A POSTPANDEMIC REBOOT FOR GOVERNMENT WELFARE

By Trish Clancy, Louis Watt, Andrew Asten, and César Sánchez Fernández

When historians look back on the COVID-19 pandemic, they will find many stories of governments under pressure nonetheless acting with unprecedented speed, scale, and creativity to avoid economic collapse. Canada's response to the crisis, for example, included revamping a job-training support program originally designed in the 1940s. Italy provided childcare for half a million working parents. The UK funded 80% of the average wages of employees in businesses that might otherwise close. Denmark's government paid up to 90% of the salaries for most people with jobs at risk. And so on, around the world, with countries typically borrowing a significant amount to make sure that businesses and people stayed solvent—overall debt for many nations in 2020 will be 30% to 130% of their annual GDP.

But one of the most interesting and important stories is just beginning to unfold. It's the story of the enormous transition that governments must manage to move out of the temporary systems they had to create so suddenly and into a new state of economic recovery. For most countries, that shouldn't mean going back to the pre-COVID status quo of January 2020. Instead, they should design an effective exit strategy and move welfare policies and subsidy practices to a long-term sustainable footing that is different from old approaches. The crisis provides an opportunity to reimagine many aspects of government activity: the logic underlying unemployment and welfare programs, the opportunity to foster economic growth through incentives and skill development, the type of support provided for those in dire need, the administration of services, and so on. These and other reforms and new policies can prepare a country for the unique labor and economic challenges of the post-COVID world—including the possibility of future global pandemics.

We use the term "reimagining government" to describe a rethinking of the entire citizen journey to deliver simpler, more seamless, faster government services. Governments that have reimagined their welfare operations as an interrelated whole are managing the crisis more effectively. They offer omnichannel access to citizens, giving them a more streamlined experience online and offline. They exchange data and analytics across their departments and functions, sharing digitally enabled platforms. They measure performance in a comprehensive, outcome-oriented way, and they manage their work through agile, focused, multidisciplinary teams. These practices reduce operating costs and allow for far more flexibility.

The transition of welfare systems out of the COVID period will be one of the most visible activities for any government during 2020 and 2021. The holistic approach described here involves a clear-headed sense of timing and a sensitivity to business and individual needs—especially as different parts of the economy rebound at different times.

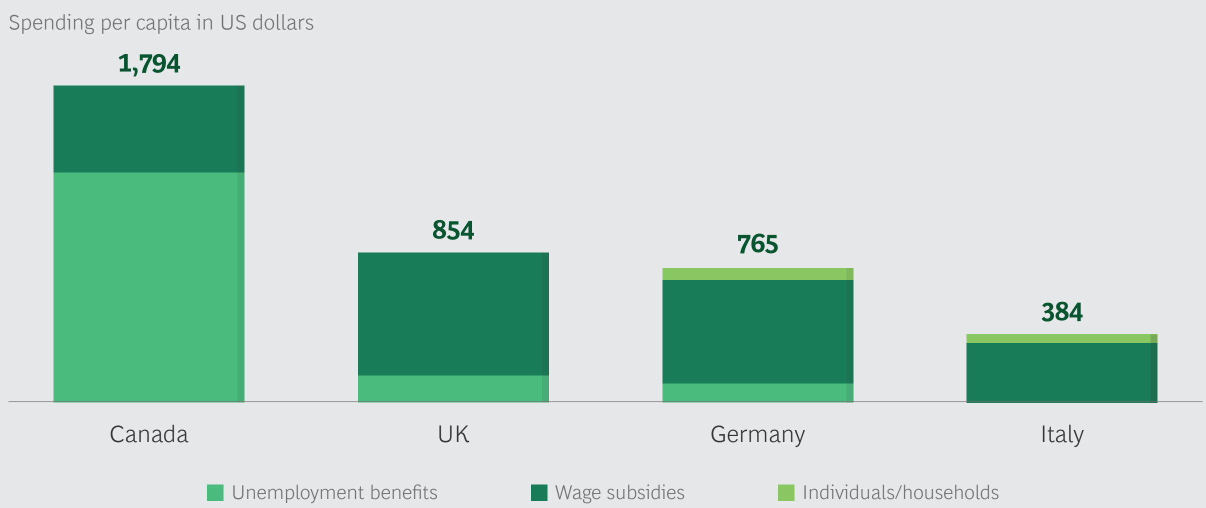
In articulating principles for welfare system exit strategies, we draw on several current best practices. But we do not identify any particular governments as the source of those practices, because countries are experimenting and policies are changing quickly. Moreover, because the specific needs of each country, state, and province are unique, this guide is only a starting point, but one that brings together in one place the universal principles for reimagining and rebuilding the welfare system on which every country depends.

Commitment and Urgency

Because of the COVID-19 crisis, most middle- and higher-income countries have dramatically increased the assistance provided through their welfare system and have often provided wage subsidies for affected workers. Exhibit 1 shows the scale of a few of these efforts, which vary according to each country's circumstances—for example, how rapidly they responded to the virus or how reliant their population already was on welfare services.

Many governments have taken other measures as well, such as relaxing their criteria for welfare eligibility, temporarily increasing payment rates, prohibiting evictions, guaranteeing loans, and removing waiting periods and other restrictions. In many cases, specific COVID-19 initiatives have provided direct financial assistance to households that would formerly not have been eligible for them. For example, the Canadian Emergency Response Benefit supports

EXHIBIT 1 | Government Spending per Capita on COVID-19-Related Welfare Through July 2020



Sources: Bruegel; for Canada, "Canada's COVID-19 Economic Response Plan—Overview," Government of Canada; for Germany, Federal Ministry of Finance; for Italy, Istituto Nazionale Previdenza Sociale; for the UK, Office for Budget Responsibility; BCG analysis.
Note: Does not include fiscal stimulus spending outside the welfare system; the assessed time period of spending may differ slightly among countries.

those who do not meet the criteria for the existing Employment Insurance (EI) benefit, including those who have been impacted by COVID-19 or have exhausted their EI benefits. Eligibility for EI was also expanded in August, adding more than 400,000 people to the program.

The challenge of the next transition depends in part on how large a population is expected to continue to receive some form of welfare or subsidy. In ordinary times, this would be determined by the government's general approach to safety net subsidization. But for the pandemic of 2020, most governments have had to take more extreme measures than their previous policies would have supported or funded.

Thus, around the world, the number of people receiving support has increased dramatically. As many as 60% of new recipients in some countries are people who had never received government financial support of any kind before.

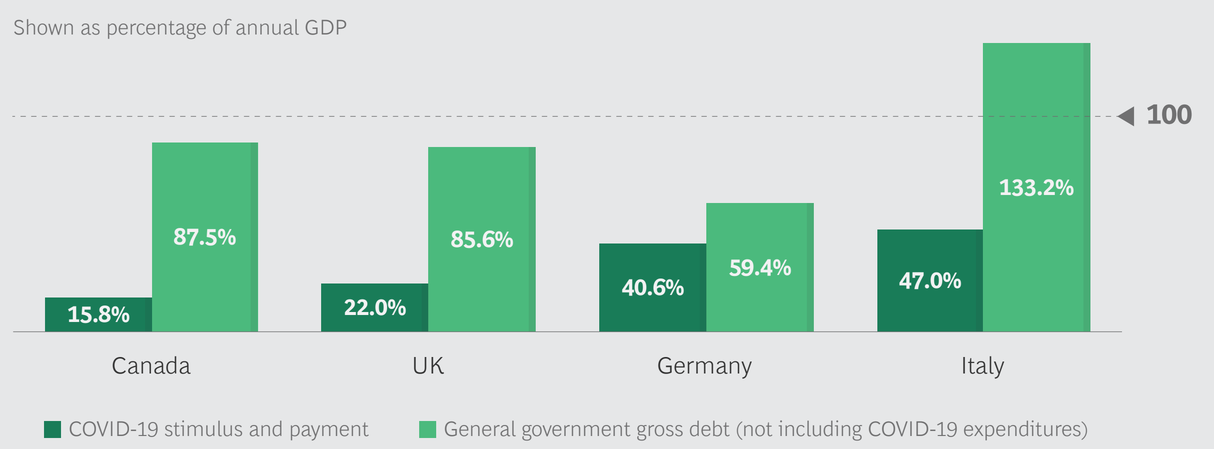
Although different geographies are experiencing different levels of economic shutdown, it is clear that the global pandemic, as of mid-2020, is still in a relatively early stage overall. This is still the first of three phases for many governments:

- In this "flatten" phase, they must manage and control the rate of new outbreaks and infection, through lockdown and social distancing, and this generally means restricting economic activity.
- Gradually, governments are moving toward a "fight" phase: taking the necessary steps to restart their economies.
- The "future" phase, of full economic recovery, can begin only when vaccines or highly effective medical treatments are broadly available—which probably won't be until early 2021 or later.

Meanwhile, the overall amount of money spent on COVID-19, as Exhibit 2 demonstrates, has already added up to more than a year's GDP for some countries. Many governments will not be able to continue this level of expense while waiting for the "future" phase to appear. They must begin planning now, in terms of timing and strategy, to restart their economies and wind back their levels of support.

In this context, "restart" means a well-designed set of intentional policy decisions that include, but are not limited to, the reduction of pandemic-related welfare bene-

EXHIBIT 2 | Total Government Spending on COVID-19 Response Through June 2020



Sources: Bruegel; International Monetary Fund; Oxford Economics; for Canada, "Canada's COVID-19 Economic Response Plan—Overview," Government of Canada; for Germany, Federal Ministry of Finance; for Italy, Istituto Nazionale Previdenza Sociale and Ministry of Economy and Finance; for the UK, Office for Budget Responsibility; BCG analysis.
Note: The assessed time period of spending may differ slightly among countries.

fits. The most effective model will involve deliberate change, in tune with the management of the disease, the status of the public health system, and public opinion. On the welfare side, administrations need to begin planning now so that payments and other subsidies can contribute to a healthy, sustained economic rebound.

Principles for Reimagining the Welfare System

In designing an exit strategy for the welfare system, three considerations are paramount. First, there is the need to provide ongoing welfare services, including direct financial support to keep people from personal crisis, along with incentives and opportunities to get people back to work. Second, there is a tradeoff between short-term economic vitality—ensuring that the supply of cash, credit, and transaction volume is maintained—and long-term fiscal sustainability, without an insurmountable burden on government. Finally, there is a natural desire to return to established practices, but these may no longer be the most appropriate. Though every country's circumstances are unique, the basic principles for every government to move into a sustainable recovery and reset its welfare system are universal.

Get the incentives right to encourage good individual choices. Design payments to encourage people to return to the workforce—or at least prepare them to do so in a productive manner through, for example, training and skill development, career counseling and support, and other forms of guidance. One appropriate measure for those who can return to work is the tapered withdrawal of welfare payment rates as recipients begin to earn income. These taper rates should be simple (for example, starting at 50%), easy to understand, and designed to avoid high effective marginal tax rates, which can discourage returning workers who perceive this as cutting into their wages. Other incentives might include extra payments or supplements for people who undertake training in new skills, look for jobs in new fields (especially where there are skills shortages), or move to new geographies for work. Other measures could include "mutual obligations" that involve training or job searches as qualifications for further payments. Governments can also establish or license employment services with the authority to tailor mandatory return-to-work plans to individuals, incorporating study or training opportunities where appropriate. Finally, governments should clear away any incentives that discourage people from returning to work. For example, they should avoid the rapid withdrawal of benefits like health care discounts and ensure that applying to reenter the welfare system if a job doesn't work out is not difficult.

Tailor services and programs to meet the varied needs of different segments of the population. Learn from the best-in-class B2C companies. Undertake the detailed analysis required to segment people in the welfare system by factors such as previous activity (either legacy or new to the system in the era of COVID-19), age, life stage, geography, household structure, wealth, and other measures. Design policy responses with sufficient flexibility to meet the differentiated needs of each segment. For example, if the needs of the legacy cohort are different from those of the new cohort, tailor the measures appropriately.

Design specific opportunities for groups such as highly skilled workers, unskilled workers, workers with disabilities, and parents who need childcare (especially during lockdown periods of home schooling). This may also be a good time to look at programs that are not directly related to employment: retirement pensions, poverty alleviation programs, food programs, and support for caregivers. In the aftermath of the pandemic and economic crisis, some of these programs may need to be expanded or made more efficient so that they can serve people who cannot quickly recover their former economic standing.

Pay particular attention to people at higher risk of permanent unemployment. According to statistical analysis of past recessions, two groups are particularly likely to remain disengaged from the labor force for life after a shock like this. The first is people 50 or older, who are typically at greater risk of disengaging from the labor force until they qualify for a retirement pension. They usually require more intensive support for retraining and skilling but tend to be strongly motivated to find work opportunities. The second high-risk cohort is younger people, in their first ten years after leaving school. If they remain jobless for a few years, they tend to have increasing difficulty finding work, as they begin to be overtaken by younger workers with a more consistent employment record. This younger cohort should be supported with services that help them qualify for a broader range of employment options, pursue further study and training, and move to geographies where new work opportunities may exist.

Encourage self-employment and entrepreneurship. When it comes to job acquisition, traditional social welfare policies have often been oriented toward full-time jobs and long-term employment with a single company. But in a context where people entering the welfare system on average have higher levels of education, greater social and financial capital, and richer work experience than people in the historical caseload, governments should look to actively support and encourage more entrepreneurship and self-employment as mainstream pathways for returning to work.

It is particularly important to develop policies with enough flexibility to support budding entrepreneurs—by allowing exemptions from mutual obligations and job search requirements for people starting their own new ventures, for instance. Welfare policies that help people start businesses and build careers in this manner will also foster more economic recovery following the pandemic, especially if they operate in tandem with business and labor regulators to make loans available and reduce red tape and obstructions.

Ensure that education and employment policies are aligned with job opportunities. Areas with high employment prospects may change significantly during the pandemic, especially in advanced economies. Many service-based industries such as international business travel may have shrunk, perhaps for an extended period. To speed the return to work for those who entered the welfare system during the pandemic, government education policies will need to point unemployed people toward skills with strong prospects in the post-COVID-19 economy. Employment policies may also need to provide more flexibility so that people can find opportunities in emerging high-growth industry sectors—there may be a renewed focus from governments and investors on technology, research, products, manufacturing, and materials-based industries. Partnerships with educational institutions and with business can support government action in these areas.

Governments should also consider the geographical areas in which labor shortages are likely to occur because of new restrictions on temporary migration.

A Simplified Welfare Administration

The sheer scale of the economic crisis has forced many government leaders to reconsider the administrative challenges of the "back office" that provides services to welfare recipients. Websites for unemployment benefits have crashed and call centers have been overwhelmed, especially when employees have to work from home. Although many welfare agencies around the world have simplified administrative operations, the strain of demand has led to delays and additional hardships. These challenges will not diminish with recovery; in fact, expanded demand for government services will probably continue for months, if not years.

Agencies that provide welfare services have been particularly affected. That is why they should take this opportunity for a once-in-a-generation simplification of the welfare system: aligning rules, consolidating programs and payments, and making the system more straightforward and effective overall.

The means for doing this is available, through digital technology, better management approaches, and some forms of artificial intelligence. In the past, these have often been installed in a piecemeal, fragmented fashion or with procurement practices that emphasize cost over relevance and performance. The pandemic has put the challenge into perspective. With more constraints on time and money, there is a stronger case for the holistic and well-designed administrative overhaul.

The difficulties tend to be as much with the organization as with the technologies. Many governments have built up complex systems of rules, payments, and procedures that go back 25 years or more and seem to get more cumbersome every year. The need to segment and differentiate the recipients of welfare makes the challenge even more complex. And while the back-office costs of administration tend to fall with simplification, the controversies may rise, especially if people who received special attention in the past are now grouped together with everyone else.

One starting point could be standardizing the broad rules that govern policy for different groups of people. If the overall definitions are consistent and clear, then it is easier to differentiate at a narrower scale. Thus, for instance, whether you're talking about a food subsidy or an unemployment payment, the term "dependent child" should mean the same thing. There is also an opportunity to introduce analytics and risk modeling to process claims and updates more automatically; for example, to identify low-risk applications in a more streamlined way and cut the costs of administering them while speeding up decision making and delivery of support.

All of these principles and practices fit together. This year, agencies and governments have been judged on how well they instituted these massive new welfare programs. Next year, they will be judged on how well they reduced them. Governments didn't have the luxury of planning the ramp up. But for the ramp down, the manner of planning, organizing, and executing is entirely up to them.

COVID-19 is changing the landscape for welfare, just as it is changing the landscape for many sectors of the private and public economy. By capturing the opportunities created by this awful pandemic, governments may help avoid the worst of the long-term social and economic hardships that can result from a significant recession. This is their opportunity to show how citizen-oriented, resilient, and effective a welfare system can be, now and in the future.

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