



BEYOND THE CURVE

START REIMAGINING GOVERNMENT NOW

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WHILE THE BATTLE AGAINST COVID-19 continues in full force, it is almost certain that the pandemic will leave a permanent mark on societies around the globe. The longer that measures such as business restrictions and social distancing need to remain in place—and the stricter they are—the greater the likelihood that the changes to our ways of living and working will be broad, deep, and enduring.

Governments must begin now to consider whether the changes that are already underway will persist and how, in some cases, they may evolve. This does not mean trying to predict the precise path of the pandemic or its impact. Challenging in the most stable of times, making reliable predictions in the current volatile and uncertain environment is even more difficult. However, governments must start to assess the lasting changes that the pandemic may bring and reimagine their own approaches and strategies for that new and different world. We see five shifts that could result in long-term changes that governments should prepare for:

1. The move to a digital economy, already well along in many parts of the world, will likely accelerate.
2. The current slowdown in cross-border activity and adjustments to global supply chains will probably continue.
3. The heightened demand for public services triggered by the pandemic may, at least temporarily, increase the role of government in many parts of the world.
4. Crisis management and resilience will become more critical, given the exposure of the consequences of inadequate preparation.
5. The pressure on governments' fiscal health will increase, and scrutiny of the impact of economic reforms on social inequity will intensify.

Governments should prepare themselves now for this post-COVID-19 world by acting in three areas. First, they should reshape how government works, including by

strengthening crisis management and embracing systems thinking, an approach that factors in how the activities of government entities intersect to drive citizen outcomes. Second, they should reform how government services are delivered, in particular by accelerating the rollout and adoption of digital services. Third, they must revitalize their economies in a way that boosts long-term competitiveness while generating enduring, environmentally sustainable, and equitable growth.

Current Shifts, Long-Term Implications

In the future, we will likely think in terms of a clear demarcation line: life before COVID-19 and life after. Historically, calamities have led to fundamental shifts in societies and economies. World War II brought more women into the workforce; the September 11 attacks changed security protocols across the world and ushered in a new era of intelligence gathering. COVID-19 is already driving five shifts that could have long-term implications for governments. (See the exhibit.)

Accelerated Shift to a Digital Economy. In almost every country, governments have taken measures to restrict in-person contact, forcing people to interact and

work remotely. This has driven a surge in digital activity: according to data from Akamai Technologies, monthly global internet usage in March and April was up 30%, ten times the pre-COVID-19 monthly growth rate. Global e-commerce expenditure increased more than 40% from late February to the end of April.¹ Demand for the online provision of services traditionally delivered in person—like a visit to a physician—has also spiked. After the easing of telehealth restrictions in late March, the US saw a tenfold increase in virtual patient consultations in the first two weeks of April, according to a report in *The Lancet*, a trend mirrored in other countries.

Certainly, the dramatic surge in online activity may recede a bit as restrictions are lifted. But it is likely that COVID-19 has accelerated the trend toward digital. That’s because movement to digital channels has typically been a one-way street. The SARS crisis, for example, is credited with a permanent uptick of consumers using online retail services in China. Many governments were seeing a large increase in demand for digital services over the past decade—well before the pandemic. In the years ahead, they should anticipate higher levels of demand as citizens who have experienced digital service delivery during the crisis come to prefer this channel.

Changes Wrought by COVID-19 Today May Have Long-Term Implications for Government

TODAY	TOMORROW?
People everywhere are working remotely.	<ul style="list-style-type: none"> Accelerated shift to a digital economy Increased demand for government digital services Growth in remote working practices
The cross-border movement of people and goods has slowed.	<ul style="list-style-type: none"> Slowdown in the movement of people over the medium term Moves to localize or regionalize supply chains Decline in internationally exposed industries in the near term
Demand for government services and support has spiked.	<ul style="list-style-type: none"> Continued high levels of demand for government services Larger role for government Demand for reform of important government services, like health
Awareness of the risk posed by disasters has increased.	<ul style="list-style-type: none"> Focus on reforming crisis management in government Increased investment in resilience Demand for closer public-private collaboration
Government spending has ballooned.	<ul style="list-style-type: none"> Pressure on government to manage fiscal health Weakened ability to respond to volatile and anemic growth Potential to exacerbate economic and social inequalities

Source: BCG analysis.

The amount of time people in government and other sectors will work remotely is also likely to rise. Working from home is not a new phenomenon, but the crisis has broken down some of the barriers that were preventing wider adoption. Many organizations, for example, have invested in technology and have established norms to support employees working from home. And the success of remote-working arrangements may have dispelled myths about productivity. This will have immediate implications for governments as employers. Even before the crisis, for example, more than one-third of US federal government employees worked from home on average one day a week, according to the US Office of Personnel Management. And if employees in many industries across the economy increasingly work remotely, this will affect government services tied to patterns of commuter behavior, including public transportation, government construction and maintenance of highways, and child care.

Continued Slowdown in Cross-Border Activity. The pandemic has disrupted trade, travel, and other cross-border activities. Trade has been heavily impacted by the economic fallout of the pandemic. The World Trade Organization has forecasted a decline in international trade this year of 13% to 32%, depending on the broader economy. Global travel has come to a nearly complete standstill. By the end of April, global airline capacity had been reduced by almost 75% from pre-COVID-19 levels, with 65% of the world's commercial aircraft in storage.² Most countries have partial or full border closures in place for personal travel. And many have indicated that reopening borders will be among their last steps in the easing of restrictions, with a return to pre-pandemic openness potentially on hold until a vaccine or cure is widely available.

How quickly and to what extent cross-border activity resumes is unclear. We have already seen indications that supply chains vital to national interests, like medical supplies and agriculture, may be permanently disrupted by a desire among government to secure local supply. Companies may also

seek to localize or regionalize supply chains to reduce exposure to global risks. Meanwhile, nationalist posturing is also on the rise, potentially signaling a retreat from open global trade.

Similarly, global travel is unlikely to enjoy a rapid recovery to pre-pandemic levels. Certainly, international passenger travel has historically recovered quickly from a crisis. Despite dire predictions, airline travel after the September 11 attacks was back at long-term trend levels in the US within three years and continued to grow globally during that period. Airline travel also quickly recovered after the global financial crisis. But this crisis may be different, for several reasons. First, given the expected timeline for the development of a vaccine, the restrictions that have caused the initial dramatic slowdown may remain in place for many months. Second, even when the restrictions are lifted, it is likely that economies in many parts of the world will still be struggling. Third, businesses already under pressure to reduce carbon footprints, and now to reduce costs, are unlikely to resume pre-COVID-19 levels of travel any time soon.

As a result, industries with high exposure to international travel will struggle to weather this lengthy period. This includes airlines and tourism in most parts of the world. In addition, in some countries, such as the US, Australia, and the UK, the education sector is heavily dependent on fee-paying international students and consequently is likely to take a hit.

A Larger Role for Government and Pressure for Reforms. Governments are heaving under the strain of demand for assistance and services. Early in the crisis, Australia saw long lines of newly unemployed people outside welfare offices after the government's website crashed, a result of the government's underestimation of the volume and speed of the impact of the coronavirus on jobs. In Thailand, a government website crashed as 14 million people tried to sign up for a cash handout scheme, four times the anticipated number. The US has recorded almost 39 million jobless

claims since mid-March, causing a melt-down of many state government systems. Major recurring issues with Florida's online portal for unemployment insurance through April, for example, left tens of thousands of jobless Floridians unable to file claims.

Beyond the immediate surge in demand for government support, the economic fallout from the crisis means that a heightened demand for government services will likely persist for some time. This will lead to bigger government, at least temporarily, or will force governments to deprioritize spending in areas unrelated to the COVID-19 response if they want to limit an overall expansion.

In addition to welfare support for the unemployed or financial assistance for businesses, the crisis has sharpened the case for government reforms in some countries, particularly where existing services have been exposed as inadequate. Health care systems in particular have been tested in unprecedented ways. How these systems are reformed will be shaped largely by political debates related to issues such as the role of the government versus the private sector in providing care, the implications of telemedicine, and the need for more-resilient medical supply chains and more-flexible health capacity and workforces. Nonetheless, in many countries the crisis has hardened the consensus on the need for reform.

Increased Focus on Crisis Management and Resilience. Nearly every citizen in almost every country has been directly impacted by the COVID-19 crisis. Most people's lives have been disrupted by social distancing requirements, stay-at-home orders, and homeschooling; Many have lost loved ones or are now unemployed or facing a highly uncertain financial future. This has raised an acute awareness of how exposed we are to natural disasters such as pandemics, and how critical it is to have a resilient and effective government to lead the way. While still early days, it is clear some governments have been in a position to mitigate the

effects of the crisis better than others by moving fast, acting decisively, and mobilizing resources effectively.

In the months and years ahead, governments will naturally come under pressure to address the flaws exposed in the handling of this crisis. Past crises present a playbook of sorts. After September 11, the US overhauled its intelligence community. After the global financial crisis, most developed countries introduced large-scale reforms of the financial sector, such as the Dodd-Frank Act in the US and updates to the Basel Accords on global banking. This time around, there is likely to be a focus on the health response, in particular how well-equipped a country is to detect epidemics and respond swiftly.

Yet the need for action will likely be broader, including a drive to improve the country's resilience in the face of disasters of many types. For many citizens, the COVID-19 crisis probably feels like the latest in a line of catastrophic events that have upended their lives in recent years, from hurricanes to flooding to heatwaves to bushfires. Since 2015, the US has seen an average of 15 disasters per year costing \$1 billion or more, compared with an average of six per year since 1980, according to the National Oceanic and Atmospheric Administration. The increased pace of such disasters reflects, in part, the grave threat that climate change poses to global economies—a threat that dwarfs the damage caused by the current pandemic. Most governments need to urgently rethink their approach to assessing risk overall—and climate risk, in particular—and how they prepare for the next calamitous event.

There is clearly a heightened awareness that our ability to respond to crises—and maintain a vital economy for business growth—is closely tethered to government capacity and performance. This realization could also usher in closer collaboration between the private and public sectors. In many places, the public pandemic response has already drawn heavily on business partnerships to address shared public challenges.

Economic Pressures. The size of stimulus packages announced by governments is already on track to be larger than stimulus spending in the global financial crisis. Across OECD countries, governments have committed 3.5% of GDP to new programs aimed at reviving their economies, compared with 2.1% in 2009, at the height of the global financial crisis. The IMF estimates that across the world, the average government fiscal deficit in 2020 will be 10% of GDP (compared with 3% annually, on average, since the global financial crisis) and that total gross national debt will rise to 96% of global GDP, up from 83% in 2019. At the same time, monetary policy levers have been largely pushed to their limits, with near-zero interest rates across developed countries.

The size and nature of the post-COVID-19 hangover will not be apparent until economies emerge from the widely expected recession. However, in the near term the crisis may leave governments in a weaker position to address further spates of economic stress through additional stimulus. Even with today's low interest rates, which make debt relatively cheap, governments will likely seek to reduce debt levels by pushing for greater cost efficiency in government programs. They must proceed with caution, however. In particular, they should note the lessons from the global financial crisis, when austerity programs in some countries aimed at shoring up government finances inflicted further damage on the economy.

The extent to which today's government actions close—or exacerbate—existing inequalities and address other important policy objectives will shape the ability of post-COVID-19 societies to come together and thrive. Perceptions may matter as much as a policy's actual effectiveness in spurring economic growth and restoring fiscal health. After the last crisis, perceptions about government actions to resuscitate the economy influenced public debate and political discourse for years. A perception that the government was getting “too big” spurred the rise of the Tea Party in the US, for example. And a view that government

actions in the crisis favored the wealthy sparked the Occupy Wall Street movement. Trust in government and in its vision may rise or fall on how citizens see their needs and priorities reflected in their government's economic policies, and how well government delivers on citizens' expectations for public service delivery.

Government Must Act in Three Areas

Given the potential for the five shifts outlined above to reshape social and economic life, governments need to act now to ensure they can respond effectively. This requires new approaches in three areas.

Reshape how government works. Governments should use the pandemic as a catalyst for revamping how they operate to ensure effective national crisis management and resilience support, improve how they collaborate with local leaders, particularly in cities, and embrace systems thinking and agile ways of working.

Governments should start by reviewing the structures, people, and processes in place to respond to crises. In doing so, they must avoid the trap of only looking backward, solving the last crisis instead of anticipating the next one. To this end, governments should strengthen scenario planning and wargaming, adopting a “prepare, don't predict” mindset. With budgets likely under pressure, governments should also take a hard look at both the way business cases for investments are constructed and the way investments are funded. They should adjust approaches in both areas to incentivize critical investments in resilience, which often deliver a long-term payoff, over investments that yield short-term efficiency gains.

In addition, governments need to become more effective partners to local communities. With a growing percentage of the world's population gravitating to cities, governments should take the opportunity in particular to focus on and support urban resilience. And they should build complementary relationships between national

and local governments, embracing the more responsive and experimental approach that is possible at a local or community level.

Governments must also develop strategies that reflect the operation of government as a system—not as a series of silos. The current crisis has highlighted the importance of such systems thinking, demanding a whole-of-government response that reflects the intertwined health, economic, and societal challenges posed by the pandemic. The pandemic has, for example, exposed how a lack of shared data platforms that enable the matching of supply and demand for critical resources has undermined the national response. To drive a systems-level approach, governments should develop shared data and IT platforms and embrace inclusive decision making, tolerance for an appropriate level of risk, and a focus on outcomes in measuring performance. They should also redouble efforts to adopt agile ways of working, including the creation of focused multidisciplinary teams, the development of minimum viable products at speed, and the increased use of data and analytics.

Reform the delivery of government services. As the pandemic accelerates the spread of digital tools and business models, governments should intensify their focus on digital service delivery. They must also assess how health and education systems may need to change.

A drive to expand digital service delivery will be particularly critical. Even before the pandemic, governments were under pressure to meet citizens' expectations for service delivery. Post-COVID-19, those expectations will only grow. To effectively accelerate their investment in digital services, governments must adopt a citizen-centric mindset to reimagine the entire citizen journey, delivering simpler, seamless, and faster government services. They must use this opportunity to build teams that can deliver great digital products and services quickly, and accelerate decisions such as moving more aggressively into the cloud, using a more diverse range of suppliers,

and simplifying and standardizing their data and digital platforms. Governments will also need to become “bionic,” adept at harnessing both the human elements of their organizations (including through the right structures, talent, and ways of working) and the technological elements (such as AI, machine learning, and other innovations) to deliver positive outcomes for citizens.

Government leaders should also focus on reforming health systems, learning from weaknesses exposed during the crisis. The lessons include the importance of resilient medical supply chains and the need to adopt digital technologies and data analytics in line with digitization trends in other parts of the economy. Health systems should also embrace changes wrought by the crisis, including the expanded use of digital service channels, such as telehealth. And as governments increase R&D investments aimed at the development of rapid diagnostics, therapeutics, and vaccines to head off the next pandemic, public health institutions will need to position themselves to compete for that funding.

At the same time, governments should rethink their education and worker training and reskilling models. Digital learning is not new, but public education systems are now a testing ground for remote-education delivery models on a mass scale. Forward-looking government institutions will seize on the lessons and behaviors learned to permanently reshape how education is delivered. If the right investments are made, including steps to ensure widespread access to digital services and tools, such a shift can help address a profound driver of inequality by decoupling the quality of education from the wealth of a student's neighborhood. In some countries, governments will also need to look at structural reforms so that higher-education institutions are less dependent on fee-paying international students.

Revitalize the economy—and ensure equity. The changes ahead make it critical for governments to take proactive steps to

position their economies for a rebound while fostering trust among citizens.

As they restructure their economies, governments will need to build a base for future competitiveness. They should, for example, redouble efforts in growth areas such as digital and the green economy. At the same time, they need to design relief packages and economic policies to drive re-skilling and upskilling of workers to meet the demands of growing sectors—not to subsidize shrinking industries. Those governments that develop forward-looking human capital strategies based on objective assessments of their competitive advantage relative to other countries will be positioned for a robust and strong rebound.

As governments move to revitalize their economies, they must also build—or in some cases rebuild—trust among citizens. This starts with designing equitable economic reforms that will deliver for all. Many governments have designed stimulus programs, for example, to ensure social protections are structured to reflect the reality of the “new” economy, particularly the rise of contract and gig workers. At the

same time, governments must be empathetic and transparent, develop authentic connections, and value and respond to citizens’ voices. This is more than just an effective communication strategy—it is also about shaping people, organizations, and processes around an imperative to be genuinely responsive and caring.

THE CHANGE AND uncertainty created by COVID-19 can be a powerful catalyst for positive change in government. But to seize this opportunity, governments need to step back and think about the long-term implications of the pandemic—and reimagine how they should operate in the new reality. Those that do will navigate more effectively through the current crisis—and they will be ready for the next one.

NOTES

1. Signifyd, “Covid-19 Weekly Pulse Report for Ecommerce,” week ending 27 April 2020.
2. Cirium, “Tracking the In-Storage Fleet and Utilization in a Time of Uncertainty.”

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