



DUTCH
TRANSFORMATION
— **FORUM** —

Together Shaping a
more Resilient, Sustainable,
and Cohesive Society
after Covid-19

September 2020

Foreword

When the first reports of a mysterious new virus in the Chinese city of Wuhan seeped through to Western media, no alarm bells went off. It took a serious outbreak closer to home – in Northern Italy – for us to realize this was different from SARS in 2003: this threat would not stay in Asia. Through the throats and lungs of tourists and travelers, Covid-19 spread across Europe and the rest of the world, effectively shutting down life as we knew it.

What presented itself as a healthcare crisis quickly expanded to affect every aspect of our lives. Governments were forced to take measures unimaginable only months prior, such as air travel suspensions, curfews, enforced lockdowns, the closing of bars, restaurants, and public facilities, steep financial relief packages, and mandatory face masks. The pandemic accentuated structural disparities and stress tested solidarity between people and between nations, solidarity between healthy and sick, old and young, and rich and poor.

In this paper, we discuss how Covid-19 makes existing economic and societal vulnerabilities more pronounced. These vulnerabilities stem from, for example, weak strategic positions in international supply chains and platforms, imbalances in social security systems, and limited labor market mobility. None of these issues are new. For example, our international strategic position was discussed from a security perspective in the 2019 edition of the Dutch Transformation Forum, in 2018 we covered our position in a platform economy, and in 2017 we discussed globalization and inclusiveness.

However, the pandemic is now forcing us to act without delay. In taking our actions, and making our investments, we should recognize the long-term impact of any approach we take. We should look beyond the immediate threat and consider what country we want to live in after the storm has passed. Covid-19 has initiated the momentum to redesign our systems and create a more resilient, more sustainable, and more cohesive society. This is a transformation that requires an assertive and shaping role from government, as markets need guidance to steer toward secure, green, and inclusive solutions. But it is not the sole responsibility of government to lead the way; it is the collective duty of all politicians, business leaders, NGOs, civil servants, and academics.

We look forward to a rich discussion on leadership and the road to a more resilient, more sustainable, and more cohesive society at the 2020 edition of the Dutch Transformation Forum.

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Chapter 1

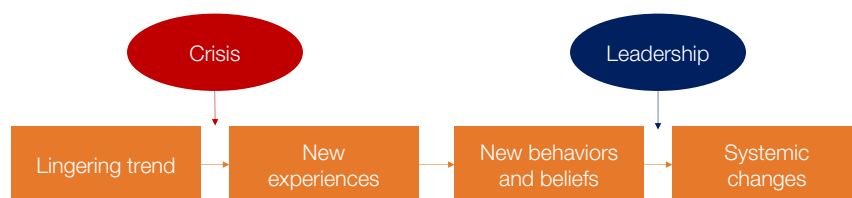
Crises: Momentum for change

It is man's nature to resist change. We are uncomfortable in the face of uncertainty and incline toward loss aversion. History shows we need strong external stimuli – e.g. war, pandemic, stock market crash, earthquake, or nuclear meltdown – to make fundamental revisions to the way we live, govern, and do business. Crises teach us to look at our lives through different eyes and unveil structural flaws. They grant momentum for change and provide an opportunity to lead society in new directions.

1.1 Crises changed behaviors and individual beliefs

World War II, the biggest crisis in modern European history, marked the beginning of technological disruption, global economic integration, and digital communication. The experiences during the war also transformed our social values toward, among others, the role of women in the workplace. Before the 1940s, women were bound for a life of childcare and household chores. When men of working age got deployed in the military, women were needed to operate the conveyor belts to keep the economy going. The effects persisted after the war and accelerated the employability of women. This was a big step for gender equality born out of necessity.¹

Crises can force us to give up habits simply because the situation does not allow them to continue. Look, for example, at the 2003 SARS outbreak in China: the risk of infection completely overhauled the slow adoption of online shopping. Even though SARS vanished as quickly as it emerged, many consumers continued to use e-commerce, paving the way for Alibaba and other digital giants.² Today, we see a similar trend in Europe as a result of Covid-19.³ Rather than inciting leaps toward completely new ideas, crises often accelerate trends slumbering beneath the surface.



¹ Claudia Goldin and Claudia Olivetti, "Shocking Labor Supply: A Reassessment of the Role of World War II on U.S. Women's Labor Supply," National Bureau of Economic Research working paper, 2013.

² Duncan Clark, *Alibaba: The House That Jack Ma Built*, Ecco, 2016.

³ <https://www.bcg.com/publications/2020/8-ways-companies-can-shape-reality-post-covid-19>

1.2 Crises inspired systemic changes

Earlier pandemics, such as the cholera outbreaks in the 1800s, led to the creation of cooperative international public health platforms. Cholera's rampant spread and high quarantine costs for maritime personnel – too much for individual nations to fund – resulted in the founding of the International Sanitary Conference, the World Health Organization's predecessor.

Massive unemployment following the financial crisis of 2008 increased government mandates worldwide and allowed them to step in and actively reform financial markets, limiting product complexity and risk-taking behavior. The financial crisis also made apparent that individual European countries were unable to regulate the increasingly complex international financial markets by themselves. That is why, in spring 2014, the EU adopted the Bank Recovery and Resolution Directive (BRRD) to help member states deal with failing banks and arrange cooperation to tackle cross-border issues.⁴

Covid-19 has already led to unprecedented government interventions around the world. Governments have introduced measures to limit social interaction and spent staggering budgets to keep businesses afloat and prevent mass unemployment. We do not yet know whether Covid-19 will drive systemic changes just as World War II or the financial crisis of 2008 did. What we already see, however, is a transformation of our day-to-day life.

⁴ EU 52014DC0279

Chapter 2

Covid-19 impacts how we experience everyday life

As with every major crisis in history, Covid-19 might have a far-reaching impact on the world. Before we go into the potential long-term effects, we want to discuss how the virus is changing the way we live our lives today. We want to illustrate these new experiences in terms of seven themes:

- 1. New ways of working** – Shortly after Covid-19 hit the Netherlands, our government directed everybody to work from home as much as possible. Companies promptly implemented digital collaboration tools and solutions to facilitate working remotely. Of the about 40% of people who made the shift toward (primarily) working from home, half were totally new to it.⁵ Various studies show that about half of the people are satisfied with their new working arrangement and prefer to continue working from home regularly after the virus has subsided.⁶
- 2. Accelerated digital consumption of goods and services** – Similar to SARS in 2003, Covid-19 accelerated growth in e-commerce (+25% for the first weeks after the outbreak⁷) and led to the expansion of online product categories, e.g. telemedicine and e-learning. Online streaming service Netflix added 26 million new subscribers worldwide during the first half of 2020, which is about as many as full-year 2019.⁸
- 3. New standards for human contact and gathering** – The virus triggered awareness of the risks of human contact, large gatherings, and mass travel. As a result, demand for distant travel has been limited and partly converted to small domestic journeys. We also witnessed a fourteenfold increase in demand for online virtual events as a substitute for canceled events or events without a live audience,⁹ and we have seen above-average consumption of hygiene products, e.g. hand sanitizer and health nutrition.¹⁰

⁵ <https://www.kimnet.nl/publicaties/rapporten/2020/04/20/mobiliteit-en-de-coronacrisis>

⁶ Intermediair en Nationale Vacaturebank, Onderzoek naar thuiswerken tijdens en na de coronacrisis, May 8, 2020

⁷ Kantar, "Covid-19 barometer The Netherlands", Wave 3 & 4 results, April 28 and May 28, 2020

⁸ <https://www.theverge.com/2020/7/16/21326434/netflix-second-quarter-earnings-tv-shows-movies-originals-subscribers-adds-ted-sarandos>

⁹ <https://www.events.nl/nieuws/explosieve-groei-van-vraag-naar-online-evenementen>

¹⁰ <https://www.motivaction.nl/kennisplatform/nieuws-en-persberichten/corona-impact-monitor-bestedingen-in-het-teken-van-voeding-en-hygiene-koken-en-eten-in-het-teken-van-gezondheid-aandacht-en-variantie>

4. **Less pollution** – The sharp decrease in transport movements during the crisis and the downsizing of industrial manufacturing has significantly reduced emissions. While the Dutch economy is slowly picking up pace, more than 70% of people expressed a desire to maintain current emission levels.¹¹
5. **Insufficient medical supplies** – The Netherlands experienced a shortage of medical supplies such as gloves, masks, and respiratory aids, exposing a perilous dependence on imports, especially in times of global crisis. On the back of public outcry, our government stepped in and set up a national platform for the procurement and distribution of medical supplies.
6. **Unemployment among flex workers** – More than 100,000 flex workers lost their jobs in the second quarter of 2020¹² and about one-third of the self-employed ('zzp') applied for emergency relief funding. A significant part of this group is made up of students and people with low levels of education who lack financial buffers and, therefore, rely on additional support.
7. **Lack of international governance and leadership** – For the general public, Covid-19 demonstrated the weaknesses of large, international, consultative bodies in times when fast and consistent actions are appropriate. Discredited by the US Government, the WHO did not manage to align members quickly on policies regarding the pandemic. Similarly, the EU Commission had difficulties reaching alignment between its member states on a procurement strategy for vaccines and the set-up of relief packages.

¹¹ <https://insights.abnamro.nl/2020/05/klimaatverandering-krijgt-meer-urgentie-door-corona/>

¹² <https://www.cbs.nl/nl-nl/nieuws/2020/20/vooral-uitzendkrachten-in-eerste-kwartaal-vaker-zonder-werk>

The figure below shows an overview of the seven themes that capture the most important new experiences we have as a result of Covid-19.

Covid-19 crisis causes new experiences across seven themes

	New ways of working	Shift towards remote working and digital collaboration
	Digital consumption of goods and services	Acceleration of e-commerce and the emergence of digital channels for new product categories
	New standards for intense human contact, gathering and mobility	Awareness of risk of spreading contagious disease through contact, gathering and travel
	Less pollution	Sharp decrease in emission levels, favored by a large share of the population
	Insufficient medical supplies	Shortage of e.g. gloves, masks and respiratory aids exposing import dependence
	Unemployment among flex workers	Rising unemployment among flex workers and reliance on emergency relief funding
	Lack of (inter)national governance and leadership	Large, international, consultative bodies struggling to act fast and consistent

Whether these new experiences stay with us in the long run is dependent on, among others, two uncertain factors: the duration of the current crisis and recurrence. If we expect similar viral outbreaks every five years, the impact will be much greater than in a once-per-century scenario. That being said, the chances of us going back to how it was before are next to none. As Prime Minister Mark Rutte puts it:

“It is a delusion to believe we will ever go back to the world as it was before Covid-19.”

One of the reasons we are unlikely to ever go back to the world of 2019 is that Covid-19 did more than ‘just’ change our everyday lives. Experiences such as shortages of medical supplies and historic rises in unemployment hit us on a deeper level and make us question the behaviors and beliefs we held for granted. They give us insight into the very fabric of society and might fuel structural shifts in what we deem valuable.

Chapter 3

The societal objectives we strive toward

We established that Covid-19 is changing the way we go about our everyday lives. But the impact of the pandemic might go well beyond these impactful, albeit practical, consequences. The crisis compels us to evaluate the core of what we find important; the objectives we strive toward as a society.

3.1 Before: competitive position and sustainability

Over the past decade, the Dutch economy was flourishing and our main goal was to keep it that way. We worked hard to stimulate welfare, improve our competitive position, and boost our economic prosperity. At the same time, factors such as a declining labor force, rising healthcare costs, and diminishing upsides from new production methods in our key sectors led to concerns about the future viability of our national revenue model.¹³ In response, we saw new initiatives aimed at increasing our productivity and strengthening our competitive position. Some examples of this include a mission-driven innovation policy, a new approach toward key technologies ('sleuteltechnologieën'), the final launch of Invest-NL, and a new proposed investment fund for long-term investments in our future revenue model.¹⁴

Climate change awareness has intensified in recent years and made sustainability an additional societal objective. This crisis in slow motion urged governments and corporations around the world to rally behind several large (Paris, Kyoto) and dozens of smaller climate agreements aimed at containing global warming below 1.5°C. We agreed to reduce carbon dioxide emissions by 49% by 2030 (compared with 1990) and greenhouse gas emissions by 95% by 2050.¹⁵ In the Netherlands, we have seen long deliberations and numerous climate initiatives, e.g. investments in renewable energy (SDE+), renewable energy subsidies, the Energy Investment Allowance (EIA), and nitrogen measures.

3.2 Covid-19 added resilience and social cohesion

The pandemic exposed structural vulnerabilities in our society. We experienced the downside of being dependent on global supply chains to fulfill local demand for medical protective equipment. Flex workers faced unemployment and financial difficulty, raising questions about the over-flexibility of our labor force.

¹³ <https://fd.nl/economie-politiek/1308594/wiebes-toekomstige-welvaart-nederland-staat-op-het-spel>

¹⁴ CE-AEP / 19283606, December 2019

¹⁵ <https://www.rijksoverheid.nl/onderwerpen/klimaatverandering/klimaatakkoord/wat-is-het-klimaatakkoord>

And as we witness the crisis' asymmetry – hitting some sectors harder than others – we understand the limitations of labor mobility and the need for massive re-skilling. These topics are by no means new; Covid-19 simply increased the urgency and revealed our current system's lack of resilience. A new communal goal explained by the Joint Research Centre of the EU is *“a resilient system that is able to face shocks and persist structural changes in such a way that it does not lose the ability to deliver societal well-being sustainably.”*¹⁶

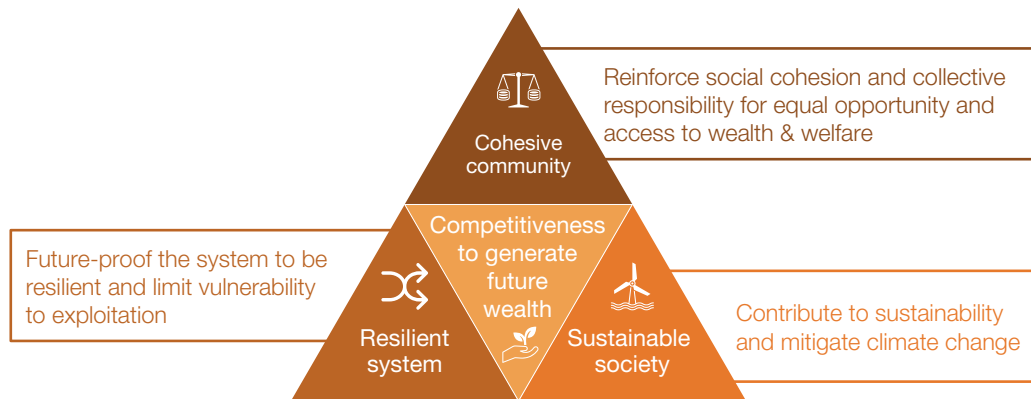
Covid-19 also brought to light a slumbering division between socioeconomic groups in terms of the distribution of wealth and access to welfare. Low-income workers are most affected by layoffs, and their lack of savings makes it difficult for them to maintain their living standards. At the same time, these people generally have less access to healthcare and their children often miss the resources (e.g. a good computer and a quiet space) to effectively study from home. This is not just a divide between levels of income; we see the same patterns among different ethnic groups.¹⁷ The momentum of the Black Lives Matter movement could be seen in that same light. Addressing the disparity calls for reinforced social cohesion and a collective responsibility to create an equitable society in which we should not only aim to provide people with equal opportunities but also intervene to ensure more equal outcomes.

We already talked about sustainability, which has been a societal objective for many years. Still, Covid-19 might change the way we go about it. In recent months, we have seen a sharp decline in mobility – e.g. air travel and daily commute – resulting in better air quality, less pollution, and lower emissions. The pandemic forced us into a way of living that matches the ambitious sustainability agenda our country committed to. Whether this experience will be enough to convince us to hold on to our current green standard of living remains to be seen.

¹⁶ The resilience of EU Member States to the financial and economic crisis (EUR 29221 EN) – based on JRC framework (Manca et al. (2017))

¹⁷ <https://www.financialinvestigator.nl/nl/nieuws-detailpagina/2020/06/12/Schroders-Covid-19-vergroot-ongelijkheid-op-inkomen-gezondheid-onderwijs-en-etniciteit>

Four societal objectives to reshape the society post-Covid-19



3.3 Will Covid-19 lead to systemic changes?

Looking ahead, Covid-19 might leave us – as a society – with the inspirational yet complex task of working toward four societal objectives. They will require trade-offs in which we balance gaining more of one at the expense of another, e.g. improving sustainability while potentially hurting our (short-term) competitiveness. There will also be opportunities to boost multiple objectives at once, e.g. investing in digital competencies that improve resilience and strengthen our competitive position. But we should not be naive: scarce resources and competing values will demand tough choices.

Structurally optimizing in terms of four societal objectives will require a redesign of the systems that dictate the core aspects of society. Only with systemic changes can we become more competitive, more resilient, more sustainable, and more cohesive at the same time. Redesigning broad societal systems asks for a deliberate articulation of public interests. It will also ask a proactive and assertive government, as markets will not find a resilient, green, and inclusive direction by themselves.

Will Covid-19 generate momentum for such an extensive transformation? And will we be comfortable granting the government a dominant role in redesigning core societal processes? To find answers to these questions, let us examine a series of key challenges of our time – exacerbated by Covid-19 – and see what kinds of potential systemic changes might be suitable to address them.

Chapter 4

From quick fixes to systemic changes

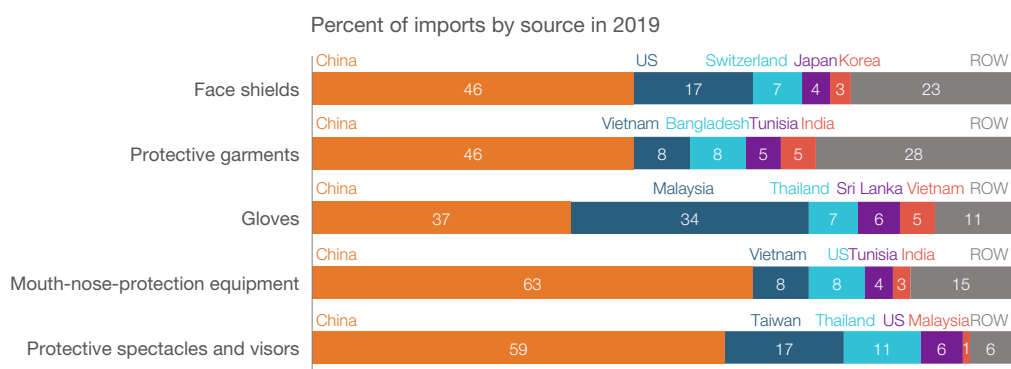
To explore the systemic changes that could (or should) emerge from Covid-19, we discuss four challenges brought to light during the crisis: the need to take strategic positions in international supply chains, the lagging adoption of digital solutions in healthcare, a lack of balance in our social security system, and the call for the digital up- and re-skilling of the workforce.

These topics comprise the major challenges of today that have been relevant, if dormant, for some time and gained urgency because of the pandemic. They are not the only considerable challenges we face today; they were selected based on urgency, scale, and possible impact on our country while allowing us to illustrate how systemic changes could help address them.

a. Taking strategic positions in international supply chains

One of the direst vulnerabilities exposed by Covid-19 was brought forward by the initial lack of medical supplies. In April and May 2020, demand skyrocketed. For example, the need for FFP2 masks increased by a factor of 62, from 73,000 per week in 2019 to 4,500,000 per week in 2020. What made the situation even more critical is the concentration of manufacturers of personal protective equipment in a few Asian countries (China, Vietnam, Taiwan, and Malaysia), most of which had their supply chains severely hit by Covid-19 at an early stage of the outbreak (see figure below).¹⁸

Protective equipment sourced from just a few Asian countries



¹⁸ Source: Peterson Institute for International Economics

The shortages that emerged strained international trade relations. Export curbs on medical supplies accelerated, starting in Asia and traveling west as the virus spread, and countries prioritized securing their own supply. For example, the US showed reluctance to ship respiratory aids to Europe and France ignored EU calls to lift export bans on Covid-19 drugs.

For many, the shortages in medical supplies opened their eyes to our excessive dependence on international supply chains and our lack of coordinative mechanisms to play a decisive role in international markets. On March 24th 2020, the LCH ('Landelijk Consortium Hulpmiddelen': a unique not-for-profit public-private partnership of care providers, distributors, and OEMs, with close involvement from the Ministry of Health) was founded to address the scarcity. In establishing the LCH, many rules and conventions were bent: national competition between the involved parties was suspended to consolidate demand and strengthen buying power on the international markets, the Ministry of Health provided several guarantees to cover the risks that obstructed private parties from taking action, and an open-book approach was adopted to prevent any party from benefiting from the partnership in unhealthy ways.

The LCH can be seen as an effective, yet late, remedy for our lack of strategic positioning in international value chains and the overestimation of the resilience of our – rather small – economy. Concerns on the topic date back to before Covid-19, when intensified protectionism and a technological arms race between the US and China led to a recalibration of our approach toward national security, market regulation, and government intervention. In recent years, the Dutch Government has taken action in dealing with these developments and directly intervened in markets to safeguard national interests with regard to security and well-being. For example, the Dutch Parliament passed a law to screen imminent foreign takeovers in telecommunications for national safety issues. Recently, our government invested in two Dutch companies (IHC and Smart Photonics) for their strategic technological knowledge.

However, all these interventions – including the LCH – have been quite provisional so far. To structurally strengthen our position, we need to plan further ahead. We need a paradigm shift that factors resilience and economic security, and assures critical supply and technological knowledge systematically. It means we should put more emphasis on public interests and strategic answers to questions such as: Which dependencies are we willing to accept? How much money are we willing to spend to boost self-sufficiency? How and where can we establish mutual dependencies with other regions to create leverage and prevent conflict? How should we invest in critical production capacity and the development of key technologies?

In the case of medical supplies, we adopted a national approach, even though we ideally should have worked together on a regional or European level. Only together can we flex sufficient muscle toward international powerhouses such as the US and China. We should make strong choices to develop regional production capacity and create new European industry champions. We need an ambitious, strategic approach, but not something we have not done before. More than 50 years ago, the Airbus consortium, which combined the airline manufacturing bases of France, Germany, Spain, and the UK, effectively prevented a winner-takes-all scenario for Boeing. In today's increasingly essential high-tech industry, with supply chains dominated by the US and China, a pivotal company such as ASML, with its regional ecosystem, would be a strong candidate to become tomorrow's European champion.

To improve our international strategic position, we should move past our picking-winners dogma. We should adopt a long-term strategy with regard to our international positioning and the leverage we could create in sectors such as high-tech, food and agriculture, digital health, and sustainable energy (e.g. hydrogen), as well as in the development of key technologies.

b. Catching up on the lagging adoption of digital solutions in healthcare

In early April, hospitals were flooded with Covid-19 patients. Most elective treatments were postponed, ICU care was scaled up as fast as possible, and the Dutch military was deployed to support logistics and planning. The gravity of the situation urged healthcare professionals to change their ways. To minimize the risk of infection, consultations were done digitally whenever possible, and to combat capacity shortages, patients were transferred between hospitals, in some cases across borders.

Covid-19 did not bring forth new tools and practices. Most, if not all, of the solutions used during the crisis have been available for years. In a sector troubled by rising costs, rampant administrative burden, and structural capacity shortages, a lack of innovation can have a far-reaching impact. The urgency created by the pandemic drove healthcare professionals to utilize all means available, such as video consultations, online prescription renewal, virtual collaboration tools, and self-monitoring apps.

Now that they experienced the potential of these (digital) ways of working and collaboration, the tools are here to stay. This is a major step that should trigger an extensive redesign of the entire healthcare system, leading to a fully integrated, digital approach, stretching from big, highly specialized hospitals to small local clinics.

Digital applications could enable top-tier specialists (e.g. radiologists, cardiologists, and oncologists) from around the world to support their colleagues in local hospitals with codified knowledge and virtual counsel. This is not as far-fetched as it might seem: Philips' ultrasound already has the built-in functionality to consult doctors remotely.

Successful digital collaboration depends on the availability of data: when experts meet virtually to discuss a patient, all of them should have full and real-time access to that patient's data. Putting this into practice requires secure and scalable databases filled with all medical information available. Inputs should come from doctor visits (including GPs and physiotherapists) and any kind of biosensor such as smartwatches, fitness trackers, and smart bandages.

For people willing to participate, algorithms could continually analyze these giant databases to check their health status and alert them and their doctor well before they experience symptoms that may require demanding, invasive, and costly treatments. Such databases require the highest standards of privacy and data security: a challenging but not impossible ask. After all, we already have a worldwide payment network full of sensitive financial information.

The Netherlands is well positioned to be a pioneer in this field. We are small enough to develop and test integrated care networks and medical databases with a manageable scope, but we also have the scale to be relevant internationally. Taking the lead could not only improve the level of care in our country tremendously but also boost innovation and growth.

This outlook will not be realized overnight and requires drastic changes to the organization of care in terms of, for example, responsibility, risk, and finances. We would need strong orchestration from the government and the heavy involvement of payers, providers, and patient advocacy groups. We see several hospitals and organizations taking the first steps by developing outcome-driven metrics, setting up partnerships with local care providers, and introducing patient-centered care pathways. Internationally, the Medicaid reforms of the State of New York are an inspiring example. They stimulate cooperation and prevention, leading to better outcomes and lower costs.

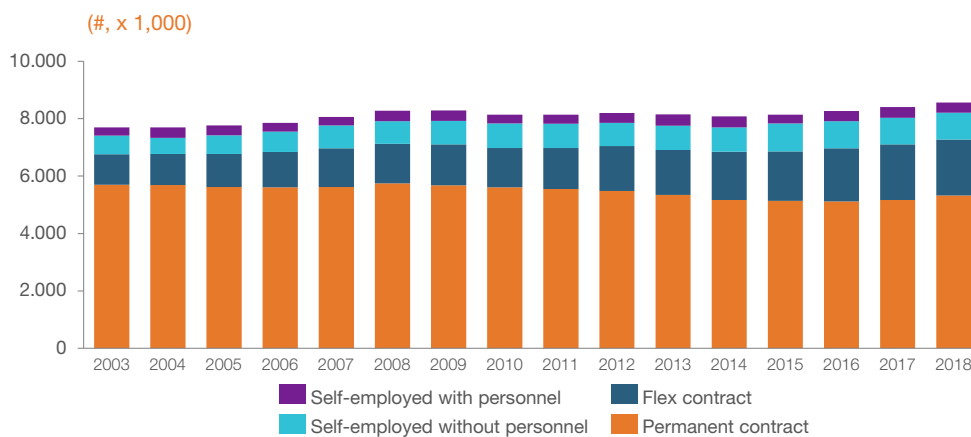
c. Rebalancing our social security system

The economic downturn following Covid-19 created rough conditions for many companies. After record-breaking lows in unemployment, people – especially flex workers and the self-employed ('zzp') – suddenly found themselves without work.

This was an especially precarious situation because a large share of self-employed did not possess sufficient savings to fall back on and had to turn to social security and a quick-fix government support package (TOZO). Those with permanent contracts mostly fell under the NOW-regulation, which compensated corporations for keeping them on. The risk of a deep social divide between workers with high education and permanent contracts and workers with low education moving from one flex contract to the other suddenly became evident.

Since the early 2000s, we have seen a steady growth of flex contracts and self-employment (from 26% in 2003 to 38% in 2018 – see figure below).¹⁹ That means the imbalance between permanent and flexible working agreements that Covid-19 painfully brought into view is not something new: it was already under scrutiny before the pandemic hit. In January 2020, the Borstlap Committee published recommendations on how to readjust the ratio between permanent and flexible workers.

Types of employment contracts in the Netherlands



While the current system offers flexibility to companies and stimulates short-term competitiveness, it also limits the training, innovation, and growth of individual workers, potentially hampering future wealth generation. In the same way, a rebalancing effort could harm our competitive position over the next few years by increasing personnel costs and reducing flexibility for companies. Ideally, we would strike a balance between fully maximizing our future competitiveness without damaging our short-term interests more than necessary.

¹⁹ 'In wat voor land willen wij werken', Committee Borstlap 2020

As with securing critical supplies and knowledge, we need a new paradigm to fundamentally solve the imbalance and increase resilience and social cohesion. As the Borstlap Committee pointed out:

“Just refining the existing rules around work is insufficient. It is time for fundamental change.”

The committee made 47 specific recommendations around agility, clarity, resilience, and reciprocity. To fully design a new system, the committee advised the government to take a leading role and form a broad alliance representing different segments of the labor market.

An interesting cross-boundary initiative on the (over-)flexibilization of the labor market was introduced in December 2019. Five financial institutions (Achmea, a.s.r., ING, Nationale Nederlanden, and VGZ) and three unions (De Unie, FNV Finance, and CNV Vakmensen) together defined a so-called ‘work code’. They established five key principles, in which they agreed, for example, to not hire self-employed (‘zzp’) people for regular long-term activities or activities carried out by people with lower levels of education. Instead, they agreed to hire permanent workers for these tasks.

As the political debate around the Borstlap recommendations might polarize quickly, these kinds of initiatives might be helpful to accelerate the creation of a new system. The use of practical experience might also help prevent design flaws that result in unforeseen negative side effects (as often seen in the past with labor market regulations). At the same time, government should take a prominent role in the design of a new social security network and steer away from the compromise-driven model that does not represent all segments of the labor market evenly (‘de polder’).

d. Accelerating digital up- and re-skilling

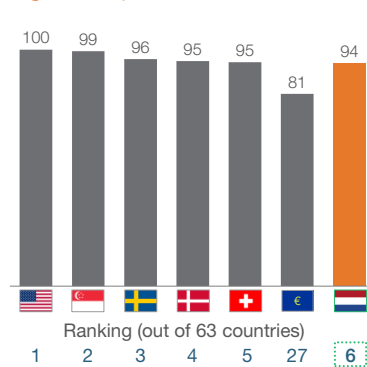
The outbreak accelerated the pace of the digital transition. In the coming years, many jobs will change and require new competencies. As the pandemic causes unemployment to surge in certain sectors, the need for mass re-skilling, e.g. toward IT, becomes more urgent. While this works well for some, others lack the digital savviness to participate, feeding into inequality and imbalance.

As we have seen with the previous three topics, this trend is not new: digitization has been going on for a while. Lifelong learning has been on the collective agenda for more than a decade, but we are falling behind in the field of digital.

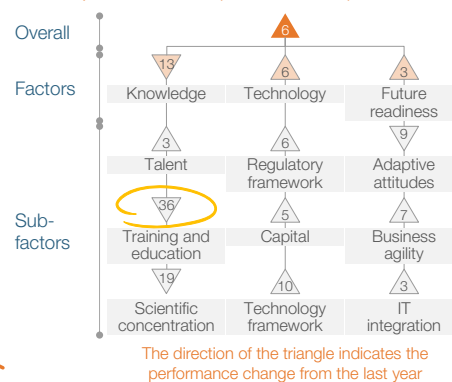
Traditionally, we have been doing well in terms of digital competencies. We ranked sixth on the Digital Competitiveness Index 2019, behind the US, Singapore, Sweden, Denmark, and Switzerland. However, the index also showed that we lag on training and education, which is one of the driving forces behind the imbalance exposed by Covid-19 and a clear sign that, without intervention, the gap will continue to grow and weaken our strong international position (see figure below).

The Netherlands score well on digital competitiveness but fall behind on training & education

Digital competitiveness index 2019



Dutch performance (63 countries)



'Denkwerk' concluded in its 2019 report that between now and 2030, about half a million people will need to be re-skilled because their current job disappears due to technological advancement. On average, we are talking about 40,000 to 45,000 people a year. So far, we have not structurally acted on these predictions and we can only hope Covid-19 and the resulting unemployment will be a wake-up call. If not, the re-skilling task ahead of us will keep getting bigger.

The current system of labor mobility and upskilling is not suited to address this challenge. Essential elements, such as a skills passport and the consolidation of financial resources ('ontschotten'), are not yet in place. Fortunately, we see such features slowly gaining traction. Additionally, we see several promising bottom-up initiatives that start to scratch the surface of the issue. As part of 'De Buitenboordmotor', an initiative supported by, among others, ASML, ING, KPN, and Rabobank, pilot programs to address the skills mismatch are being developed and executed. Significant investments of time and money (by the old and new employers), as well as an increased awareness of the skills and talents of the employee, are central building blocks in their approach.

However, we do not yet have a mechanism to remove systemic barriers and scale such initiatives quickly. To drive lasting change, we need a holistic, structured, and systemic approach. We need, among others, a common language to define competencies, and digital tooling to support dynamic skill assessments and identify targeted interventions to re- and upskilling. A comprehensive system of incentives needs to be developed to activate the right people at the right time, such as subsidies for employers to provide new and underqualified employees with learning tracks.

Government needs to play a central role in establishing objectives spanning the next decade and encompassing the entirety of the workforce. Corporations and educational institutions are primarily responsible for the learning and development of their own employees and students, but will generally focus these efforts on the subset of skills relevant to their work or studies, only boosting the digital skillset of the people for whom it is directly relevant. People who are unemployed or for whom digital skills are of low importance in their job have no clear route toward digital upskilling. Government needs to make sure the approach is effective and, above all, inclusive, or these efforts will hurt competitiveness, social cohesion, and resilience.

Chapter 5

Systemic changes require a new type of government

The four cases illustrate how Covid-19 drives momentum to create a more resilient, more sustainable, and more cohesive society. They also show we need a strong government to actively shape new systems.

5.1 Government as orchestrator

Whether it is with regard to securing supplies and critical knowledge, digitizing healthcare, restoring balance in our social security systems, or removing impediments for up- and re-skilling, we need our government to function as an active orchestrator. This does not imply a larger government organization and does not mean government should take on all these issues by itself. It should involve the entirety of the public and private sector and build on existing initiatives. When we say orchestration, we expect our government to:

- Define the public value new systems should deliver
- Create new and make use of existing (inter)national alliances
- Co-fund and de-risk initiatives that contribute to new systems
- Create governance mechanisms that stimulate the fast scaling of initiatives
- Use smart regulation and incentives to make new systems work

The shaping role governments can and should play is central to the argument of Mariana Mazzucato, Professor in Economics of Innovation and Public Value at University College London: *“Rather than simply fixing market failures when they arise, governments should move toward actively shaping and creating markets that deliver sustainable and inclusive growth.”*²⁰

Dutch business leaders interviewed on the topic expressed a similar need for direct leadership, although with some reservations toward actual government intervention: *“Currently the government wants to give everyone a seat at the table, leading to fragmentation, long timelines, and incremental change. The government should adopt an entrepreneurial mindset, take risks, and make bold choices. They should leverage industry’s strength by building public-private partnerships. These partnerships can pave the way for fundamental change.”*²¹

²⁰ <https://www.theguardian.com/commentisfree/2020/mar/18/the-covid-19-crisis-is-a-chance-to-do-capitalism-differently>

²¹ BCG interviews, May 25 and 27 2020

Our four case examples already showed interesting (public-private) partnerships that could play an important role in the development of new systems. Government should now move from praising these initiatives to actively helping them scale.

5.2 Is government ready for its new role? Are we?

Stepping in as an orchestrator is not easy. It requires long-term vision, strategic fortitude, and system thinking to (help) develop new standards, design purposeful incentives, and deploy smart support tools and platforms. It also involves risk-taking and (co-)investing in uncertain ventures.

That raises the question: Is society willing to grant the government this pivotal role? And if so, is our government ready for it? Initially, the government was complimented for the way it handled the crisis. These positive sentiments might fade away in the coming months if the government needs to reinstitute strict social distancing measures. At the same time, local governments will face hard choices and bold reallocations to make ends meet. As a growing number of people will feel the pandemic's economic impact, government will likely be assigned (at least part of) the blame. Add the existing trust issues in cases such as 'Groningen' and 'de Toeslagenaffaire', and it is fair to state that it is at least questionable whether we – as a society – will accept our government taking a central role in dealing with such profound challenges.

Chapter 6

Investing ourselves out of this crisis? Yes, but let's get it right

Covid-19 forced the government to take unprecedented measures such as social distancing and enormous financial relief packages. Support for these short-term emergency interventions has been overwhelming. However, as the recession becomes tangible and the asymmetric impact between sectors and segments of the population becomes clear, the key question is: Which interventions will get us out of this crisis in the long run? Some raise concerns about the continuation of massive direct government support to keep companies afloat, fearing taxpayers' money gets spent on outdated and uncompetitive business models.²²

6.1 Dutch Growth Fund to invest in knowledge development, R&D, and innovation

In light of these concerns, the announcement of the Dutch Growth Fund ('Groeifonds') is a promising move. Even though the fund is smaller than some expected – and relatively small compared with what other national governments have pledged – the principle of investing boldly in future wealth generation should be welcomed. While part of the fund will be allocated to overdue infrastructural investments, another part will be put toward knowledge development, R&D, and innovation. Germany took similar action after the financial crisis when it decided to increase public and private R&D spending. In 2017, Germany's R&D budget exceeded 3% of GDP, whereas the Netherlands only spent about 2%.²³

6.2 It requires more than money to overcome the crisis

Based on the analysis presented in this paper, it takes more than just money to overcome this crisis. We see three major points of attention. Firstly, we should take into account the reorientation of societal objectives as discussed in chapter three. While investing in competitiveness and future growth, we should ensure our efforts also lead to a more sustainable, more resilient, and more cohesive society. The Dutch Growth Fund's prioritization criteria should adequately take these goals into account.

Secondly, funds for knowledge development should target not only labor productivity but also the other driver of economic growth: labor participation. With an aging population, we simply cannot afford to underinvest in human capital. The public and private sector need to join forces to realize systemic changes as discussed in chapter four, building on existing initiatives such as the 'Work Code' and 'The Buitenboordmotor'.

²² "De Keerzijde van de miljardensteun voor het bedrijfsleven", Financieel Dagblad, 5 September 2020

²³ TNO, 'De economie na het Coronavaccin: hoe Nederland zich uit de crisis kan innoveren', May 2020

In the recent 'Brede Maatschappelijke Heroverwegingen', the chapter on talent lays out some potential investments. The anticipated €750 million budget increase directed toward offering everyone a personal learning & development budget seems at par, whereas the anticipated €3 million to develop tooling for skills matching (including a skills passport) illustrates how easily investments in critical conditionalities get underestimated.²⁴ And referring back to our first point, these investments not only serve economic growth but also help make our society more resilient and more cohesive.

Thirdly, we should adopt a strategic view on how to optimally utilize our increased R&D investments. This includes a continuation on the path of mission-driven innovation as it matches perfectly with the four described societal objectives and is helpful in socially embedding innovation by involving end-users, professionals, companies, governments, regulators, citizens, and social parties. Another part of a strategic approach should be to put in place system conditionalities that trigger innovation, instead of simply reallocating R&D budgets to missions and key technologies. Our case examples show drastic changes to the healthcare landscape are needed, in terms of, for example, responsibility, risk, and financials, to leverage the digital potential. As discussed in chapter five, the government should take on a shaping role. This includes investments in green infrastructure, such as the capacity to produce and transport green hydrogen, where governments need to shape the market by properly pricing externalities such as carbon dioxide and co-funding and de-risking new business models based on public value. Finally, when allocating funds to R&D and innovation, we should gain a better understanding of our actual international competitive position and make bold choices regarding key technologies and new production capabilities. As we saw in the discussion about our dependency on international supply chains, we should structurally take into account the technological sovereignty and production sovereignty of critical supplies. Ideally, such portfolio choices should be made at a regional level by creating new European champions that help foster mutual dependencies on a global scale. More generally, we should prevent drifting away to the edges of Europe. It is hard to see how investments in, for example, hydrogen (or high-speed rail lines) will be successful without close collaboration with our eastern neighbors.

²⁴ Brede Maatschappelijke Heroverwegingen 5, "Ongekend Talent", 20 April 2020

6.3 We have a collective duty to shape our future

As the cases presented in this paper illustrate, the pandemic has exposed several weaknesses in our society: weaknesses we already knew and talked about but gained urgency because of Covid-19. This generates the momentum to go beyond quick fixes and fundamentally change the systems underneath. We believe we need to immediately invest boldly in these systemic changes. We also believe government should play an assertive and shaping role, but regard it the collective duty of politicians, business leaders, NGOs, civil servants, and academics to collectively shape the world we live in after the crisis is resolved.

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