New social contracts: how innovation in welfare will address changing needs and make use of new tools

Geoff Mulgan

What connects the hundreds of millions of people in India who recently received biometric ID cards; the hundreds of thousands marching on the streets of cities like Paris to protest about pensions reform; and the millions of families receiving conditional cash transfers in Latin America?

All are experiencing the rapid pace of change in welfare states which are adapting to new conditions. The pressures for change vary greatly. In some parts of the world welfare is in crisis. Angela Merkel regularly repeats a stylised fact that summarises the problem for some parts of the world: Europe accounts for 10 per cent of world population; 25 per cent of GDP; and 50 per cent of welfare spending. The well-rehearsed challenges of ageing populations, disappearing jobs, welfare dependency and possibly declining willingness to pay in more diverse societies, now combine with shorter-term pressures to cut deficits. As a result, the most prominent accounts of the future of welfare emphasise only retrenchment, salami-slicing cuts and a shift of responsibility from state to citizens.

But in many countries welfare is expanding. Every developing country has had to build up new welfare rights – to healthcare, pensions and unemployment insurance. Some have done so very fast, like Korea or Thailand. Others are doing so from a much lower base, including India and China. As long as economies continue to grow, there is no obvious reason why welfare can't grow too. The perspective of the richest 10 per cent of the world, experiencing a time of crisis, can distort the bigger picture in which risk is being socialised and managed at larger scales than ever before.

But how welfare is organised is bound to change. Our needs have changed, as have the available tools. A huge concentration of wealth has widened inequality, coinciding with growing returns to capital relative to labour, and often the ferocious destruction of jobs.

What follows is an imperative to renegotiate social contracts. The precise forms these contracts will take are only partly visible through the mist of reform and experiment. They may include new variants of basic income (now being tested in several European countries); new personal accounts for financial dealings with states and citizens (already in place in some of the most advanced governments); credits or frameworks for human capital and lifelong learning; rights to care; and new ways of handling everything from personal data to health. But what can't be in doubt is that the changing contexts – of continued deindustrialisation, fragmented family structures, and much greater ethnic diversity in open societies – will demand a level of creativity, both technical and political, that has been lacking in recent years.

In what follows, I suggest some of the building blocks that can be assembled in different ways according to context and culture, to revive and reform welfare. I show where the state needs to be more active in direct ways, deliberately providing new infrastructures for payment and support, where it needs to enable rather than provide, and where it needs to step back. Many of the several hundred public sector labs around the world are working to design the details – hopefully this paper will provide a useful synthesis.

What is welfare for?

Welfare states are not such new inventions. There is a very long history of government involvement in welfare, which stretches back to Sumeria (the first ever organised state was primarily a welfare state, organised around the distribution of grain to its citizens). Rome, too, provided bread. Ancient India provided alms as well as healthcare; and pre-industrial England was one of many countries with a comprehensive, albeit very imperfect, system for alleviating poverty.

The modern welfare states we are now used to emerged in successive bursts of invention responding to the new needs of dense, newly industrialised societies in the late 19th century. They were born out of a combination of three main factors: first, politics and public demand, as recently empowered citizens called for a share of rising wealth to address the risks they couldn't address on their own; second, the importance of productivity, and the impact of strong evidence that poor health, as well as poor education, undermined the economy; and third, the arrival of new technologies of provision, in particular large-scale national bureaucracies able to manage complex assessment and payments systems.

These welfare states grew up to socialise a small number of key risks which had previously been seen as the responsibility of the individual, the family or the church. They included poverty in old age; unemployment; and ill-health. At the same time states were investing heavily in social productive capacity through education systems and infrastructures. What is now called social investment was a major theme of early welfare design; so was pre-distribution, the provision of universal education, maternity and other services to reduce inequalities (and prepare a productive population). In many countries, too, social contracts were agreed that involved substantial obligations on employers.

It was fairly obvious that individuals, families and communities could not address many risks alone. Yet it was also generally assumed that they would be better placed than the state to deal with many other risks and needs, including emotional needs, mental health, most child-rearing, and eldercare.

The new landscape of risks and needs

If we stand back and look at today's needs we see a landscape that is somewhat different:

- Much longer periods of old age, and infirmity in old age, requiring both means for shifting income across the lifecycle, but also organising care on a much larger scale.
- Continued challenges of unemployment requiring not only help for short periods out of work but also action to address deeper problems of structural unemployment, obsolete skills and hollowing out.
- Rising incidence of mental illness, with atomised societies often less able to provide informal support, friendship and care.
- Related to this, apparently rising incidence of loneliness and isolation.
- Rising incidence of long-term health conditions and disability, partly the result of medical advances.
- Risks that are the result of genetic bad luck, as well as risks that are the result of behaviour and lifestyle choices.

The new landscape of tools

We can also see a landscape in which there are very different tools available for the daily delivery of welfare, and what we could call new 'operating systems' for welfare, including:

- Predictive algorithms, of the kind already used in health services and criminal justice to predict who will be at greatest risk of such events as emergency hospital admission or reoffending.
- Technology platforms allowing not just direct payments into bank accounts, but also virtual monies and Internet-based payments, secure identities and personal accounts.
- Digital tools allowing states to orchestrate marketplaces for provision, for example of care supports, or learning, using credits provided by the state.
- Radical new options for organising services, such as services based on blockchains which offer new ways of organising everything from local monies to targeted welfare, legal contracts to CVs.
- Multiple feedback channels, and much easier tools to enable peer support.
- Formal and informal 'collaboratives' to help partnerships and cooperation across professional and organisational boundaries.
- New contracts, conditions and 'commitment' devices.
- New financing tools, such as social impact bonds to incentivise outcomes and make the notion of social investment more concrete.

Any plausible account of the future of welfare needs to address both the content and the forms. In what follows I suggest 12 ways in which welfare could evolve, addressing both form and content. The central purpose of welfare remains as in the past: to protect people from risks they cannot easily manage on their own. Some of those risks are long-lasting ones (like the inevitabilities of old age), and some relate to periods of transition. But risks change, and the biggest challenge for reform is deciding how to shift resources from the problems of the past to the problems of the present and future. Here, then, are 12 prompts, or building blocks, for reformers to draw on.

1. **A reassertion of pooled protection against risks beyond the control of the individual**
   For over a century, states have attempted to fund welfare through insurance. There are some risks for which insurance makes sense. But insurance markets have well-analysed weaknesses. They work best for the providers when purchasers are ignorant; when the majority of payers don't make claims; and when insurers can avoid the highest-risk and highest-cost payers. Bismarck's welfare state was a prime example, designed to pay pensions only for the small minority who lived several years more than the then average life expectancy.
   Today a wide range of critical risks are essentially about luck and fate: diseases with mainly genetic causes; chronic problems of old age, such as dementia, that are the result of bad luck, and for which there are few credible cures. For these it makes far more sense to pool risk; insurance systems simply create unnecessary cost and bureaucracy. I expect that we will see a reassertion of some very basic ideas about welfare for some types of issue, with fully pooled risk, provision according to need, and funding through taxation.
2. **A reassertion of personal responsibility for risks over which individuals and families have some control, and incentivising pro-social actions**
   The corollary of greater pooled risk for problems that are the result of bad luck is a greater stress on personal and family responsibility for risks which can be influenced: risks associated with poor diet, smoking, laziness, risky living. In all of these cases, support can be made partly conditional; and adjusted according to desert. Much welfare has always been conditional on various statuses (unemployment, disability) or on certain actions (willingness to be available for work). Sometimes conditionality overshoots – and, like life, punishes children for the errors of their parents. In recent decades, some of the most influential waves of change to welfare have used conditionality more creatively – the better welfare to work policies of the rich north; the Bolsa Familial and related programmes in the developing south, that reward parents if their children attend school. All aim to make more explicit the implicit social contracts that underpin welfare, and the deep human commitment to reciprocity. How far these go is bound to be controversial: should missed doctor's appointments carry a cost? Should health provision be conditional on signing up for smoking cessation? But some conditionality is essential to avoid perverse incentives and moral hazard.
3. **Cultivating resilience: predictive algorithms and new supports**
   The most cutting critiques of late 20th-century welfare focused on its tendency to promote dependency and to address symptoms rather than causes, leaving recipients less, not more able to thrive. This critique was often overdone – since much welfare necessarily has to be tied to needs, and many people are unavoidably dependent. But it contained important truths. So welfare has to be reshaped to help people become more resilient, rather than just supporting needs. That involves an orientation

towards assets to fall back on; it requires welfare to incorporate more learning, including both formal skills and the skills needed for resilience in life, from financial literacy to non-cognitive skills, and it's partly about promoting social networks.

More powerful predictive tools are likely to become more popular. Already algorithms can predict the risk of an older person entering hospital in the next year, or the risk of a former prisoner re-offending. Companies providing labour market support routinely use their own algorithms to help with triage. The more large data-sets are made open, the more sophisticated these are likely to become, providing guidance for individuals on how they can reduce their own risk factors, as well as guidance for the state and professionals about what interventions can be most effective in preventing future problems.

These can be controversial. The UK's attempt to create a comprehensive database of children at risk to guide preventive action was closed down by the Conservative government in the 2010s. 'Minority Report'-style forecasting of who is likely to be a future criminal raises a host of ethical and practical issues. But the promise of more effective, targeted and timely welfare interventions is likely to be attractive to many.

If resilience is the goal, new types of intervention are likely to follow. Some will be about early childhood, and helping children to grow up confident, rounded and smart. Others will focus on older age groups. For example, Studio Schools emphasise non-cognitive skills such as teamwork, motivation and grit, alongside more familiar skills in maths or science. They're not formally part of the welfare state, but any welfare system that aims to reduce youth unemployment needs something similar. Another example is health programmes that deliberately mobilise support networks for mental health, or 'social prescribing' for patients with long-term conditions to offer companionship, peer support or activity rather than drugs prescriptions. These are much talked about, and there is strong evidence that they can be highly effective in enhancing resilience. But they are rarely made central – perhaps because they require very different ways of organising support, different skills for frontline staff and different metrics of success.

4. **Co-production as well as provision, and the integration of formal and informal support**

Welfare systems that promote resilience are also more likely to complement provision of money and services with more deliberate co-creation of welfare. This is most obvious in healthcare, where long-term conditions now make up the majority of health needs and require self-management and peer support, as well as good doctors and hospitals. Turning the home and workplace into places for healthcare requires services with a very different method of delivery, including a much bigger role for coaches and mentors, and orchestrators of networks of support. This is part of what I have called the 'relational state': a government that organises its roles, its staff, and its success metrics in terms of relationships, as well as entitlements and outputs.

The classic welfare state was conceived primarily in terms of the distribution of money and the provision of services by paid professionals. In reality it was always much more of a partnership with the public – volunteering as drivers, carers or tutors. Recent fiscal pressures have restored interest in the combination of formal and informal support. Again, healthcare is a good example, where care models try to link together the formal support of the hospital with the engagement of family and friends, or in the case of dementia with trained volunteers in the community. Nesta's Centre for Social Action Innovation Fund has backed dozens of projects doing this effectively – with tutors for school students, volunteers in hospitals, and business coaches for unemployed young people. Social media technology make it much easier to orchestrate these – and Barcelona's ambitious plans for circles of support for isolated older people could become a model for others to follow. These approaches point to a very different way of thinking about the state. Instead of conceiving its resources as limited to paid staff, and the buildings it owns, the state can think of a much wider pool of community resources to draw on. The Nesta supported Bookshare project captures the difference. Instead of a library consisting solely of the resources within the library building, the Bookshare allows citizens to put their book and DVD collections onto the library database, simultaneously expanding its resources and building social capital. In business, the many ventures of the collaborative economy are showing how the Internet can mobilise distributed resources through firms like AirBnB, Buzzcar and many others. In Seoul, the city is using the same principle to reorganise how its assets are managed.

5. **Personal and family budgets and welfare market places**
   In some fields the most efficient way to organise welfare is to give credits to claimants and let them decide how to spend money, within constraints. This is how personal budgets already work in many fields, such as care for disability. A similar principle has been explored with individual learning accounts. Getting the detail right is all-important – with the right balance of openness and accreditation/regulation. Some of these budgets are similar to parallel currencies, and smart card technologies have long made it possible for a welfare agency to distribute money with limits on what could be bought (for example, to preclude spending on drink or drugs). The other side of this development is the deliberate organisation of marketplaces of support, for example of training agencies providing skills; personal care services; and alternative provision of healthcare.
6. **New parallel currencies to mobilise underused resources**
   The world is full of parallel currencies sitting alongside traditional fiat money. At times, welfare states have provided some of these through credits that are like monies – food vouchers, for example. Non-state monies include big currencies like the WIR, and there are many thousands of Timebanks, LETs and others. Often when the mainstream economy has broken down, new currencies of this kind have grown up to fill the space – from Argentina in early 2000s to Greece in the early 2010s. One weakness of these is the lack of involvement of the state as guarantor or manager of

value, which limits their scale and usefulness. That is why attention has turned to the potential for the state to sponsor parallel currencies as part of reformed welfare systems: very local currencies to encourage circulation of value in towns, rural areas or poor neighbourhoods; currencies linking marginal public resources; specialised currencies for care or education. The radical potential is for cities or small nations to offer pay and tax in mix of formal money and parallel currency, creating a parallel market for firms to support civil economy. Such parallel currencies could, in time, become a fundamental pillar of welfare systems, and technologies make it possible to manage money in very different ways – from mobile payment platforms like MPesa, to digital currencies like Bitcoin and Venn. Nesta's DCENT programme is developing tools for such new currencies in various parts of Europe. The full potential of such currencies is unclear – but this should be a period of experimentation, and could enable much more efficient ways of keeping people active and remunerated.

7. **Identities and integrated accounts that make new welfare products possible**
Another building block of the future welfare system will be guaranteed management of identities. India's Universal Identifier Programme is an interesting pointer to the future – a state sponsored, biometric identifier which can be used to underpin provision of bank accounts and other commercial services. States may be better placed to provide trusted and authenticated identification services than private companies – and if they do so, they can support mixed economies of welfare. A good example is the scope for governments to offer mortgages that are secured over lifetime earnings, with the power of tax agencies to ensure repayment. In principle, it should be possible for states to offer these at significantly lower cost, and risk, than private firms because of their superior capacity to avoid default, and because they already have a working infrastructure to manage payments in the tax system. Other types of welfare product would include loans to pay for higher education, apprenticeships or training. In all of these cases, a 21st century state should have major advantages in terms of economies of scale and scope, and should be able to move some parts of welfare from grants to loans, thus allowing money to go further.

8. **Transparency, simplicity and visible welfare**
A general, if difficult, principle for reform may be to make welfare as transparent as possible, with every recipient clear on what they are entitled to, with easy access to self-assessment and planning tools. This will mean a drive for legibility and simplicity rather than technical perfection. It's arguably vital that welfare needs to be comprehensible to be legitimate, yet for now welfare remains extraordinarily opaque. A telling moment for me was working with programmers to design online platforms for claimants to assess their own entitlements – which, in the UK context, turned out to be almost impossible. Single accounts of the kind developed by Denmark may be pointers to the future – allowing

citizens to see more clearly all of their payments and receipts from the state, as well as some of their lifetime entitlements. Australia has long adopted a principle of simplicity in its policy design, a principle enforced by its Treasury, which among other things led to one of the simplest systems for paying taxes in the world. At the very least, cognitive overload for citizens should be avoided.

9. **Navigation support – helping citizens to make sense of welfare, and sometimes nudging them to change their behaviour**
A more open and complex welfare provision system will require correspondingly better support to help people navigate their way through. Some of this can be done online; some has to be face to face or over the phone. There are simple self-assessment tools already. But coming over the horizon are more sophisticated supports – for example, to help plan curriculum or training choices using big data sets showing pay-offs, or career options. There are also possible new nudges and prompts. Most people are already bombarded with data-shaped communications from business, and the scope for far more targeted communications of all kinds is immense. But how would we feel if the government sent SMS or equivalent messages to warn that we weren't saving enough for our pensions; that our failure to maintain our skills threatened unemployment; that our children were too obese; or that we really should be volunteering more in our community?

10. **Commitment devices**
Much has been learned in recent decades about how to encourage choices and behaviours that support the interests of the individual, their family and the community. Many of the points described above are essentially about better aligning how welfare works to these. Commitment devices of various kinds have been widely used: in welfare to work, encouraging or requiring claimants to set out a personal plan; home/school contracts to encourage parents to help with their children's education; personal plans in health, agreed with a doctor. Social media technologies make it possible to extend these, and many already encourage people to set goals for themselves that are visible to a circle of friends and family. Any welfare that is aimed at supporting a transition is likely to benefit from some public commitment devices.

11. **Budgets for impact – prevention, outcomes and contracts**
Public finance is not well suited to the needs of 21st century welfare. It tends to be driven largely by demand; to be managed in terms of inputs not outputs or outcomes; and it tends to be time-neutral. Very different ways of organising finance include outcome-based funding like PBR, or social impact bonds that only release certain categories of money where outcomes are achieved. These are most appropriate for transitional welfare rather than ongoing support, for example for unemployment, transitions to adulthood or programmes aiming to improve health behaviour. Another example is preventive funding with lifecycle budgeting – governments already use lifecycle budgeting for some categories such as buildings, but these are hardly used at all for people. The alternative is to

look at cohorts, and groups of interventions, in terms of both current cost and the mix of costs and benefits over many decades. This is particularly relevant for preventive health, education and labour market policies. Linking both outcome and preventive funding, some countries have experimented with contracts between different tiers of government, providing funding for investments (e.g. into early years provision) but with the lower tier taking some of the risk of failing to achieve outcomes (Australia's COAG is probably the most developed example). There are undoubtedly many other examples of creative ways of using money to better achieve welfare goals – in conditions of austerity we should expect these to be more widely used.

12. Experimentalism and evidence

Welfare states have tended to be set up by decree – with policies designed in ministries in capital cities, and enshrined in laws and entitlements. There are good reasons why welfare should be stable, predictable and law-based. But there are risks as well: that welfare will not be sufficiently evidence-based or sufficiently flexible to adapt to new needs and new tools. That is why around the core welfare state there is a strong argument for experimentalism: systematic trials of new ways of organising such things as public health, eldercare or skills. This is also why more systematic use of evidence is needed – along the lines of the 'what works' centres in the UK that provide easily used guidance on the state of global knowledge. Great care needs to be taken in how risks are handled – no one wants to be a guinea pig for ill-conceived welfare ideas. But in the long run, a more experimental approach to welfare, combined with a more systematic synthesis of evidence, can lead to much higher performance levels.

Bricolage

These are building blocks not prescriptions. It would be very surprising if the same answers made sense in every environment. Welfare systems reflect history, culture, battles of the past as well as the present. What evolutionary biology calls 'fitness' landscapes may explain why what works in one country is bound to fail in another. Or to put it another way, not everyone could become Denmark, even if they wanted to.

But one lesson history has taught us is that there has often been convergence – whether of new tools like income tax, national insurance or welfare to work programmes – and it's likely there will be in the future. Welfare systems are, by nature, slow to change, and there is a virtue in keeping them reasonably stable. But the fiscal pressures in the north, and the demographic and political pressures in the south, mean that speed of adaptation will be increasingly important. We really need to think about welfare becoming more creative and open, and less formulaic and rhetorical. And we really need to recognise that this era can be as much an era of invention as one of retrenchment.

This piece is based on a talk given to the Nordic Council of Ministers.

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