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Solutions for a complex world and uncertain future

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Governing the welfare state and beyond

Solutions for a complex world and uncertain future

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Foreword

IN JANUARY 2015, seven leading European think tanks and foundations joined forces to form a consortium* created to address some of the most pressing public policy challenges facing Europe. Through research, publications and an annual Vision Europe Summit, we aim to be a forum for debate and a source of recommendations to improve policy-making at both a national and EU level and to foster as appropriate European integration.

In the first year, the Vision Europe Summit conveners chose to explore the future of the welfare state. The highlight of the year was celebrated in Berlin, Germany on 17-18 November, 2015 when over one hundred leaders from around Europe came together to discuss and debate the future of the welfare state at the first annual Vision Europe Summit.

For many in Europe, the welfare state is at the heart of what it means to be European. The values which underpin it are deeply embedded in European societies. Compared to the rest of the world, what unites European welfare states is stronger than what separates them.

Yet all welfare states in Europe face common challenges. Globalisation, soaring public deficits, migration, new social demands, structural changes on the labour market, and not least demographic developments challenge existing welfare arrangements in Europe.

In an environment with ever-increasing interdependence, volatility and complexity, European welfare states have seemingly become prisoners of the successful “industrial age” governance model. Today, old-style governance approaches no longer meet the needs of societies.

We don’t have the luxury to be short sighted at the time when we are faced with complex, wicked problems that have very long term effects. Instead, we should be strategic and have a holistic approach to different issues affecting our lives.

This paper “Governing the welfare state and beyond – Solutions for a complex world and uncertain future” is one of four papers the consortium produced during its first year. While the other papers look into more specific policy questions, this publication takes a broader focus, looking at welfare – and “sustainable well-being” more broadly - as a field where innovative governance structures are needed in order to meet the evolving well-being needs of citizens in sustainable ways both today and in the future.

At a governance themed workshop with decision-makers and leaders in Berlin in November 2015, it became quite clear that we need to move from silos towards integrated approaches, collaborative governance and citizens’ involvement. The consensus was that we are being short-sighted at the time when we should be strategic and aim at having a holistic view on our societies’ challenges. The wicked problems we are facing have very long term effects and there is an urgent call for strategy foresight and governance reform – on multiple levels. We need to figure out what all this means on the European Union level. How do we make sure that future decision on social policy are based on a basis that is legitimate at all levels – member countries, stakeholders and citizens?

This paper suggests how governance mechanisms can be adapted in order to be able to meet the upcoming challenges and to be efficient catalysts of reforms. Instead of suggesting alternative governance solutions for individual policy problems, the paper suggest new governance approaches for the future. It also presents examples and gives advice on how the new approaches can be adopted. If governance is to be the oil of societies, its fluidity needs to be enhanced.

The most important input for this paper came from the discussions and workshop that included members of a working group nominated by the convening partners of the Vision Europe Summit project in order to give advice and comment on this paper. The joint workshop held in Helsinki in June 2015 produced lively and insightful discussions that resulted in particular in the selection of the five topic areas addressed in this paper. The working group included Iain Begg (Chatham House), Yves Bertoncini (Jacques Delors Institute), Thomas Kostera (Bertelsmann Stiftung), Robin Niblett (Chatham House), Viriato Soromenho-Marques (University of Lisbon) and Lars Thies (Bertelsmann Stiftung). The authors remain responsible for the analysis and opinions expressed in this paper.

During the project, valuable discussions also took place with the lead authors of parallel papers on the future of the welfare state, including Iain Begg (Chatham House), Frank Vandenbroucke (Jacques Delors Institute) and Guntram Wolff (Bruegel). The report also benefitted from the governance expertise of and generous comments from Yves Doz, Solvay Chaired Professor at INSEAD.

We would like to express our special thanks to Aart De Geus of the Bertelsmann Stiftung for the Vision Europe Summit initiative, and for chairing it in 2015. As project manager, Katharina Barié, also at the Bertelsmann Stiftung, has been most helpful in keeping us on track, and in giving constructive feedback on our work. Susann Bartels has been of valuable assistance in transforming our manuscript into the Vision Europe Summit publication, in which this report was first published.

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Executive summary

THE EUROPEAN WELFARE STATE is confronted by many acute social and economic problems (e.g. increasing inequalities and poverty, rapid growth of refugee flows, slow growth and increasing public debt). However, when designing the future of the welfare state, we need to also look beyond these immediate concerns. This paper focuses on the long-term renewal needs of the welfare state and on the governance practices that enable such renewal.

In order to respond to future social, economic and ecological challenges, Europe needs to increasingly a) aim at sustainable well-being (in addition to responding to traditional deprivation problems) and b) invest in sustainable well-being (in addition to compensating citizens).

Governance is an essential instrument for both identifying the need for and actualising societal renewal. In the increasingly independent and complex world we live in, any significant long-term socio-economic reforms cannot be made without profoundly developing the governance of our societies towards more integrated approaches. Therefore, when reforming the welfare states, governance reform must be set as a priority area of equal importance to socio-economic reform.

The core question of this paper is: How can we develop the governance approaches of our welfare states to better foster and invest in sustainable well-being and, thus, be more competitive, without compromising basic European values? As a response to this question, the paper presents five ambitions for future governance, and makes recommendations resulting from them. These ambitions are:

Ambition #1 Create governance capacity-building processes at EU and national levels to ensure that politicians, civil servants and other societal actors relevant to the welfare state have adequate understanding of the complexity and interdependency of social problems, and of the governance approaches and tools needed for addressing them in strategic and agile ways.

Ambition #2 Develop phenomena-based welfare policies to ensure long-term impacts and customer satisfaction when addressing strategic cross-sectoral challenges.

Ambition #3 Strengthen the democratic base of the welfare state by exploring democratic innovations that go beyond representative democracy and the interests of present generations.

Ambition #4 Support the transition of the welfare state towards a welfare society, with more shared responsibilities and coordinated activities by public, private and civil society actors for the best solutions as a whole.

Ambition #5 Strengthen social adjustment functions in those policy mechanisms and policy areas where the EU already has legitimacy of action, while simultaneously preparing definitions of sustainable and legitimate long-term directions for social policy in the EU.

By following these ambitions and adopting the recommendations resulting from them, the EU and its member states have the potential for becoming forerunners in modern governance, enabling investments in sustainable well-being, and thus, enhancing our competitiveness!

By embracing Europe's core values (e.g. democracy, welfare and equality, as well as a market-based economy and sustainable development), the governance approaches presented in this paper should also strengthen the foundation of our societies.

The suggested changes in governance approaches require new mindsets and the adoption of new everyday practices. Naturally, they also include both winners and losers. Therefore, some tips for implementing change and overcoming adjustment rigidities are given in the Appendix.

1. Introduction

PERCEPTIONS OF THE WELFARE state vary from basic ideas on how to finance and organise for the provision of basic security needs in a country to more comprehensive ideas of societal models. Within Europe, there is significant variation in the welfare state models¹ in different regions, in regard to how welfare provisions are organised and financed, and who is entitled to them. Many of these models are presently under reform². Yet there are similarities in the underlying basic values, ideologies and even philosophical notions, which can be seen as forming the social contract of the welfare state.

The European post-war welfare states have traditionally been characterised by a distinctive combination of democracy, welfare and equality³, and a market-based economy. More recently, the idea of sustainable development has also gained importance as a leading European policy principle. Each of these is under serious pressure:

- There are cracks in our **democratic system**. Voting rates are decreasing, people are searching for other channels of influence and the policy arena is increasingly occupied by populist movements. Contrary to democratic values, even the limiting of freedom of speech has become a concern in part of Europe.
- Europe faces increasing difficulties in fulfilling its promises of **equality and welfare** (often understood as basic socio-economic security). There has been a worrying trend of increasing social and economic polarisation, and even poverty⁴ in Europe. In addition to monetary inequalities, social cohesion is being impaired in Europe by diverging opportunities (e.g. in education) and health and environmental issues (Vandenbroucke and Rinaldi 2015).

- The present form of **market economy** is vulnerable to economic crisis, and the economies needed to finance the welfare state are sluggish and burdened by high public debt and unemployment. A heated political debate is taking place on whether or not Europe can afford to sustain the kind of welfare state that was built during the post-war period, and on what the social and economic costs would be of not responding to the social risks presently addressed by the welfare state (Begg et al. 2015).
- Although the pursuit of **sustainable development** has entered the European policy sphere as one important guiding policy principle of the region, most welfare state problems are viewed separately from environmental challenges. The welfare state and the green economy, for example, are rarely discussed together.

Accordingly, the challenges of the welfare state are striking at the very roots of our societies: our social contract. Therefore, if we wish to conform to – and even strengthen – the basic European values described above, it is time to ask the following question:

Can the burning societal problems of today be fixed within the prevailing frames of the welfare state, or are we facing a need to consider deeper renewal of our current societal model?

A crucial question for the future of European welfare states is whether they are able to transform into ‘sustainable well-being societies’ aiming at well-being within the ecological boundaries of the planet.⁵

In the following, two important directions for such renewal are presented: a) aiming at and b) investing in sustainable well-being. These ambitions form an important thread for this paper.

1 A classical distinction is made by Esping-Andersen (1990) between the social-democratic (Scandinavian) model, the corporatist (Continental) model and the liberal (Anglo-Saxon) model, which can nowadays be complemented by a Mediterranean model and an East European model (Begg et al. 2015). Yet in relation to differences in governance approaches, such classifications are not very relevant. Countries that have many similarities in relation to how welfare provisions are organised and financed, and who is entitled to them, may apply very different types of governance approaches to design and implement welfare policies. Moreover, owing to different traditions and contexts, two countries with similar governance approaches may produce very different policy decisions. Even within an individual nation state, governance traditions and solutions may vary significantly between different fields of welfare policy.

2 In many Bismarckian countries, for example, there is movement towards both a more liberal and social democratic regime (Palier 2010).

3 Diverging political opinions exist as to whether equality should be viewed from the perspective of equality of opportunities or equality of outcome (Vandenbroucke and Rinaldi 2015).

4 The share of the population at risk of poverty increased substantially between 2008 and 2013. The gap between younger and older generations has widened, as young people have been hit hard, particularly in the South (Hüttl et al. 2015).

5 See EU 2013a; Hellström et al. 2015.

Are European welfare states able to transform into 'sustainable well-being societies' aiming at well-being within the ecological boundaries of the planet?

Aiming at sustainable well-being

Western welfare states have been built on a long anthropocentric tradition, during which the concept of well-being has largely been understood in terms of monetary or social resources and seen as identical with prosperity. Welfare policies have had the inbuilt objective of solidarity, protecting people against social risks and raising their standard of living (Hirvilammi and Helne 2014; Vandembroucke and Rinaldi 2015).

Welfare states have focused mainly on eliminating traditional deprivation problems related to basic physiological, health and safety needs. These traditional risks are now being spread in new ways. For example, single-parent households have a higher risk of poverty, and those having incoherent working careers often face old-age poverty. At the same time, new types of social risks are emerging, related to frailty, long-term dependency and labour market exclusion (Palier 2010). New risks also derive from the increasing importance, relatively speaking, of social and psychological needs. Life management problems, stress, hurriedness, depression, loneliness, and substance abuse are becoming more prevalent and are not necessarily covered by traditional welfare state arrangements, although they have severe consequences for the future (Hämäläinen and Michaelson 2014).

The foundation of the socio-economic welfare state was laid in an era when human activities mostly had a local and reversible impact on the environment. Today, if global ecological problems are not solved, the whole foundation of the economy, well-being and security will break down. Welfare problems can no longer be addressed by the resource-intensive production and consumption patterns

that have prevailed since the establishment of the welfare state. Future welfare policies need to enable and promote sustainable lifestyles.⁶ In enabling sustainable lifestyles, new social risks such as fuel poverty, caused by the costs of vigorous climate and natural resource policies, must also be dealt with. We should begin to think about governing socio-economic-ecological systems as a whole (Dryzeck 2014).

Although human well-being is the ultimate goal of social policy and although the environment sets absolute boundaries for human activities, welfare state leaders rarely feel the need to discuss and define what sustainable well-being⁷ might be. Without a more profound interest in renewing our understanding of what constitutes well-being, and the interconnection between well-being and the environment, a transition of welfare states towards sustainable well-being societies (Hellström et al. 2015, see also EU 2013a) is unlikely.

Investing in sustainable well-being

Risk-sharing has been an important motivation for welfare states, as they provide insurance (e.g. unemployment or disability benefits) against unfortunate changes in individuals' life circumstances (Begg et al. 2015). However, in addition to risk-sharing, the welfare state should increasingly focus on risk avoidance.

Over the last two decades, a trend has emerged in European welfare states towards social investment as opposed to more traditional forms of social protection (Hemerijck 2013; Begg et al. 2015; Vandembroucke and Rinaldi 2015). The essence of the social investment approach is that timely policy interventions prevent future problems, reducing the need for subsequent interventions to compensate citizens (Morel et al. 2012). Early childhood education, for example, may avoid exclusion of young people and save later costs related to unemployment, criminal activity, etc. Social investment is most often discussed in relation to education or childcare, out-of-work training and various types of work-related tax benefits. Social investment policies may either 'enable', e.g. through childcare, which allows parents to work, and adequate transport, or 'activate' by helping to match available workers with jobs, or to upgrade their skills (Begg et al. 2015).

Social investment does not necessarily mean favouring one welfare policy area over another. It can also be

6 In order to be sustainable, well-being should be generated in a way that satisfies well-being needs with a minimal impact on the environment. Accordingly, in a sustainable well-being society, the sustainable standard of living should provide all people with the necessary resources in a way that does not exceed nature's capacities (Hirvilammi and Helne 2014).

7 From an individual's perspective, sustainable well-being is defined as, collectively, a sufficient and sustainable standard of living, purposeful and responsible behaviour, significant relations and an alert presence (Hirvilammi and Helne 2014).



adopted within a single policy area. Social and health-care systems, for example, have been better calibrated to respond to problems that have already emerged, rather than preventing them. In public budgets, social and health expenses are more often viewed as costs than investments. This reactive approach has proven to be very costly in the long run. Social and healthcare services need to be seen as long-term investments in the sustainable well-being society, taking into account genetics, lifestyle choices, physical and mental well-being and interaction between people and their living environments (Hellström et al. 2015).

Social investment provides an active approach to the challenges posed by many long-term socio-ecological transitions, e.g. responses to ageing and climate change. Active labour market policies which enhance human capital can equip the economy to meet challenges such as decarbonisation or the growth of the knowledge economy and the new skills both will require (Begg et al. 2015). Active social investment policies especially aimed at education and childcare may also help to reduce the generational gap that has widened in Europe in recent years (Hüttl et al. 2015).

In addition to risk-sharing, the welfare state should increasingly focus on risk avoidance.

The scope of this paper

The European welfare state is confronted by many acute social and economic problems (e.g. increasing inequalities and poverty, rapid growth of refugee flows, slow economic growth and even stagnation, and increasing public debt). However, when designing the future of the welfare state, we also need to look beyond these immediate concerns. This paper concentrates on the long-term renewal needs of the welfare state and on the governance practices that enable such renewal. In order to address the challenges described above, the paper adopts a mid- to long-term perspective, with the focus on the welfare state and beyond.

2. Purpose of the paper: From reactive to proactive governance



IN RECENT DECADES, Western Europe and the United States have typically led the way when it comes to economic efficiency and the ability of societies to provide well-being for their citizens. This is no longer something that can be taken for granted. For many developing countries, the European model is no longer the 'leading' societal model to be followed. The rapid development of East Asian societies, for example, challenges Europe in fundamental ways when it comes to the traditional European strengths in global competition: the economy, access to global resources, top-level expertise, innovativeness, entrepreneurship and diligence. Europe is at risk of being left behind unless it can become more competitive in these respects (Turkki 2015; Micklethwait and Wooldridge 2014).

A key problem is that Europe has not been able to renew itself. Particularly the welfare state, which has been an important competitive advantage for Europe, threatens to become a burden, if it is not reformed to become more just, more efficient, more responsive to well-being needs, more future-looking, more resilient and more sustainable – not only economically but also ecologically. These challenges are increasingly difficult to respond to using the outdated and reactive governance approach

developed in the industrial era.

Our current welfare state model was created to cope with a more orderly, predictable and less interconnected world than the one we now live in. It capitalised on reconstruction and steady growth and on a young and growing population of hungry consumers moving up the economic ladder. When providing welfare benefits and services, public institutions could operate in relative autonomy, with stable budgets and clearly defined mandates and bureaucratic turf.

In the welfare states of the industrial era, governance has been typically viewed as a way to find solutions that address, effectively and efficiently, existing problems within well-defined policy sectors. For example, how should the distribution of unemployment benefits be organised? Do we need a new division of responsibilities in the pension system? Which structural reforms are needed in the health services sector? Such problems are expected to be solved, or at least eased, if only the right institutional structures, division of responsibilities, financing mechanisms and supply of benefits and services are introduced.

In a case where the social problem is clearly defined, and where it can be solved effectively within the context of a

specific policy sector or jurisdiction, such governance approaches can still work well. However, many of today's burning welfare problems (e.g. ageing, youth unemployment and social inequality) can no longer be treated as such. When addressing many of the complex social problems of today, silo-based governance approaches combined with a strong pursuit of efficiency may even aggravate or give rise to new societal problems and make societies more fragile and prone to unexpected shocks and crises.

In a world of growing uncertainty, interdependence and complexity of societal systems, fewer and fewer welfare problems can be addressed effectively by the **reactive** and hierarchical governance models of the industrial era, which address problems in sub-optimised policy silos only when problems have already occurred.

Addressing complex societal challenges successfully requires governance approaches that enable strategic insight and action across policy sectors, as well as collaboration between different societal actors and the timely reframing of problems prior to their aggravation. Rather than aiming at final solutions for individual welfare problems, such **proactive** approaches to governance increase the likelihood of timely and strategic policy decisions, making societies more resilient.

Box 1. What is governance?

There is no universal definition for governance. As an abstract theoretical concept, it refers to all processes of social organisation and social coordination (Bevir 2013). It includes the various interaction and decision-making processes among the actors involved in solving a collective problem (Hufty 2011). These processes include the way (e.g. mechanisms, processes and relations) by which stable practices and organisations arise and persist.

Good governance is not about making the 'correct' decisions but about the quality of the coordination and decision-making processes related to the problem. Good governance is typically achieved through proven quality attributes, i.e. if it is transparent, participatory, inclusive, effective, legitimate, accountable, etc. Accordingly, even good governance cannot provide fixes to problems. It only increases the likelihood of taking action or making decisions that effectively address the problems at hand.

Leading questions for this paper

Many of the decisions on governance mechanisms (e.g. how to finance, organise and divide responsibilities) for welfare provision are affected by political ideology. It is important to note that this paper will not suggest individual governance mechanisms for any individual subsector of social policy. Instead, this paper will focus on ways to improve the governance capacities and processes of welfare states in a comprehensive way, so that the recommendations are applicable to a variety of complex social challenges which cross-cut different policy areas and, potentially, even different political interests. Many of the challenges presented and recommendations made are not restricted to the welfare state, but represent more general directions of change within our modern societies.

The core question for this paper is: **How can we develop the governance approaches of our welfare states to better foster and invest in sustainable well-being and, thus, be more competitive, without compromising basic European values?**

In the following five sections, five fundamental governance challenges common to most European welfare states are discussed. In each section, the approaches needed to deal with these challenges are also described and illustrated with practical examples, and recommendations for national as well as EU leaders are given.

- What governance capacities do welfare states need for dealing with the increasingly complex and interdependent problems that they are facing? How can we develop the leadership capabilities required for strategic and agile policy-making? (Section 3)
- How can we develop policy processes that make better use of existing resources, allocate responsibilities more effectively and enable human-centric approaches in welfare provision? (Section 4)
- How can we strengthen the democratic base of the welfare state for increased innovativeness and legitimisation of future policies? (Section 5)
- What is the future role of the state and other societal actors in governing the welfare state? (Section 6)
- What is the role of the EU in future social policy? How can the EU be made more responsive to the complex social challenges that will continue to affect its member states in an interdependent way? (Section 7)

3. Developing governance capacities for strategic and agile states

POLITICAL DEBATE on the needs to reform the welfare state has concentrated on social and economic reform of individual policy sectors (e.g. pension reform, unemployment benefit reform, health sector reform, education reform). Governance change has usually been viewed as a second-order reform need, which is typically identified only as a means to implement the sector-specific policy reforms.

European welfare states, however, face problems that cross individual welfare policy sectors. The burning challenges related to ageing societies, youth inclusion, youth unemployment, sustainable lifestyles, refugees, etc. create pressure for reforming the governance of the welfare state beyond any individual sector of welfare policy. European welfare states also face serious governance problems which are independent of the policy sector involved.

Major systemic changes in the ways that our welfare states operate as a whole are needed. Therefore, governance has to be understood as a first-priority reform need of equal importance to socio-economic policy reform.

Governance challenges to be addressed

Instead of long-term, cross-societal reforms, welfare states are focusing on short-term, sector-specific issues. They are experiencing difficulty in implementing structural reforms, their decision-making processes are slow and the tackling of major societal problems is dispersed among government departments with no one in charge (Doz and Kosonen 2014).

In the specialised policy sectors, a long-standing focus on one's own familiar sectoral policies easily results in a lack of holistic understanding and **strategic insight**, which easily turns into tunnel vision, meaning policies are made on the basis of narrow disciplinary perspectives (Hämäläinen 2013). This is the case, for example, when

welfare policies are guided by experts in traditional deprivation problems, who fail to see the growing importance of mental problems as a rapidly increasing cause of public health costs, absence from work and early retirements, or who fail to see the connection between well-being and the environment.

In order to respond to emerging new opportunities in an efficient way, scarce **resources must be allocated in a flexible manner**.⁸ Unfortunately, in many countries the mobility of resources for new or alternative uses remains thwarted by sectoral policy silos⁹, and resources can be reallocated with only great difficulty. Management systems within welfare states are usually designed for subunit optimisation rather than sharing of available resources for common purposes. Often, the division of labour is also planned in line with isolated bureaucratic silos (Doz and Kosonen 2014).

The isolated silos within the welfare state bureaucracy have usually been structured on the basis of previous problems. Without a **collective commitment** to a shared vision, strategy and rules, welfare state bureaucracies tend to focus on increasingly limited and parochial goals, and there may be a strong interest in preserving the status quo and settling for only very modest action (Doz and Kosonen 2014). For example, many in the health-service sector would agree that healthcare should be made more widely available, more just and more preventive. Such statements can also be found in many policy papers. However, if they are not clearly declared as priority goals at high

Governance has to be understood as a first-priority reform need of equal importance to socio-economic policy reform.

⁸ This has recently been highlighted by the rapid increase in refugee flows to Europe. Countries with better resource fluidity may respond to the increasing refugee flows more effectively and with less political turmoil. The need to address new social risks and new well-being needs and to develop more sustainable lifestyles also require reallocation of resources both within different areas of welfare policies and between welfare policies and other policy areas.

⁹ Resource silos may be upheld by laws and regulations, by conventional legacy planning or by individual units and leaders vigorously guarding their resources. Annual budgeting processes offer few incentives for longer-term performance and often end up in a game of zero-sum budgeting (Doz and Kosonen 2014).

policy levels and if the collective commitment for actually implementing reform is not created, everyday practices will tend to prevent things from moving in the commonly desired direction.

Furthermore, traditional public sector hierarchies have serious problems **coordinating dynamic cross-sector and cross-level interdependencies**. The information and knowledge requirements of today's complex and adaptive social systems simply overwhelm their governance capacities. Many governments have tried to circumvent this challenge by decentralising decision-making into specialised agencies that are meant to be closer to citizens and thus more flexible and accountable. Such 'agencification' trends have often led to further fragmentation and even bigger strategic coordination problems in the public sector (OECD 2005).

A good example of coordination problems is the fragmented ICT structure of many welfare states. Decentralising health services has in many countries led to the development of scattered ICT systems that are no longer compatible or able to communicate with each other. The solution may not be in increased centralisation of the systems, but in providing common standards and architecture – for different subsystems and applications to communicate with each other – as has been done in the X-Road in e-Estonia.

Developing new competencies

WORLDWIDE GOVERNANCE indicators (Kaufman et al. 2010) suggest that the quality of governance¹⁰ is best in high-income OECD countries, including Europe. Yet these governance indicators often emphasise stability, without paying sufficient attention to resilience and the ability of societies to reform themselves, which is a precondition for success in the rapidly changing, increasingly complex and interdependent world.

Addressing complex social challenges in a rapidly changing and interdependent world requires the development of new governance approaches that increase the strategic insight and agility of welfare states (see Box 2). Particularly the OECD has recently been active in developing and encouraging the adoption of new governance approaches that enable the increased agility and renewal of societies (e.g. OECD 2015).

Developing strategic and agile welfare states requires

Box 2. Governance capacities for strategic and agile states in a nutshell

A new, more strategic and more agile approach to the governance of welfare states needs to emerge, including the following six mutually reinforcing governance capacities:

Strategic sensitivity = Early awareness and acute perception of incipient trends, converging forces, risks of discontinuities, and the real-time sense-making of strategic situations as they develop and emerge.

Collective learning = Learning through interacting and collaborating with other people who have different but complementary knowledge.

Resource fluidity = Fluidity in fast mobilisation and (re)deployment of strategic resources or funds, people and competencies, providing the operational underpinning for strategic agility.

Shared direction and commitment = Ability to make and implement decisions that mobilise multiple subunits to sustain and integrate interdependent activities.

Mutual adjustment = Effective utilisation of dispersed knowledge and strengths of decentralised actors, while at that same time facilitating the efficient coordination of interdependent activities.

Evolutionary development = Policy development based on the evolutionary process of niche creation, variation, experimentation, selection and growth (Ramel and van der Bergh 2003).

For more information on the approaches and for practical advice for decision-makers, see the Appendix.

conscious development of the governance capacities of societies and the governance capabilities of their leaders. The business of government and the role of public servants are changing, and the educational pathways for bureaucrats need to change with it (Gallop 2014).

Governance capacities can be developed consciously through long-term societal training activities (see example in Box 3). Societal training differs from typical leadership and management training in that it does not primarily aim at competence-building at the level of individuals or organisations, based on demand from these clients. Instead, working on a non-profit basis and through careful selection of invited participants to take part in collective learning processes, it aims to build competencies at the level of whole societies.

¹⁰ Measured by voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption.

Addressing complex social challenges in a rapidly changing and interdependent world requires the development of new governance approaches.

BASIC INCOME is an example of a policy approach that has reappeared every now and then in the social policy debate in many European countries, without any country having yet adopted the approach on a wide scale. The example is interesting from the point of view of several aspects presented in Box 2.

Basic income may seem barely lucrative from the point of view of any individual welfare policy sector. For example, employment officials may easily consider it a non-activating policy tool, whereas social security officials may regard it as very expensive because it does not address social

security needs in a targeted way. Nevertheless, when creating collective understanding and long-term cross-sectoral strategic insight of the potential impacts of basic income on welfare costs as a whole (e.g. through reduced bureaucracy and the empowerment of people by freeing them to expend their energy on more productive activities than securing basic needs) the approach seems increasingly lucrative.

Basic income also represents a radical policy reform with a wide variety of potential benefits and consequences that are difficult to predict, due to the complexity of

Box 3. Leadership training of sustainable economic policy in Finland

The Finnish Innovation Fund Sitra offers regular training courses for top-level Finnish decision-makers and opinion formers in 'Leadership of sustainable economic policy'. The goal is to boost Finland's ability to make sense of and deal jointly with the key social challenges and opportunities of the future.

When focusing on economic policy, the main emphasis is on renewal of the welfare state to incorporate evolving social goals, including social investing, and to integrate ecological aspects into society's core decision-making. In addition to learning about economic policy (understood in a broad manner), the courses aim to build an understanding of how a more comprehensive and long-term approach can be incorporated into the governance practices of economic policy, as well as the whole society.

Participation in the training is by invitation only. Participants are selected to represent various sectors of society (public, private and civil society) in a balanced way so that the training not only builds individual competencies but also adds to competencies at the societal level.

The training courses are built on the governance principles of strategic and agile states. For example, they utilise collective learning processes and eye-opening field visits to increase strategic sensitivity. This means that knowledge, understanding and reality are built

together with the participants, making the training model more representative of a joint development approach than traditional education models. Moreover, each training course creates shared visions and policy recommendations for new governance approaches for the future.

Instead of attempting to solve individual societal problems, the training courses have aimed to build capabilities to do so. According to feedback from the participants of the first two years (2014–2015), the courses have created new networks, improved understanding and respect for other perspectives, increased the participants' awareness of the complexity of most challenges related to sustainable well-being, and created collective commitment to the need to develop and adopt new governance approaches to address those challenges.

Finland is not alone in its efforts. For example, the development of Singapore into one of the most prosperous and efficient states in the world has also been based on the work of highly professional, diligent and innovative civil servants. The Civil Service College of Singapore offers a wide range of activities which build strategic capacity in governance, leadership, public administration and management for a networked government. The work of the public service is also assisted by the views and values of the country's citizens.

interrelated impacts. Subsequently, although the model has appeared to be lucrative, it has been too risky to implement in a once-and-for-all manner (Forss and Kanninen 2014). In such cases, carefully planned social experimentation in line with the evolutionary development principle may offer the way forward, as is being done in Finland¹¹ and the Netherlands¹².

Conscious development of the governance capacities of societies and the governance capabilities of their leaders.

FOLLOWING THE RECOMMENDATIONS beside has long-term implications for the welfare state. It may not provide immediate solutions to problems, but it is an important enabler for future-oriented and successful reforms. Accordingly, building governance capacities and capabilities alone will, of course, not suffice. In the end, the new governance approaches to concrete problem-solving must also be adopted. The phenomena-based welfare policies described in the following chapter offer a potential way of doing this.

Ambition #1

Create governance capacity-building processes at EU and national levels to ensure that politicians, civil servants and other societal actors relevant to the welfare state have adequate understanding of the complexity and interdependency of social problems, and of the governance approaches and tools needed for addressing them in strategic and agile ways.

Recommendations:

1. Set governance reforms as a top priority area on the reform agendas of welfare states.
2. Invest in research on next-generation governance practices, and establish international networks for collaboration and an exchange of views. Encourage welfare state leaders and experts to actively engage in dialogue with such networks.
3. Strengthen the role of strategic and agile governance in international governance indicators.
4. Initiate governance-related cross-sectoral societal training activities, in which welfare state leaders and actors can exchange knowledge and experiences with and learn from representatives of other sectors of society dealing with complex societal problems (see example in Box 3).
5. Create incentives, mechanisms and processes within individual welfare state organisations for developing governance capabilities needed for understanding and dealing with complex societal problems (e.g. job rotation, professional leadership careers, personal goal-setting).

For more practical advice for decision-makers, see the Appendix.

¹¹ In its recent government programme, the Government of Finland (2015) has decided to conduct an experiment on basic income.

¹² After the city of Utrecht announced that it would provide a regular and unconditional stipend to cover living costs to some of its residents, other Dutch cities are also considering similar experiments.

4. Adopting phenomena-based and human-centric welfare policies



MANY OF TODAY'S burning social problems cross policy silos. Solutions to youth unemployment and the social exclusion of youth, for example, cannot be found within any single policy area or public agency, but require integration and coordination of activities in employment creation, income security, education, childcare and social services, to mention just a few. Turning ageing to an advantage (rather than a cost) is also a mounting challenge for most European countries. Addressing it requires integrated social and

healthcare policies, pension policies, employment policies, urban planning policies, etc.

Although a key challenge facing today's welfare states is the complexity of the problems they must address, a key issue in our current policy-making process is fragmentation. Instead of addressing problems as cross-cutting phenomena, social and healthcare services have been traditionally developed as separate systems. Income support and employment services also operate in their own silos.

Although a key challenge facing today's welfare states is the complexity of the problems they must address, a key issue in our current policy-making process is fragmentation.

From policy silos to phenomena-based governance

The current welfare system is characterised by sub-optimisation, as each party aims to achieve operating conditions that are optimal from their perspective, and no one bears overall responsibility for funding, the quality of service or effectiveness. Resources are easily duplicated, and zero-sum annual budgeting practices as well as laws and regulations tend to tie resources to specific line items (Doz and Kosonen 2014). Moreover, silo-based policies often result in only incremental improvements to existing policies rather than new strategic and innovative responses to real social challenges.

When confronting new cross-cutting social problems, societies do establish cross-sectoral task forces or programmes. Yet they are usually temporary solutions that tend to leave the administrative structures intact, and result in only very moderate redistribution of resources. Accordingly, they may not address the complex problems strategically, flexibly and effectively enough. The deeper problem behind this is that strategic thinking is neither natural nor easy¹³ for governments (Mulgan 2009), foresight processes are not sufficiently integrated into decision-making, long-term goal-setting is hindered by political opportunism related to short-term electoral periods, and the strategic goals of governments and their budgets are often disconnected (OECD 2015).

The fact that most countries lack proper infrastructure and processes (e.g. shared databases) for collaboration and resource-sharing between the administrative silos does not make the situation any easier. For example, risks of social exclusion of young people are often not recognised early enough, because official information resources on young people at risk of social exclusion are scattered and, for example, safeguarded for data protection purposes by a range of professionals. Often, professionals have to make decisions on support measures without sharing knowledge with each other. The lack of proper practices and indicators for measuring policy outcomes across policy fields is also a major obstacle for cross-cutting policy reforms.

Fragmented policies conducted in independent silos are a challenge for social investments, too. Policies may not be transferable across jurisdictions, since the investor and the future beneficiary may be in different jurisdictions (Begg 2015). For example, increased investments in professional training may be a cost for education policy, although they produce a later benefit for employment policy.

In order to address burning cross-societal problems, governments and public sector organisations need to adopt a new phenomena-based governance model, which addresses the most important social challenges in a strategic, collaborative and human-centric manner, by integrating different policy areas into large meaningful cross-sectoral entities (see Box 4).

Towards customised and equitable services

Fragmented and sub-optimised policy-making not only leads to high costs and slow response times, but also to poor quality of service for citizens. For example, fragmented welfare policies may lead to individuals not knowing which welfare services and benefits are available to them and their family (Figure 1, Awareness). Additional worrisome features of present fragmented welfare policies are that the system seems to lack flexibility in providing services when life circumstances change (Figure 1, Flexibility), and opportunities to influence the form of the services that can legitimately be provided (Figure 1, Choice).

Customers have been traditionally seen as subjects of welfare services who must be satisfied with the information and services that they are given. Efforts to ensure equal access to services have been based on mass-produced solutions for rigidly defined demographic groups.

In the future, well-being services need to look at individuals more holistically. They must also be more customer-orientated and more personalised, and people must

Welfare states need to adopt a new phenomena-based governance model, which addresses the most important social challenges in a strategic, collaborative and human-centric manner.

¹³ Public organisations do not seek competitive advantage. They face public opinion and high levels of scrutiny. Their goals are complex, ambiguous and often contradictory, and they cannot adopt a strategy of survival by adapting to their environment as their task is to shape the environment (Mulgan 2009).

Box 4. The main phases and components of phenomena-based policy-making

1. Adopting a visionary whole-of-government approach to policy-making.

Governments at all levels (local, national*, EU) should first define a vision for 10 to 20 years ahead, and then identify the most important cross-societal challenges (or wicked problems) for reaching the shared vision. As the long-term visions, interests and perspectives of multiple stakeholders have to be integrated into a cohesive policy package, the societal challenges to be addressed should be identified through wide-spread collaboration across society.

2. Setting long-term phenomena-based welfare policy goals.

Strategic long-term goals (10 to 20 years) need to be set for each of the prioritised challenges/phenomena. An example of a phenomenon turned into a goal is 'turning ageing to an advantage – in well-being and business'. Or in healthcare: 'from curing sicknesses to preventive well-being for all – in an equalitarian manner'. These strategic goals should then be broken down to concrete targets covering the upcoming electoral period. This has been done, for example, in Finland's new government programme (Government of Finland 2015).

3. Organising around phenomena-based policies.

Resources (money and people) need to be allocated to each phenomena-based target for the electoral period (derived from the strategic goal) instead of to line items in ministries. This allows resources to be redeployed in a flexible manner as the world around policy-makers changes. Monetary allocations should include both investments with proper return on investment (ROI) calculations as well as annual budget allocations and cuts to ministries and agencies.

Assigning key responsibilities for each phenomena-based strategic goal is the next phase of the organising process. It is important to assign key responsibilities (including minister posts) only after main monetary allocations (see previous phase) have been completed – in order to secure collective commitment to shared strategic goals and to avoid destructive turf battles.

More detailed action-planning for implementing the phenomena-based policies should then take place

under the leadership of the assigned political leaders and their staff. It is important for there to be clear agreement between the key stakeholders (particularly ministries and agencies) about whose capacity is needed, and when and to what extent, for implementing the planned cross-societal policies in a coordinated manner.

4. Improving continuous sense-making and adaptation capacity.

The strategic goals that are broken down into concrete implementation targets need to be followed up and evaluated regularly in an open manner. The key government officials (political and civil service) need to follow up on the progress made in order to learn and adjust their course (through resource reallocation) in a continuously changing world, and people need to know how well the government is faring in terms of keeping its promises (accountability and credibility).

Setting up professional foresight, impact-measurement and outcome-evaluation processes and practices may require new institutional arrangements – for instance, in the prime minister's office. This is, however, extremely important from the sense-making, accountability and credibility point of view.

5. Break down phenomena-based policies into the delivery of human-centric local services.

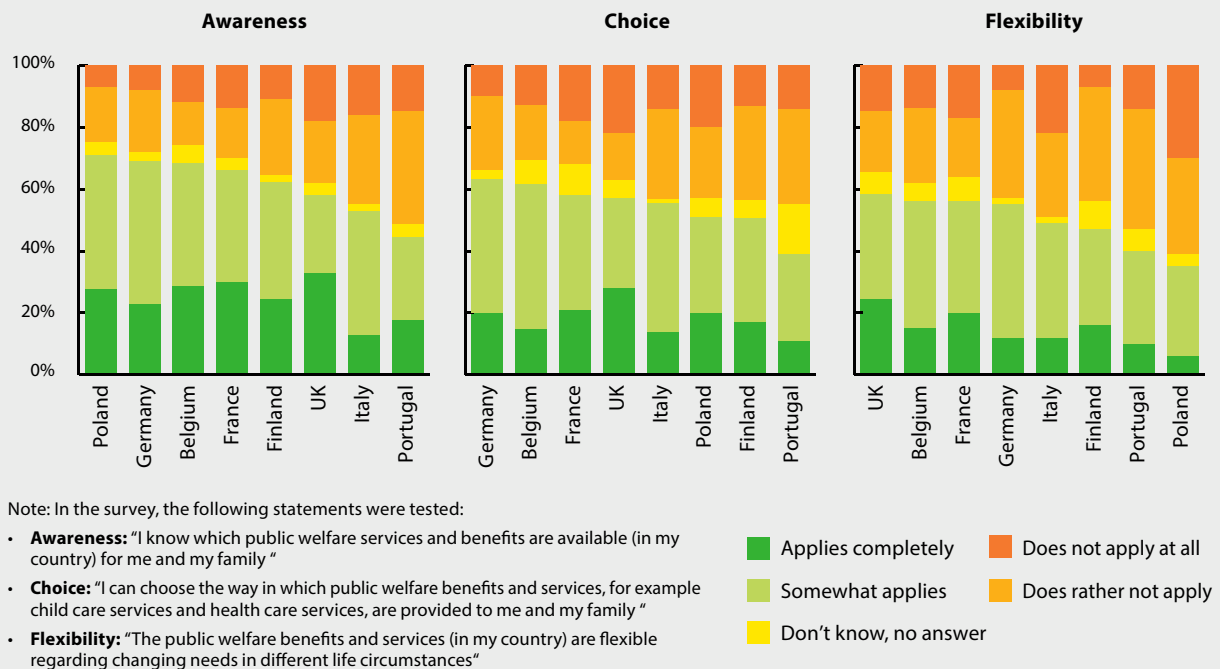
People need individualised services tailored to their specific needs rather than universal services mass-produced by administrative silos. Advanced service design methods combined with modern ICT may provide major opportunities for developing services based on more individual needs.

In other words, the phenomena-based policies of the government need to be broken down into human-centric services for citizens, although it is not necessary for the individual to be aware of the administrative silos behind each specific service.

* Sweden adopted a whole-of-government approach in 1997, ending the autonomy of ministries as a way to provide a comprehensive, flexible and efficient operating model, which would enable the government to completely realise its political agenda. In the new system, in addition to the ministries, each central agency reports to the government as a whole, rather than operating under the jurisdiction of one particular ministry as was the case in the past (Doz and Kosonen 2014).

Figure 1. Quality of public welfare services and benefits according to a poll conducted in eight European countries (share of responses in %)

Source: Vision Europe Summit Consortium 2015



be given more choice. This may require multidisciplinary development work, co-operation across administrative boundaries and information systems, as well as systemic reforms. For example, although customers prefer personally adaptive and high-quality social and health services, and service providers are willing to offer them by adopting rapidly developing technology solutions, tight regulations that favour one-size-fits-all solutions for reasons of equality create barriers to more personalised services.

One way to make services more personalised and more equitable is to tie funding to the customer instead of the service provider. This forces service providers to take more of an interest in their customers' needs and gives citizens a wider choice of service providers. Another way is to give people ownership of their own customer data, as is already done in the state information system e-Estonia¹⁴. It is also important to engage customers in the co-creation of services. The customisation of services will help prevent problems and will target services expediently, ensuring benefits outweigh costs in the long term.

Ambition #2

Develop phenomena-based welfare policies to ensure long-term impacts and customer satisfaction when addressing strategic cross-sectoral challenges.

Recommendations:

1. Design and structure long-term welfare state policies (e.g. policy programmes, budgetary allocations, research programmes) across jurisdictions and according to real-life phenomena (e.g. ageing, youth unemployment, youth exclusion).*
2. Design local service provision in a human-centric manner by addressing people's real-life needs over their life cycle (e.g. services for people as they age and reflecting their various activities).
3. Co-create public welfare services together with customers to increase engagement and empowerment.

* The process of creating and implementing phenomena-based policies is presented in Box 4.

¹⁴ The Estonian Electronic Health Registry (2008) has dramatically improved how patient information is handled. It combines data from different sources, making test results rapidly available online, giving doctors quick access to critical information and providing patients with timely and useful health advice. The Patient Portal protects the privacy of patients by giving them an element of control over the treatment of their own data (see www.e-estonia.com).

5. Strengthening the democratic base of the welfare state



EMPOWERING EVERYONE and enabling everyone to contribute to the best of their abilities are the strongholds of democracy in the global competition of political systems. Innovation and renewal, for example, are built into representative democratic systems, providing diversity (both demographic and cognitive) in terms of decision-making, adequate foresight and sense-making capacity. Regular elections ideally provide sufficient rotation in the system and thus enhance resource fluidity. A well-performing democracy is also important for legitimising the role of the welfare state in redistributing between rich and poor and redistributing over the course of the individual's life (e.g. pensions).

Although promising in theory, representative democracy has not been able to solve many of the problems of the welfare state. In Europe, political participation is declining¹⁵. The trend does not only manifest itself during elections, but also in the membership of political parties¹⁶.

Welfare benefits for the elderly are often seen as protected and skewed in their favour because of their voting power, which has increased as societies have aged, and because of older citizens' willingness to join in the political process. The probability they will go to the polls is also

much higher for older people with high educational attainment than for young people with low educational attainment (Thies 2015). Such factors may make it difficult to implement various changes such as pension reforms that reduce the risk-of-poverty gap between younger and older populations¹⁷. Recent research from Germany also shows that those who are on the receiving end of welfare state policies – e.g. those who live in disadvantaged areas, have less than average income or receive unemployment benefits – are participating less and less in the formulation of these policies (Tillmann and Gagné 2013). It can be presumed that the social stratification of political participation can be found in other European countries as well.

Moreover, in times of serious economic constraints, investing in future benefits means disruption of existing arrangements and taking resources away from current beneficiaries. Therefore, a critical question for social investment is how the adoption of social investment principles can be legitimised (Begg 2015).

As representative democracy becomes less inclusive, welfare policies rest on an ever smaller base of public legitimacy. Moreover, present forms of representative democracy do not give voice to future generations.

15 Voter turnout in parliamentary elections in Germany in the 1970s was around 90%. In the last general election, voter turnout was a little more than 70%. In the UK, voter turnout fell from almost 80% in the 1960s to 66% in 2015; in Finland it fell from well above 80% to 67% in the same time period. The same is true for many other countries, although there are also exceptions to the trend such as in Sweden, where voter turnout has remained more or less stable over the last 30 years (Thies 2015; Van Biezen et al. 2012).

16 The absolute membership of political parties as well as membership relative to the size of the electorate has declined over the last 25 years in most European states except for Italy, France, Spain and Estonia (Van Biezen et al. 2012).

17 For example, the Musgrave rule states that efficient risk-sharing between different generations means keeping invariant the ratio of the income of the retirees to the net income of the working population (the so-called 'benefit-ratio') (Hüttl et al. 2015).

Democracy can take many forms

In order to understand how the democratic base of the welfare state can be strengthened, we must turn to the essence of the concept 'democracy'. Democracy refers to the power or 'rule' of the people. It is the opposite of systems in which power is either held by an individual, as in an absolute monarchy, or in which power is held by a small number of individuals, as in an oligarchy.

In the context of the welfare state, the concept 'democracy' is typically used in relation to how powers are distributed in decision-making. One form of such democracy is direct democracy, in which all eligible citizens participate directly in political decision-making, through referendums, for example. Another form of democracy typical to policy-making in welfare states is representative democracy, in which people elect representatives to make policy decisions on their behalf, for example in a parliament or municipal councils.

To address the challenges described above, states should make efforts to re-engage their citizens, especially the ones most removed from the political process, through methods that go beyond the traditional mechanisms of direct or representative democracy. These methods can range from established tools like citizens' initiatives and public participation to so-called democratic innovations (Smith 2009).

In participatory democracy, people do not have direct access to decision-making, but they are heard during the process, for example, in on-line consultations. New technologies are increasingly enabling governments to receive feedback from citizens on policies and to gather ideas for new initiatives. Participatory democracy has been utilised successfully in city planning projects all over the world. Yet the lack of participatory processes is still common in many

In order to strengthen the democratic base of the welfare state, we must turn to the essence of the concept 'democracy'.

other areas of the public sector, where many reforms have been poorly implemented, or have even failed, because they did not involve important stakeholders in their development (Hämäläinen 2007).

Participatory democracy strengthens cognitive diversity as the opinions and contributions of more people can be taken into account online when new policies and laws are being prepared. It can also strengthen the adaptive capacity of states through increased alertness of decision-makers, as the opinions of people are continuously heard. Gathering valuable feedback on policies from the people who are most affected by them may be instrumental in reducing tensions. It is also important for people to know – beyond the regular elections – when their voice is being heard and how it is going to be treated as part of the decision-making process.

In addition to offering channels for expressing opinions, participatory democracy can be used to design policies. Citizens can be systematically involved in processes that develop concrete policy proposals, such as in mini-publics¹⁸, citizens' conferences or assemblies¹⁹, and crowd-sourcing legislation (see example in Box 5).

In most welfare policies, participation and decision-making are kept strictly separate, with decision-making taking place only after the participatory process is complete, and carried out by different people than those engaged in the participatory process. Participatory budgeting (see example in Box 5) is an approach that gives decision-making power to those who participate in the process.

Today's rapid digitisation also offers significant opportunities for democratic innovations. Through a range of new technologies, governments can receive feedback from citizens on policies or gather ideas for new initiatives. Open data, for example, offers new potentials for both open governance and innovation (see example in Box 5).

Technology development, and particularly social media, also enables action-based democracy to bypass the public sector, thus stretching the notion of 'democracy' even further. As frustration has grown with the rigidity of traditional democratic approaches and with the channels of influence that are offered by the public sector, citizens are increasingly taking direct action to accomplish their goals. Time banks, for example, enable people to exchange welfare and well-being-related services amongst each other. Direct action based on the rule of the people initiated in small groups risks becoming an oligarchy, but in many cases it may also develop into widely spread and accepted citizen movements such as Restaurant Days²⁰.

18 The work of expert commissions could be complemented by a mini-public working on recommendations that apply to the same issue the commission is addressing. In this case, a small group of randomly selected citizens that is representative of the overall population works on answers to important political or ethical questions (Thies 2015).

19 In an event typically lasting a day or two, citizens debate and develop proposals on a specific policy initiative or government programme (Thies 2015).

20 Restaurant Day is a food carnival created by thousands of people organising and visiting one-day restaurants worldwide. During a Restaurant Day, anyone can set up a restaurant, café or a bar for a day. It can happen anywhere: at home, in the office, on a street corner, in a garden, in a park or on the beach. The event is facilitated by a team of volunteers. All restaurateurs are personally responsible for all actions related to running their restaurants. See www.restaurantday.org/en.

Box 5: Examples of democratic innovations

Crowdsourcing legislation

In 2012, a modification of the Finnish constitution went into effect, allowing any citizen to propose a new law. The Citizens' Initiative Act requires 50,000 citizens of voting age to show support for the new idea by signing petition so it can be submitted to the country's parliament. 'Open Ministry' is an online platform developed by a non-profit organisation that facilitates such initiatives. Anyone can propose legislation and gather support for it using the platform. Before supporters begin campaigning, legal specialists help frame the language in a way that makes it acceptable to the parliament.

So far, two proposals have been submitted to Finland's parliament, one of which (the Equal Marriage Law, which allows all people to marry regardless of their gender) has become legislation approved by the parliament.

Participatory budgeting

In participatory budgeting, the citizens involved in the participatory process decide on the spending priorities for a designated share of the public budget. Public libraries, for example, may open decisions on the acquisition of new items to citizen-based processes. In such processes, residents and community groups representative of all parts of the community 1) discuss spending priorities, 2) make spending proposals and 3) vote on them. Local people can also be given a role in the scrutiny and monitoring of the process (Sillanpää 2013).

Participatory budgeting provides local residents with an opportunity to become an essential part of decision-making processes. It can also contribute to the residents' improved understanding of public decision-making and encourage them to participate in other areas of democratic life. The approach brings together people from different sectors who would not necessarily

interact with each other. Moreover, involving residents, also from marginalised groups, in making decisions on how public funds are spent helps to allocate the funds appropriately (Sillanpää 2013).

Participatory budgeting was introduced in Europe in the early 2000s and is now one of the most widely used approaches to participatory democracy (Sillanpää 2013). It is common in Britain, and is also being experimented with in Finland.

From open data to open government

True openness provides accountability and transparency of governance. Open data is a means for increasing the openness of government. The term 'open data' refers to data that is accessible to all and can be freely used, re-used and distributed by anyone (Halonen 2012).

By opening up their datasets to public scrutiny, organisations can increase accountability and become much more efficient in terms of savings. Transparency allows vigilant citizens to identify wasteful behaviour in public organisations. In addition, more open expenditure information gives employees a better understanding of the organisation's financial situation so they can act accordingly. Open data can also enable the creative re-use of information by innovative citizens, which can enhance public services and opportunities for meaningful public participation (Halonen 2012).

US President Barack Obama, for example, signed an executive order that made open and machine-readable data the new default for government information in the US in 2013. Making information about government operations more readily available and useful is also crucial for more efficient and transparent government. In Estonia, the state information system e-Estonia is a European forerunner in open data and open governance based upon it.

Realising the potentials of democratic innovations

Democratic innovations have so many potential benefits that it would be unwise for the public sector not to get involved. Decision-makers should open-mindedly evaluate the advantages and disadvantages of different forms of democratic innovations. They should boldly clarify societal regulation and create favourable conditions for scaling up

best practices and limiting potential negative impacts.

Citizen participation and democratic innovations are not without flaws, though. Including disadvantaged groups, such as migrants or people with low educational attainment, is a challenge, as it is with traditional modes of political participation. On the other hand, certain groups that are active in adapting to democratic innovations and the potential they offer may have a disproportionate say on what happens to the welfare state (Thies 2015). Accordingly, the contributions of different stakeholders also need to be



Democratic innovations have so many potential benefits that it would be unwise for the public sector not to get involved.

aligned and adjusted in addressing the common problem.

Citizen participation might also conflict with the agility of the welfare state to quickly respond to new problems and changing circumstances. Hence, the approach to be adopted needs to be carefully evaluated. Participatory citizen engagement may not be useful, for example, in crisis management. Involving citizens in political decision-making takes up resources needed elsewhere and slows down governance processes. On the other hand, it makes policy decisions more legitimate and less contested in the future.

Democratic innovations can be one of many tools that make the governance of welfare states more inclusive. Governments are still learning to open up to citizens' voices, and democratic innovations are currently being tried out in many states, regions and municipalities all over the world²¹. Yet they are often not yet institutionalised, but in an experimental stage, being carried out as one-time projects. People throughout society need to be made aware of new forms of democracy and invited to participate in re-inventing democracy.

Ambition #3

Strengthen the democratic base of the welfare state by exploring democratic innovations that go beyond representative democracy and the interests of present generations.

Recommendations:

1. Broaden understanding of new and different forms of democracy, and how they could be applied in the context of the welfare state.
2. Increase co-operation with local communities by involving people from different walks of life in local development, by transferring more power to the local level and by motivating citizens to take action themselves.
3. Encourage and create incentives for public administrators to experiment with democratic innovations, including participatory and grass-root democracy, and to share, institutionalise and scale best practices.

²¹ Many more examples can be found at www.participedia.net/en.

6. Renewing the role of the state in welfare provision

THE TERM 'WELFARE STATE' itself suggests the state's dominant role in welfare provision. Indeed, in many countries the assumption is often that the right to social protection must be provided by the state.

However, in a period of a major socio-economic transformation²², the burning problems confronting modern welfare states cannot be assigned to any single stakeholder to be solved, and not to the public sector alone. The public sector is struggling with increasing resource constraints, and the knowledge needed for addressing new challenges may not always reside within the public sector.

The traditional role of the state in welfare provision is challenged. Some traditional tasks of national governments can now be more effectively undertaken by the private sector, social partners or civic society. Societal values are also changing in terms of what the role of the individual, family, employers, social partners and the state should be in welfare provision. We need a new perspective on the government's role that takes into account other societal agents and sectors in a more collaborative and integrated way.

Changing roles of societal actors

In many countries **social partners**, including employers and trade unions, have an important role in the financing or provision of welfare, or as important lobbyists in welfare policy. As life-time employment in traditional economic sectors is no longer guaranteed, an increasing number of people (particularly the unemployed) are

left unrepresented, or fall through the welfare safety net if they lack the requisite number of years contributing to the system. This is particularly the case for many women, foreign labourers and workers in part-time jobs and new occupations. Social partners remain important actors and will continue to be so in the future, but their participation in welfare provision and policy needs to be re-examined from the points of view of equality, democracy and developments in the nature of work.

The Danish 'flexicurity' model is a good example of co-operation between the public sector and social partners. The model increases the level of mobility in the labour market by making hiring and firing easy for businesses, while individuals who are let go are offered generous unemployment benefits and a wide range of employment services. The model is made possible by efficient co-operation between social partners. Following the financial crisis, further improvements have been made to the model: The system now also addresses the relationship between mobility and education, which broadens the scope of actors involved. 'Mobication' is the new concept designed to provide security through the continuous retraining of the labour force and giving workers the motivation and ability to move where there is work available.

Public welfare systems in many countries complement public services by acquiring services from the **private sector**. In some cases, this leads to efficiency benefits, but equally often outsourcing services to private sector providers results in increasing costs. Nevertheless, health and well-being businesses are a major growth sector in Europe, and more and more large corporations have become interested in generating value not just for their shareholders but also for their stakeholders²³ (see the example of social impact investing provided in Box 6). Moreover, the private

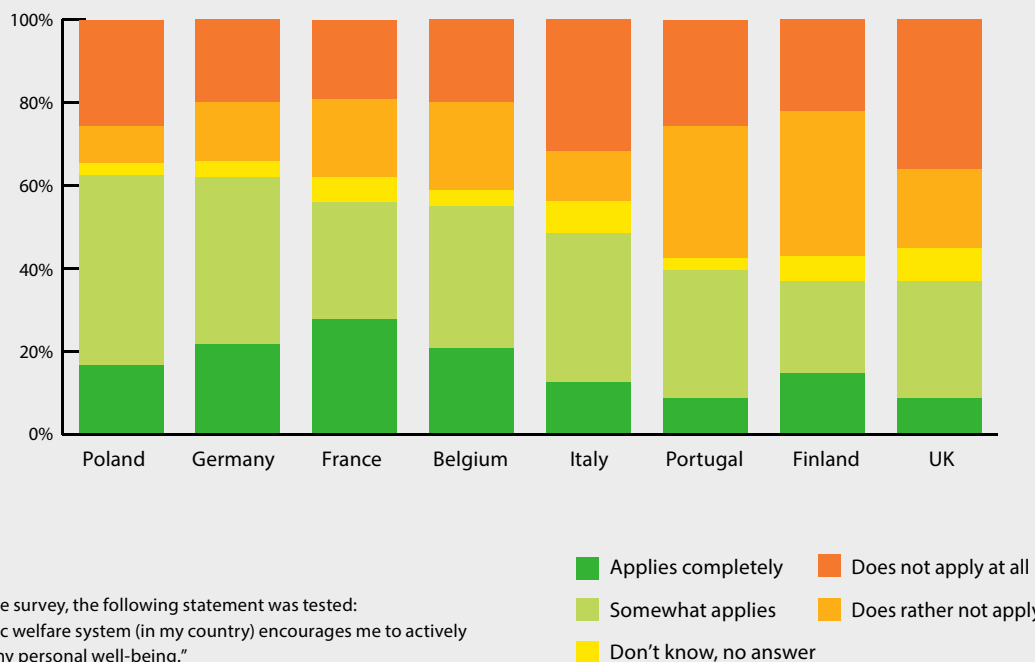
Some traditional tasks of national governments can now be more effectively undertaken by the private sector, social partners or civic society.

²² Instead of having clear roles and hierarchies, modern societies have developed into dynamic, multilevel systems-of-systems, or 'panarchies,' which involve differentiated institutions at all systemic levels (Gunderson and Holling 2002). Within such systems, organisational subunits, organizations, industrial sectors, regions, nations and communities all have their own cultural and behavioural norms and institutional rules. Yet they also tend to utilise some shared resources and require coordination of interdependent activities.

²³ Promoting sustainable lifestyle choices is also a major opportunity for businesses. Examples of products and services that support sustainable lifestyles include electronic applications that allow people to monitor their own health and construction services aimed at improving the energy efficiency of homes. Intelligent energy and transport systems can also be built to support sustainable consumption habits and lifestyles. Taking consumers' different personal needs into account in the development of new products and services can increase both well-being and resource efficiency.

Figure 2. Activating role of social security systems according to a poll conducted in eight European countries (share of responses in %)

Source: Vision Europe Summit Consortium 2015



sector has recently demonstrated increasing interest in addressing climate change as a business opportunity, not as a constraint. Accordingly, re-examining the relationship between the public and private sectors in creating sustainable well-being is one of the most important governance questions for the future of welfare states.

Families, local communities and peer-to-peer networks act as unofficial safety networks in many countries, particularly in times of limited availability of public provisions and services. A new age of communality is also dawning (see example of asset-based development provided in Box 6). People today are keener and more capable of engaging in meaningful co-operation with each other than ever before. Digitisation connects people in new ways and makes it possible for new joint activities to bypass traditional structures and processes. This is particularly visible in the recent development of collaborative consumption (see example in Box 6). Also, social entrepreneurship and

other forms of the collaborative economy are turning citizens into active producers of social and ecological value.

In the present welfare states, **people** are often treated as passive consumers of public provisions and services. The welfare states do not always aim to truly empower and activate people to take responsibility and enhance their own well-being, which is also the perception of many Europeans (Figure 2). Future social services will need to focus more on encouraging people to be more independent and on empowering and activating each individual to look after their own well-being. This requires that choices that increase well-being must also be attractive and readily available²⁴. Moreover, service providers need to empower people by engaging them in the active co-creation of services. Interestingly, as described in Section 5, some forms of collaborative consumption (e.g. time banks) even enable people to bypass the public sector by exchanging welfare and well-being related services amongst each other.

²⁴ Society's infrastructure and political decisions have a big impact on the choices that people make in their daily lives. Legislation is a powerful tool for influencing people's behaviour, as recycling obligations and smoking bans in public places have already shown. Shifting the priorities of taxation (e.g. ecological taxation) and financial incentives can also be used to promote the transition to more sustainable lifestyles. Examples of how society and its infrastructure can steer people's daily choices include good bicycle paths and efficient public transport, exercise vouchers provided by employers, prominent displays of healthy foods in stores and energy-efficient default settings in household appliances (Hirvilammi and Helne 2014; Hellström et al. 2015).

Box 6. Examples of collaborative governance

Communities as assets

Various methods have been introduced in Scotland to produce health and well-being by capitalising on the assets of communities. These 'asset-based' approaches involve identifying and allocating local communities' shared resources, such as know-how, skills, experience and people's spare time, to protect the community's most vulnerable individuals and promote the health and well-being of the members of the community.

The focus is on enabling well-being and residents' empowerment, not on the provision of services. This makes residents feel like they are part of the solution rather than just a source of the problems.

A project called Older People for Older People experimented with a concept in which communities in remote areas support the independent living of their older members as part of the community. The communities developed services that they themselves felt would best support older people in living independently.

Collaborative consumption

Instead of ownership, more and more people today want to have access to goods and services when they actually need them. Collaborative consumption refers to a sharing economy where people borrow, exchange, rent, recycle and produce goods, services, ideas and skills amongst themselves. In a sharing economy, resources are used in the most efficient way possible, and there is less and less need to produce new things. This allows society to reduce the consumption of natural resources and energy without forcing people to compromise their standard of living.

Collaborative consumption solutions are usually based on the Internet, which brings together voluntary networks or people who did not know each other before. It can therefore increase the level of trust in society, promote community spirit and increase the intangible well-being of individuals and their resilience in crisis situations.

In many countries, the spreading of collaborative consumption is effected by regulations on taxation, fundraising, employer rights, copyrights, transport, premises, construction and housing. Some of the regulations are rigid and outdated, whereas some protect citizens from the potential uncontrollable or negative impacts of the new practices.

Social impact investing*

Impact investment is a new, interesting and practical way of addressing the social and ecological problems of society as a joint effort between the public sector, private sector and civil society. In this new model, the public sector remains the 'owner' of the problem, but funding for the 'solution' is provided by the private sector. In many cases, civil society may act as the practical operator, who is paid for the production of its services.

In order for the 'business case' to materialise, concrete targets for the joint effort must first be established. The key principle of this arrangement is that the public sector pays only for the results and the private sector earns (i.e. the service provider receives profits and investors a positive return) only if targets are met or exceeded. If the business case does not materialise, the private sector bears the risk.

Impact investing is an interesting new vehicle for addressing increasing costs in the public sector by developing preventive solutions as investments for the future. At best, impact investment teaches the public sector to think in terms of investments instead annual budgets (zero-sum game). This is yet another means for adopting the social investment approach.

*It is important to note that 'social impact investing' is a particular approach to collaborative governance and, despite similarities in wording, it is not a synonym for the 'social investment' concept discussed in Section 1, which does not necessarily require collaboration between different societal actors.

We need a new perspective on the government's role that takes into account other societal agents and sectors in a more collaborative and integrated way.

Strengthening collaborative governance

The governance environment of the welfare state requires mechanisms of collaborative governance that can support the co-evolution of multiple, mutually reinforcing activities in public, private and third sector organisations.

Collaborative government brings different stakeholders together to address a common problem in a dialogical process. It can thus help in overcoming defensive self-interests by giving responsibility to several actors for achieving collective improvement. Therefore, the key to collaborative governance is not transferring funding²⁵ or other responsibilities from the state to other societal actors, but sharing responsibilities and coordinating activities to achieve the best solutions as a whole.

Public sector organisations are often best positioned to develop, produce, arrange and/or coordinate the production of public goods and institutions at higher systemic levels. They are usually the only actors with system-wide interests and responsibilities, and they are ultimately responsible for the consequences of bad policies no matter where they occur (Hämäläinen 2013). Accordingly, strengthening collaborative governance must be a priority in public sector governance.

The public sector needs to take an active role in enabling, facilitating and removing barriers to the extensive and deep collaboration between multiple stakeholders that is needed. Accordingly, 'orchestrating' system-wide co-operation is a new 'macro-organisational' role for the state in welfare policy (Hämäläinen 2013). This new 'system stewardship role' of the state (Hallsworth 2011) acts as a new public good for the participants of the co-operative network. It is not a substitution for but complementary to the more traditional macroeconomic role²⁶ of government.

Instead of 'welfare states' we should begin to talk about 'welfare societies' in which – in addition to the role of provider – the government plays an active role as enabler of the activities of other societal actors.

Collaborative governance that can support the co-evolution of multiple, mutually reinforcing activities in public, private and third sector organisations.

Ambition #4

Support the transition of the welfare state towards a welfare society, with more shared responsibilities and coordinated activities by public, private and civil society actors for the best solutions as a whole.

Recommendations:

1. Strengthen collaborative network governance by strengthening the orchestration role of the public sector in facilitating co-operation, coordination and co-evolution of various mutually reinforcing development efforts.
2. Utilise community-based assets more efficiently by supporting initiatives that rely on learning from citizens' experiences while empowering individuals, families and communities (see example in Box 6).
3. Evaluate the advantages and disadvantages of different forms of collaborative consumption (see example in Box 6) for increasing sustainable well-being, and clarify societal regulation and create favourable conditions to scale up best practices.
4. Explore potentials for social impact investing (see example in Box 6) to enhance public-private partnerships in welfare creation.

²⁵ When designing collaborative governance, it is important to bear in mind that transferring funding and other responsibilities from the public to the private sector may involve both advantages and drawbacks.

²⁶ In recent decades, the view of the rationale behind the role of the government has mostly been dominated by economic theory. Government interventions are justified as reactions to market failures. The main duties of government, and of the public sector more generally, have been seen as a) increasing the overall efficiency of the economy (e.g. competitiveness and growth) and b) reducing the social inequities among citizens (e.g. traditional welfare functions) (Hämäläinen 2013).

7. Governing the EU towards a legitimate social agenda



THE SIMULTANEOUS DEVELOPMENT of national welfare states in Europe and the deepening of European integration in the postwar period have laid an important foundation for the European social model. Both these pillars are now in a critical phase of reinventing themselves (Hemerijck 2013).

Social progress and solidarity have long been important elements of the European vision²⁷. At present, the EU's social ambitions are reflected in the goals of the Lisbon Treaty (EU 2000): to transform the EU by 2010 into the most competitive and knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion. Despite the Lisbon promises, a great decline in social cohesion has been seen in Europe since the signing of the declaration. European unity is being challenged by an alarming increase in social inequalities both within and between countries (Vandenbroucke and Rinaldi 2015).

A core problem is that European social integration has not kept up with economic integration. Since 2008, European policy discourse and policy-making have been dominated by public debt, fiscal discipline, budget deficits and other economic issues, leaving little room for long-term

strategic discussion of European values and directions and the role of the EU in providing for social well-being within ecological boundaries, as implied by the Lisbon Treaty (Soromenho-Marques 2015). The domination of economic integration is seen, for example, in the fact that labour mobility is encouraged in the EU, but no EU unemployment or health insurance exists to address its social consequences. In the long-term, greater divergence and a decrease in social cohesion in the EU may also ensue if some of its member states increase their inputs in social investment (e.g. human capital) and others do not (Vandenbroucke and Rinaldi 2015).

Divided views on social policy

The increasing contradiction between the economic policies and their social impacts needs to be addressed, if the Union wishes to survive and flourish. In the long term, deepening social integration would be a logical next step in European integration. However, the economic problems faced by many EU countries, including those expected to

²⁷ Social progress and solidarity have been promoted by Thomas Humphrey Marshall, Thomas Hobbes and Otto von Bismarck, among others (Soromenho-Marques 2015). At the European level, in 1961, the Council of Europe adopted the European Social Charter, which is a treaty on human rights and freedoms. In the EU, the social agenda was enshrined in the EU's Social Charter in 1997.

become net contributors, and the strengthening of political movements critical of the EU appear to be sizeable obstacles to such development in the short term.

The subsidiarity principle has been an important cornerstone of EU policies. Due to a limited mandate in social policy, instead of invasive social policies the EU Social Protection Committee uses a voluntary process called the Open Method of Coordination for political co-operation in the areas of social inclusion, healthcare, long-term care and pensions. It rests on soft-law mechanisms such as guidelines and indicators, benchmarking and sharing of best practice. Accordingly, the method's effectiveness is dependent on a form of peer pressure. The process also involves close cooperation with stakeholders, including social partners and civil society. The social investment approach, already supported by the EU (EU 2013b)²⁸, also offers a way to use existing social budgets to achieve the best outcomes.

The social problems that have culminated in recent years in the EU have increased debate on how far the subsidiarity principle should apply to social policies. On the one hand, pressure has increased to broaden the mandate and competencies of the EU so that more input and coordinated action is possible in the area of social welfare policies (e.g. New Pact for Europe, Emmanouilidis 2014). Shared competence (by nation states and the EU) on welfare policies may strengthen EU integration at a time when fragmentation threatens. It may also increase both economic performance and social cohesion, and help to narrow the distance between the EU and common citizens (Soromenho-Marques 2015). As part of the debate on how the EU could better balance its economic and social policies, initiatives have been launched to create economic and social adjustment funds, e.g. the EMU stabilisation fund (Delbecque 2013) and the EU unemployment fund (see example in Box 7).

Europe is divided in relation to such initiatives. Many member states resist giving the EU a broader mandate in social policy, particularly considering the EU's present weighty, rigid governance approach, and the fear they might become losers in terms of the financial transfers involved. Moreover, the rise of EU-critical populist parties in many European countries, and the strengthening of

Box 7: Initiative for a European Unemployment Benefit Scheme

The European Unemployment Benefit Scheme is an example of an initiative for implementing social adjustment functions to compensate for the social consequences of economic policies.

The recent European recessions have highlighted that EMU lacks the important instruments that countries have previously used to generate economic recovery and to develop macroeconomic stabilisation. The process of making EMU more resilient needs well-designed social adjustment functions. The European Unemployment Benefit Scheme is an initiative to tackle the declining social cohesion in Europe and to reorganise the architecture of EMU.

Through the scheme, member states would share a stake of the costs of short-term unemployment insurance. In practice each country would make an overall payment every month and receive an overall payment from the fund. The basic European unemployment benefit would be paid for the first six months at a 40% level of the person's previous reference wage. Each member state would have the option to pay higher or longer unemployment benefits. Also, short-term and part-time employees would qualify for support. People receiving the insurance money would be obliged to search for a job and participate in training courses. The interaction would be with national authorities.

Free-riding and situations where some countries would be the primary contributors could be avoided by adjustments based on constant monitoring of each country (experience ratings) and clawbacks that neutralise net transfers. This means that a member state could be a net beneficiary for several years, but its contribution and/or drawdown rates would be adjusted accordingly.

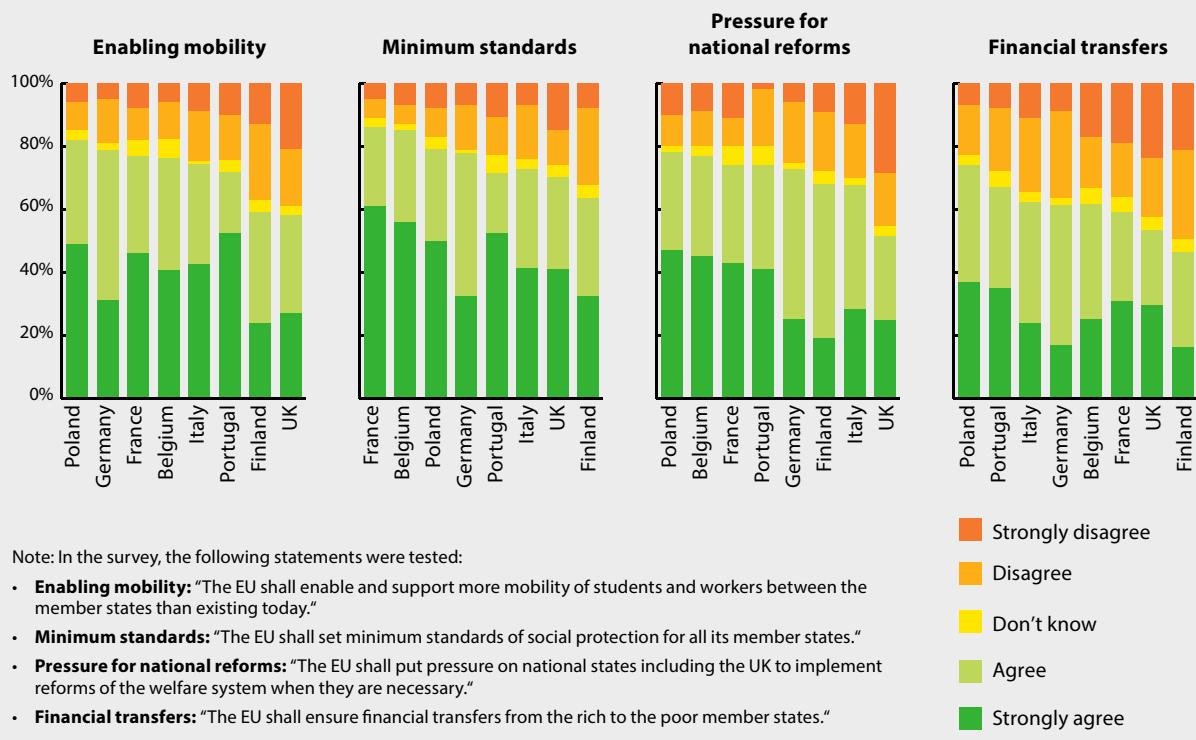
The idea for the fund comes from Sebastian Dullien who is affiliated with the European Council on Foreign Relations (ECFR) and the Berlin University of Applied Sciences. Since 2012, it has been analysed by the European Commission's DG Employment, Social Affairs and Inclusion (Dullien 2014).

Substantial support exists among Europeans for increasing the mobility of students and workers, and for strengthening the role of the EU in social policy accordingly.

²⁸ The European Commission has called on member states to prioritise social investment and to modernise their welfare states. The call features in a Communication on Social Investment for Growth and Cohesion (EU 2013b) adopted by the Commission. It gives guidance to member states on how best to use EU financial support, notably from the European Social Fund, to implement the outlined objectives.

Figure 3. The future role of the EU in social welfare policy according to a poll conducted eight European countries (share of responses in %)

Source: Vision Europe Summit 2015



euro-sceptic voices encouraging an exit from the EU or the eurozone, signal legitimacy problems in the EU and fuel reluctance to broaden EU mandates any further.

Substantial support exists among Europeans for increasing the mobility of students and workers, and for strengthening the role of the EU in social policy accordingly. However, opinions diverged as to whether this should only be done through more discreet or more invasive measures.

In a recent poll conducted in eight EU countries (Figure 3), two out of three respondents supported the introduction of more discreet measures of social policy such as minimum standards for social protection in the EU, as well as increased coordination among and pressure on member states when it comes to policy reform. Financial transfers from the richer to the poorer member states was – on average – supported by more than half of the respondents. Yet in all countries, significant divergence exists in the views expressed, as well as considerable opposition in some of the countries (e.g. UK and Finland).

Towards long-term solutions

In social policy, the EU faces a dilemma. On the one hand, the present more discreet social policy measures have not been effective enough to prevent the diminishing of social cohesion, which already now threatens European unity and which will undoubtedly decrease European competitiveness in the long run. On the other hand, the EU subsidiarity principle and existing EU competencies do not – in terms of social welfare policy – allow for great flexibility in the allocation of resources between countries or between different policy areas. Moreover, the EU lacks sufficient legitimisation from its citizens for introducing such measures.

In the short term, in order to address the social consequences of integrated economic policies, social adjustment functions can and must be strengthened in those policy mechanisms and policy areas where the EU already has legitimacy of action.

In the long run, the EU needs to develop social policies that effectively address the increasingly complex social

The EU needs to develop social policies that effectively address the increasingly complex social problems in ways that are legitimate to both the member states and Europe's citizens.

problems within and between the member countries in ways that are legitimate to both the member states and Europe's citizens.

Because many EU policies already have great impact on social welfare, it is essential to strengthen the reflective capacities of the EU in the sphere of social welfare issues. Foresight, global benchmarking, joint sense-making and experimentation in social issues, to name a few, need to be significantly strengthened to identify potential directions for the future.

The EU also needs a strong shared vision of the future role of social policy in the Union in order to guide the development efforts of individual member states in a mutually supportive manner. Subsidiarity should remain a guiding principle, but allowing flexibility and different forms of strategic planning at the decentralised level would contribute to creating wider European priorities (Stahl and Spinaci 2010). A shared vision provides the motivation for independent states and other actors to strive for coherent changes. It also allows the member states to make decisions using their own knowledge of local circumstances while, at the same time, recognising and supporting the direction the rest of the Union is taking. Collective commitment to a vision also enhances a feeling of solidarity between EU member states as a means of facilitating the needed national reforms.

In defining future directions for the EU, a broad partnership for progress²⁹ is needed, engaging stakeholders across society (Stahl and Spinaci 2010, see also Section 6). A vision of future social policy needs to be legitimate also from the European citizen's point of view. A poll indicating general acceptance (such as in Figure 3) does not suffice. Decisions on the future of Europe, including welfare policy, cannot be made only in the cabinets of Brussels³⁰, aided by a chorus of experts and lobbyists. Nor is it enough to rely on representative democracy (e.g. the European Parliament). In order for future social policies to be seen as legitimate

by the European people, the Union needs to strengthen the role of participatory democracy and experiment with democratic innovations (see Section 5) so that it can adapt and adopt them to the European context.

There are no shortcuts to long-term solutions. Implementing governance changes that build both strategic insight and legitimacy along the lines discussed above may not solve the acute social problems of today, but they may help avoid the sudden escalation of social problems, and enable the design of sustainable solutions in the long term.

At the same time, acute problems, such as the dramatically expanding migrant and refugee flows to Europe, are challenging European welfare states, as well as any plans for future EU-level social policies, in unforeseeable ways. Therefore, what is said about welfare policy today may very soon become outdated.

Ambition #5

Strengthen social adjustment functions in those policy mechanisms and policy areas where the EU already has legitimacy of action, while simultaneously preparing definitions of sustainable and legitimate long-term directions for social policy in the EU.

Recommendations:

1. Strengthen reflective capacities (e.g. foresight, sense-making and visioning) and processes to identify social impacts of other EU policies, and strengthen social adjustment functions within the present EU mandate in social policy.
2. Apply the principles of social investment to the EU funds already available for social purposes, and engage civil society and private investors in social investment projects, instead of relying only on additional funding from the member states..
3. Increase Europe-wide societal dialogue on the future role of the EU in social welfare policy. Encourage such dialogue and increase legitimation of future decisions by exploring democratic innovations (see also the recommendations related to Ambition #3 in Section 5)
4. Strengthen the EU's role and encourage the participation of its leaders in international research and benchmarking networks aimed at developing the governance approaches needed to deal with increasingly complex social problems (see also recommendations related to Ambition #1 in Section 3).

²⁹ The Covenant of Mayors has proved to be a successful pilot, engaging more than 1,000 mayors across Europe on the topic of reducing CO2 emissions and the use of renewable energies. An adaptation of the same partnership format would be possible in other policy areas as well, including youth employment (Stahl & Spinaci 2010).

³⁰ Owing to financial turmoil and debt crises, EU decision-making powers have recently shifted – at least temporarily – from democratic institutions to monetary treaties and institutions lacking electoral scrutiny, leading into a situation where economic actors, especially the Troika (International Monetary Fund, European Central Bank, European Commission), have the power to make decisions with extensive social impact (Soromenho-Marques 2015).

8. Synthesis and discussion



AN IMPORTANT STARTING POINT for this paper was that in the increasingly independent and complex world we live in, any significant long-term socio-economic reforms cannot be made without profoundly reforming the governance approaches of our societies. In particular, a more proactive approach to governance, concentrating on the long-term and cross-sectoral renewal needs of the welfare state, is needed. Therefore, in reforming the European welfare state, governance reform must be set as a priority area of equal importance to socio-economic reform.

At the beginning of this paper, it was also asked whether the burning social problems of today can be fixed within the prevailing frames of the welfare state, or if we need to consider a deeper renewal of our societal model. This paper has argued that there is a need to reconsider the concept of the welfare state from two aspects of elementary nature – welfare and state. In the traditional concept of the welfare state, ‘welfare’ is the goal of the activity and the ‘state’ is the prime actor responsible for providing it.

Traditionally, ‘welfare’ refers to a reactive approach that provides a minimal level of well-being and social support only after problems have occurred. The European model needs to adopt instead a more proactive approach that

invests in sustainable well-being – holistic well-being within the planet’s ecological limits. Moreover, as the state is not the sole actor providing well-being for its citizens, instead of the welfare ‘state’, we need our societal model to increasingly embrace also actors throughout ‘society’.

In the following, the five governance-related ambitions laid out for European welfare states in this paper (see Sections 3 to 7) are summarised and discussed in relation to two directions of reform: a) aiming at sustainable well-being (in addition to responding to traditional socio-economic deprivation problems) and b) investing in sustainable well-being (in addition to compensating citizens).

The concept of the welfare state needs to be reconsidered from two aspects of elementary nature - welfare and state.

Ambition #1 Developing governance capacities for strategic and agile states

Create governance capacity-building processes at EU and national levels to ensure that politicians, civil servants and other societal actors relevant to the welfare state have adequate understanding of the complexity and interdependency of social problems, and of the governance approaches and tools needed for addressing them in strategic and agile ways.

In an increasingly complex and uncertain world, developing welfare states towards sustainable well-being societies implies policy changes at the level of our current societal model. Designing such policies requires governance approaches that are strategic and agile at unprecedented levels. Adopting such governance approaches can be supported by vigorous foresight activities that shed light on what the next-generation governance approaches should be, and by cross-sectoral societal training activities that build and share understanding of the new approaches.

In particular, future governance needs to be strategically sensitive. This helps to create holistic understanding of the evolving content and goals of sustainable well-being (e.g. enabling better integration of social and ecological aspects in decision-making). Moreover, adopting and implementing new societal goals across old policy silos requires a new level of resource fluidity and collective commitment.

Developing governance capacities to strengthen strategic sensitivity and long-term insight is also necessary for successfully defining long-term social investment goals for complex issues. Increased resource fluidity and collective commitment are needed to overcome the typical problem of different social-investment jurisdictions applying to investors and beneficiaries.

Ambition #2 Adopting phenomena-based and human-centric welfare policies

Develop phenomena-based welfare policies to ensure long-term impacts and customer satisfaction when addressing strategic cross-sectoral challenges.

Phenomena-based policies address strategic cross-sectoral policy challenges using a long-term perspective. Thus, they effectively enable the alignment of social and environmental policies towards a more holistic understanding

of human needs and towards sustainable well-being. This is crucial, since environmental and social policies are typically pursued in detached policy silos, and even social policies typically consist of multiple hierarchical silos.

Phenomena-based policies help to avoid sectoral sub-optimisation and counteracting goals in different policy silos. This increases the effectiveness of policies and, particularly, of social investments. Phenomena-based policies may also motivate social investment in situations where the investors and future beneficiaries belong to different public jurisdictions. A shared outcome goal, which forms the basis of phenomena-based policies, also creates an enabling accounting basis for social investments.

Furthermore, phenomena-based policies address human needs through personalised services based on real-life phenomena. Accordingly, they enable more effective provision of welfare than is the case for traditional one-size-fits-all services.

Ambition #3 Strengthening the democratic base of the welfare state

Strengthen the democratic base of the welfare state by exploring democratic innovations that go beyond representative democracy and the interests of present generations.

Diversity of views combined with trust-based dialogue should provide optimal circumstances for innovations, as well as for mutually benefitting social compromises – the very foundations of Europe's future competitiveness. Therefore, the strengthening of the welfare state's democratic base is crucial for its future success.

Democratic innovations are needed to better enable representation of the long-term generational interests in decision-making, which is elementary for pursuing sustainable well-being. This is important, because representative democracy has not been able to safeguard the interests of future generations, or even ensure equal representation of the interests of present social groups.

Participatory democracy also offers innovative approaches which can be used to develop and experiment with different methods of social investment. Accordingly, democratic innovations can – at best – increase legitimisation of the reallocation of funds from present to future beneficiaries, which is characteristic of social investing. Democratic innovations at grass-root level are also important sources of initiatives for more sustainable lifestyles.

Ambition #4 Renewing the role of the state in welfare provision

Support the transition of the welfare state towards a welfare society, with more shared responsibilities and coordinated activities by public, private and civil society actors for the best solutions as a whole.

Individual states are powerless in the face of many social and environmental problems, nor do solutions to them exist within the public sector alone. In order to successfully address many of today's burning societal problems, the state needs to adopt a more proactive role in orchestrating society-wide co-operation towards future goals. The new orchestration role of government, and the collaborative governance approaches associated with it, strengthen the market-based economy, which is an important foundation for European welfare states.

Collaborative governance approaches can also help in building joint commitment of different societal actors to the broader goals of society, which is essential for achieving sustainable well-being. As social investment typically involves multiple beneficiaries, it is more efficient if the inputs of key actors (e.g. client, operator, investor and evaluator) are well coordinated and the activities of key actors are aligned, as in collaborative governance approaches. The example of social impact investing (see Box 6) can also help to release business potentials for solving societal problems.

Ambition #5 Governing the EU towards a legitimate social agenda

Strengthen social adjustment functions in those policy mechanisms and policy areas where the EU already has legitimacy of action, while simultaneously preparing definitions of sustainable and legitimate long-term directions for social policy in the EU.

In the short term, any social policies that can be adopted within the present EU mandates will help to strengthen an important cornerstone of the European social model – welfare and equality – which is now being challenged by decreasing social cohesion both within and between countries. Increasingly addressing social issues at the EU level also enables social investment because, due to the mobility of people within the EU, investors and future beneficiaries of social investing may be in different countries.

However, transforming European welfare states into sustainable well-being societies can only take place through long-term reforms of the European model, legitimised by wide public debate and strengthened democracy. When initiating processes that aim to redefine the EU's future course in social policy, opportunities arise to better integrate environmental aspects into socio-economic decision-making (e.g. integrate social welfare and green economy aspects), as required by sustainable well-being goals.

BY ADOPTING THE AMBITIONS presented and recommendations made in this paper, the EU and its member states have the potential for becoming forerunners in modern governance and practices that invest in sustainable well-being. Investing in sustainable well-being is the next-generation societal goal that integrates economic, social and ecological sustainability in a future-oriented way.

The recommendations made in this paper embrace the shared European values of democracy, welfare and equality, and a market-based economy. Accordingly, when responding to global competition from countries with very different historical traditions and basic values (e.g. East Asia), European countries and the EU need not abandon their core values. Instead, the governance approaches presented in this paper should strengthen the foundations of our societies, while enhancing our competitiveness!

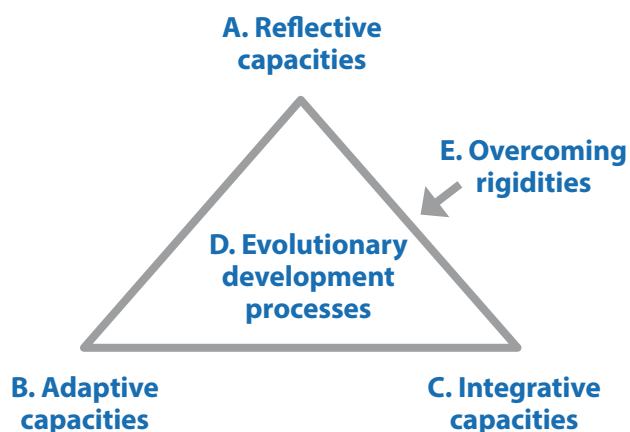
By adopting these recommendations the EU and its member states have the potential for becoming forerunners in modern governance and practices that invest in sustainable well-being.

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Appendix: How to become more strategic and agile – Advice for decision-makers*



Strategic and agile decision-making requires the development of reflective (A), adaptive (B) and integrative (C) governance capacities, which can then be utilised in evolutionary development processes (D) in order to initiate and implement structural change. When developing new governance capacities, a number of rigidities (E) also need to be overcome.

A. Reflective capacities – Making sense of the world

Strategic sensitivity and strategy-level discussion on the long-term direction of societies is essential for the ability of societies to renew themselves. It originates in the combination or even collision of new and/or original sources of knowledge and the diversity of input in relation to the types of knowledge and forms of input utilised. Particularly when addressing cross-sectoral problems, strategic sensitivity demands the participation of and contributions by multiple stakeholders in a collective learning processes. Collective learning occurs when people try to make sense of the world together by capitalising on one another's knowledge and skills so that the knowledge created then feeds back into the 'collective knowledge'. This builds trust, shared language and a more holistic understanding of the problem. Examples of practices for increasing reflective capacities of decision-makers include:

- Increase strategic intelligence capacity and activities, e.g. foresight, benchmarking, experimentation, sense-making and pattern recognition.
- Utilise new and original sources of information from experts and stakeholders from multiple fields, various

backgrounds, traditions and specialisations, and use independent think-tanks to provide new perspectives.

- Create strategic options based on different cognitive frames.
- Develop and maintain high-quality dialogue among diverse societal actors. Refresh dialogue with new information and participants, and accept some tension as inevitable and as a source of creativity.
- Arrange opportunities for safe interaction and openness.
- Provide support for radical long-term research projects that challenge the established scientific and cultural paradigms. Support diversity and critical activities in the media, communication and culture, which highlight new contradictions in society, put new issues on the public agenda or take new perspectives on old issues.
- Utilise opportunities of digitisation and big data in knowledge creation, e.g. the 'wisdom of crowds', through modern communication technologies and the social media.
- Utilise methods of open innovation, co-design and co-production.

* Sources: Doz and Kosonen 2014; Hämmäläinen 2013 and 2015; Loorbach 2010.

B. Adaptive capacities – Enabling change

Resource fluidity is needed to respond to strategically important situations, e.g. suddenly emerging challenges and needs, as they develop, with a purposeful reallocation of resources. Resource fluidity goes hand in hand with strategic sensitivity. If key resources cannot be effectively and swiftly reallocated to new areas of strategic importance, the benefits of strategic sensitivity are lost. Examples of practices for increasing adaptive capacities of decision-makers include:

- Create multidisciplinary resource pools, build cross-functional teams and set up integrated support functions (shared information systems, etc.).
- Create multidimensional organisations, e.g. cross-ministerial programmes.
- Develop entirely new organisational and institutional capabilities, e.g. add new elements to governance such as Project Management Offices (PMO) to steer large structural reforms.
- Break traditional hierarchies by reallocating responsibilities to e.g. cross-ministerial programmes addressing cross-societal phenomena.
- Adopt a ‘whole of government’ approach with increased interaction between and integration of ministries and agencies.
- Apply flexible budgeting by reallocating resources (monetary and people) according to strategic cross-societal goals, not past performance.
- Enable multipurpose resourcing, e.g. designating a portion of public sector financial resources as belonging to a common pool, to be used when new needs arise.

C. Integrative capacities – Doing it together

The coordination of highly complex and uncertain phenomena requires mutual adjustment between decentralised but independent actors. In such circumstances, shared visions and strategy processes allow the various actors to make decentralised decisions with their best knowledge about local circumstances while, at the same time, supporting the direction in which the rest of the system is heading. The development of a widely shared vision and strategy must be an open process where the active contribution of all interested parties creates the necessary acceptance and collective commitment to the shared direction, as well as the behavioural, organisational

and institutional changes required to implement them. Shared rules and incentives play an important role in directing the actions of various stakeholders towards common goals. Examples of practices for increasing integrative capacities of decision-makers include:

- Ensure the transparency and fairness of goals and targets.
- Reallocate roles and responsibilities for increased collaboration, e.g. increase the mobilisation of people by rotation between ministries and units, in order to increase appreciation for diverging perspectives.
- Recognise and reward collaboration instead of individual brilliance.
- Give strong policy and managerial support to overcome adjustment rigidities and bottlenecks.
- Invest in joint processes, creating shared mission, vision, strategies, rules, goals and values.
- Create incentives, e.g. professional leadership careers and personal goal-setting, that focus leadership attention on common challenges instead of subunit agendas and goals.
- Utilise participatory decision-making to strengthen commitment from all stakeholders.
- Create collaborative platforms to enhance networking.

D. Following an evolutionary path – Learning by doing

Evolutionary policy-making is a particularly appropriate approach for governing highly complex systems. It relies on several of the governance capacities discussed above. It utilises a combination of strategic intelligence activities, collective learning and envisioning processes, and practical experiments help to overcome the mental inertia of key stakeholders and to better consolidate their interests. The evolutionary approach requires that the state collaborates closely with other societal actors, adopting a ‘stewardship’ role in governance. Particularly when aiming at large structural reforms in complex social constructions, one-time radical changes in one policy sector may produce serious and unpredictable outcomes in others, and cause significant social unrest. When aiming at wide cross-sectoral transitions, a principle of change in incremental steps or learning by doing can be more successful than once-and-for-all radical change. The process includes the following phases:

- Identify the systemic problem by strengthening strategic intelligence activities, e.g. foresight, benchmarking evaluations and strategic research.
- Provide deeper insight into the system's intricacies, e.g. integrated system analysis.
- Select participants for a systemic change process, including frontrunners and visionaries who can look beyond their own area of expertise.
- Create a safe place for interaction by participants, aimed at dialogue and collective learning about the challenge.
- Develop a vision and alternate pathways for the transitions needed.
- Choose practical experiments in which the alternate solutions can be tested. Enable funding and provide competencies, physical spaces, etc. for conducting them.
- Evaluate the experiments to change the vision and the change agenda.
- Scale up the successful experiments to change the mainstream activities.

E. Overcoming rigidities

Implementing new governance approaches is not easy. Changes tend to be prevented by various system failures and adjustment rigidities that may be emotional, cognitive, interactional or institutional. Examples of practices for overcoming rigidities include:

Create an emotional urge

- Give people the confidence to change, e.g. utilise symbolic action such as new mottos, logos and rebranding to symbolise change.
- Introduce new rules and rewards.
- Seed the ranks of the civil service with converts who genuinely convey positive emotions.
- Increase mutual understanding and high-quality dialogue between actors not only on factual issues but also on personal motives and values.

Create cognitive dissonance

- Use discomfort and create cognitive dissonance, e.g. highlight the tension between the shared goal and present state of affairs to create an ambition gap.
- Build a clear perception of failure.
- Listen to people's experiences and help them to articulate the need for change in their own words.

Strengthen interaction and interdependencies

- Practice new skills and engage in playful collaboration.
- Recognise and reward collaboration to overcome the self-interest barrier.
- Reallocate roles and responsibilities.
- Engage 'translational leaders' who can skillfully tie together and mobilise complex networks of actors across system levels and organisational boundaries.

Navigate institutional barriers

- Implement organisational change last; consider what can be achieved first through other governance reforms.
- Change reporting relationships and the composition of activities of organisational subunits.
- Apply forms of multidimensional organisation that no longer strictly align hierarchy and reporting relationships within vertical silos.
- Extend multidimensional organisation to public-private partnerships and co-contracting.
- Prepare people by developing new integrative negotiation and collaboration skills so they can be effective in multidimensional organisations.

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In an environment with ever-increasing interdependence, volatility and complexity, European welfare states face unprecedented problems on multiple levels and have seemingly become prisoners of the successful “industrial age” governance model. Today, old-style governance approaches no longer meet the needs of societies. Thus, the authors of this paper suggest alternative governance approaches for the future and present examples and give advice on how the new approaches can be adopted.

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