, and income support have not changed nearly as much as the circumstances. There have been interesting experiments in many areas. Now is the time to study them and to think creatively about building structures to suit

the 21st-century workforce. Possibilities to explore include making benefits portable; enabling benefits provision on a flexible, sliding-scale basis, depending on the hours worked; and extending unemployment insurance to independent contractors.

The postwar workforce benefited from generally positive economic trends and policies. But it also strikes us that many individuals experienced profound transformations—leaving their hometowns, going to college, engaging with the broader society in ways that would not have been possible for their parents, whose recent past was scarred by the Depression.

The United States has a chance to re-create that postwar sense of individual possibility—by policies that do not seek to resist the tides of change but, instead, prepare people to surf them.

Nurture the growth of sustainable and innovative new businesses

Much of this memo is heavy on public-sector-oriented policies and actions. But the United States is a largely free-market economy, and the private sector is the engine that powers the creation of the jobs and wealth without which government can do little. Americans get this: in 2019, 87 percent had a positive view of free enterprise.⁵

⁵ Jeffrey M. Jones and Lydia Saad, "US support for more government inches up, but not for socialism," Gallup, November 18, 2019, [gallup.com](https://www.gallup.com).

In the immediate aftermath of World War II, federal government spending fell sharply, and there were concerns that the economy would not be able to absorb the millions of members of the armed forces returning home.⁶ But private investment and spending took up most of the slack; while there were ups and downs, private domestic investment grew particularly fast in the immediate postwar years and generally stayed strong thereafter (Exhibit 4).

One lesson of the postwar era, then, is that enabling the efficient functioning of the private sector—with an emphasis on resilience, innovation, entrepreneurship, and competition (and today, environmental excellence)—can bring positive results.

On the whole, big businesses are coming out of the COVID-19 crisis stronger than small ones;

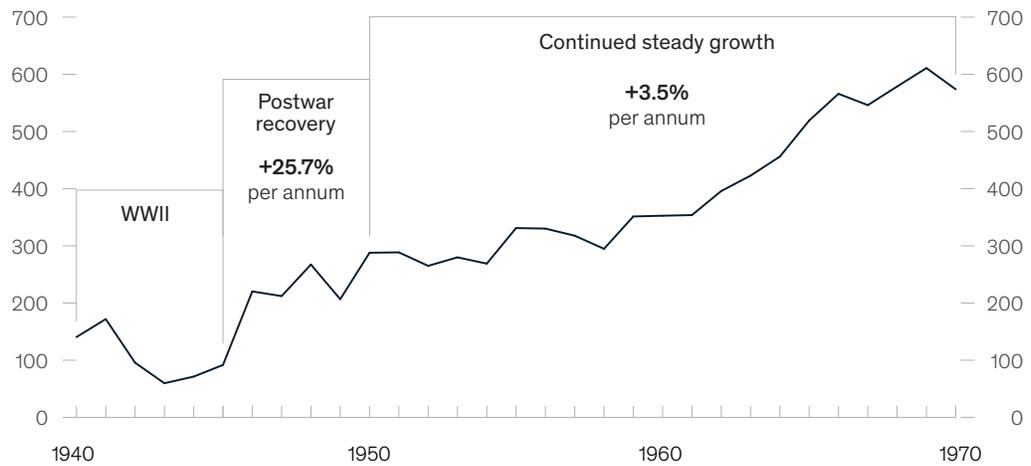
they also recovered faster after the financial crisis. Indeed, one 21st-century trend is that major incumbents have increased their market share in many industries. As a candidate, President Biden emphasized supporting the middle class. One priority, then, could be strengthening the small-business sector, which accounts for a significant share of innovation, exports, and employment.⁷

A healthy private sector depends on competition and thus lower barriers to entry; indeed, there is a strong link between levels of competition in a given industry and its productivity growth. Promoting competitive markets, ensuring access to stimulus funding for small and medium-size enterprises (SMEs), and easing access to capital might also be useful. Other countries, such as Canada and Singapore, have interesting programs to look at that aim to improve access to next-generation technology for SMEs and help them grow. Germany

Exhibit 4

Private investment surged immediately after the war and then stayed strong.

United States gross private domestic investment, \$ billions (chained 2012 dollars)



Source: US Bureau of Labor Statistics

⁶ Cecil Bohanon, "Economic recovery: Lessons from the post-World War II period," Mercatus Center at George Mason University, September 10, 2012, mercatus.org.

⁷ "United States small business profile, 2020," Office of Advocacy, US Small Business Administration, May 20, 2020, advocacy.sba.gov.

has set up “competence centers” in which coaches train SMEs in the use of AI.

It is also important to make it easier for small businesses to operate. Bigger businesses have the financial wherewithal to absorb the cost of regulation; these can be crippling for smaller ones or start-ups. Overregulation and uncertainty over government actions both rank in the top ten complaints in the National Federation of Independent Business’s most recent survey.⁸

The United States has seen a surge of entrepreneurship during the pandemic; in the second half of 2020, there were about 2.5 million new business formations, almost double the figure for the same period in 2019. That is a powerful trend to build on. One possible approach, adopted in Britain, Canada, and some US states, is “regulatory budgeting,” in which authorities are required to reconsider old rules, in terms of both costs and benefits, when they promulgate new ones. Just as fiscal expenditures are routinely tracked, this process is a way to do the same for what might be called regulatory expenditures.

More generally, there is a case for increasing R&D funding for basic research in high-potential sectors, including those associated with dealing with climate change, such as hydrogen and carbon-capture technologies as well as areas like synthetic biology. Federal R&D is only about 0.6 percent of GDP and 2.8 percent of federal spending, the lowest of the postwar era. In constant dollars, from 2009 to 2016, funding fell almost 17 percent, before rising slightly. R&D not only has proved effective for the United States in the past—in areas like aviation, space, and electronics—but also can play an important role in deepening the pool in terms of talent and institutions. Failure is always an option, but betting on American ingenuity is a good wager.

Create stable global frameworks that promote trade and competition

One of the hallmarks of the postwar era was the creation of a wide range of international institutions. This is a living legacy, but it is one that could be renewed: it is fair to ask how current institutions can be modernized for the post-COVID-19 world amid the Fourth Industrial Revolution and whether new ones need to be formed.

Consider trade. The postwar trade order was focused on the movement of physical goods. Now the trade in services is ever-more important. The use of e-commerce accelerated during the pandemic; technologies such as automation and AI are changing the nature of work and of international economics. The pandemic appears to have slowed global economic integration. Indeed, many companies have moved the production of goods closer to home to be better prepared for future supply-chain shocks. With labor-cost arbitrage less important—it accounts for only 18 percent of the trade in goods from poorer to richer countries—this trend could continue.

That said, globalization remains a potent force, and digital flows exert a larger impact on GDP growth than the trade in goods. The need, then, is for trade agreements that solve for today’s problems, not those of the last century. Specifically, that means enabling technological diffusion, including creating common standards for the flow of data and services, while protecting intellectual property and privacy.

In 2013, MGI identified a dozen technologies⁹ that could create \$33 trillion a year in global value—and go a long way to building a cleaner, healthier, and more prosperous society. For that to happen, it would be useful to build global frameworks within which companies can operate; without such

⁸ 2020 *small business problems and priorities*, National Federation of Independent Business (NFIB) Research Center, July 2020, nfib.com.

⁹ Mobile Internet, automation of knowledge work, the Internet of Things, cloud technology, advanced robotics, autonomous vehicles, next-generation genomics, energy storage, 3-D printing, advanced materials, advanced oil and gas exploration and recovery, and renewable energy.

frameworks, regulation will be fragmented, which raises costs and irritation to no good effect. There may be domestic political pressure to keep protective tariffs implemented under prior administrations. But the United States would ultimately be better off by being part of and leading broad international agreements that promote competition and high standards. Trade can be disruptive, hurting some sectors and people. But the best response is to mitigate the effects and to equip US workers—already highly productive—for the future through reskilling and other efforts.

Trade is only one area where there is a need for constructive cooperation. A separate memo addresses climate change. We note here, however, that when it comes to the environment, the commons is global. Therefore, the issues related to it are best dealt with internationally, for example, by devising universal metrics and standards and agreeing on a framework to phase out harmful subsidies.

The architects of the postwar era recognized that global problems required global solutions—and that the United States had a critical role to play. That is still true.

Make the public sector function more effectively and productively

Federal government spending accounted for more than 30 percent of US GDP in 2020 and more indirectly. On that basis alone, it clearly matters that this money is spent well. More important, the government delivers vital services to its citizens. For example, income support reduces poverty, and fundamental aspects of the modern economy, such as health, education, and infrastructure, depend to a large degree on government. Accountability and effectiveness matter, both to deliver these necessary services and to build the public support on which all government ultimately relies.

Trust in government is low, however. According to a recent survey, only 40 percent of Americans trust the federal government; of those who voted for President Biden, 53 percent trusted government—hardly a ringing vote of confidence.¹⁰ Faith in government will be restored only to the extent that it is effective.

Too often, however, it does not function as well as it should. Here is one statistic that should give pause: in 2019, more than 75 percent of public-sector organizations had below-average organizational

Accountability and effectiveness matter, both to deliver necessary services and to build the public support on which all government ultimately relies.

¹⁰ *Edelman Trust Barometer 2021*, Edelman, January 2021, edelman.com.

health, with particularly poor results compared with the private sector in coordination, culture, direction, capabilities, and accountability. And reform has been tepid. According to McKinsey research, 80 percent of public-sector transformations do not meet their goals. Given today's context of COVID-19, social unrest, aging populations, and economic change, that is not nearly good enough.

There are proven ways to do better. In general terms, these include setting and communicating high aspirations; creating and empowering transformation teams to coordinate delivery; drawing on design principles to understand the citizen journey; deploying technology; setting a time frame; implementing agile practices to prototype and iterate new services; and using data and analytics to make better decisions.

In specific terms, there are two major ways to drive constructive change. First, there is technology. There is a great deal of scope to use automation to deliver better routine services; that would also free up personnel to take on more complex and personalized tasks. Digitalization and AI could also help to break down the informational walls that inhibit communication among government agencies. For both public-sector workers and those they serve, e-government is something to embrace, not to fear.

The second way to drive constructive change is through people. At its best, the public sector is mission driven, a factor that can be underestimated.

Instead, it should be emphasized as a way to inspire people to be open to doing things differently. The US Department of Veterans' Affairs, for example, summoned a sense of purpose to make the case for fundamental change—and satisfaction with its services rose from 47 percent in 2015 to 80 percent as of June 2020. It is important to identify skill gaps and fill them, both through the recruitment of new workers and by training current staff. Hiring for skills rather than educational qualifications or work history might help to widen, deepen, and diversify the workforce.

The United States has enormous strengths to work from. The speed with which it developed and approved COVID-19 vaccines is only the most recent example of American ingenuity. US GDP fell less during the pandemic than in most other developed countries, and employment bounced back faster—signs of the resiliency that has long been an important feature of the country. Recovery is the right goal, and one that will engage all sectors of society.

For many years, the terms “prewar” and “postwar” were a common shorthand to describe the divide before and after the 20th century's greatest calamity. The terms “pre-COVID-19” and “post-COVID-19” could well become a similar shorthand. The challenge for the United States is to create enduring good out of tragedy by building a strong, inclusive economic recovery. That is a realistic aspiration: after all, the country has done it before.

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