



## Social impact bonds: The securitization of the homeless



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### ABSTRACT

This paper examines the recent phenomenon of social impact bonds (SIBs). Social impact bonds are an attempt to marketize/financialize certain contemporary, intractable “social problems”, such as homelessness and criminal recidivism. SIBs rely on a vast array of accounting technologies including budgets, future cash flows, discounting, performance measurement and auditing. As such, they represent a potentially powerful and problematic use of accounting to enact government policy. This paper contains a case study of the most recent in a series of SIBs, the London Homelessness SIB, focusing on St Mungo’s, a London-based charitable foundation that was one of two service providers (charities) funded by the SIB. The case study is intended to enable a critical reflection on the rationalities that underpin the SIB. For this purpose, the paper draws upon Michel Foucault’s work on biopolitics and neoliberalism. The SIB is thoroughly neoliberal in that it is constructed upon an assumption that there is no such thing as a social problem, only individuals who fail. The SIB transforms all participants in the bond, except perhaps the homeless themselves, into entrepreneurs. The homeless are instead “failed entrepreneurs” who become securitized into the potential future cash flows of investors.

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### 1. Introduction

They are casting their problems at society. And, you know, there’s no such thing as society. There are individual men and women and there are families. And no government can do anything except through people, and people must look after themselves first. It is our duty to look after ourselves and then, also, to look after our neighbours.

– Margaret Thatcher, 23 September 1987, in an interview for *Woman’s Own*

This paper examines the technologies and rationalities of social impact bonds (SIBs), which could be regarded as the next step in the marketization of public service delivery. SIBs have burst onto the public financing scene with astonishing rapidity and near simultaneity in governments around the world. They have been initiated in the United Kingdom (UK Cabinet Office, 2012b), Australia (NSW Government, 2012), and The United States

(Government of Massachusetts, 2012), and are being explored in Canada (Government of Canada, 2013), New Zealand (Government of New Zealand, 2012), and elsewhere (Social Finance, 2012a). Social impact bonds are intended to make government funding of social services contingent on the achievement of contractual performance measures that are attached to named individuals. For instance, a service for reintegrating ex-prisoners into society might be paid based on specified reductions in an individual’s reoffending. Private investors in the bonds provide the up-front financing for the social services deemed necessary to “correct” the failed individual in the hope of lucrative returns, and so hypothetically bear the risk of non-performance. Proponents of SIBs claim they promote innovation in social services and bring market forces to bear on service providers previously funded by traditional government grants (Deloitte, 2012; Social Finance, 2009; UK Cabinet Office, 2012b).

Our focus is the London Homelessness SIB, sponsored by the Greater London Authority (GLA).<sup>1</sup> This SIB is the most recent in a series promoted by the UK government. It was constructed under

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<sup>1</sup> The GLA is made up of the London Assembly and the Mayor. The Mayor oversees London’s essential activities including transport, disaster planning, and policing. The London Assembly scrutinises the Mayor’s decisions.

the guidance of Social Finance Ltd, a financial consulting firm that operates in the social sector, and Triodos Bank, a Dutch bank that describes itself as “the UK’s leading bank for social enterprise, and a fast-growing force within the charities sector” (Triodos Bank, 2013). One of the two social service providers awarded this SIB is St Mungo’s, a London-based charity (Gentleman, 2012; St Mungo’s, 2012b, 2012c). St Mungo’s has a long history of traditional programme funding from government sources, supplemented by private charitable donations. The St Mungo’s case permits us to study the detailed reconfiguration of funding and governance associated with the use of SIBs in public services, alongside the rationalities underpinning the reconfiguration. To perform the study, we conducted multiple interviews with the major parties involved in the construction of and implementation of the SIB, including five senior managers from the three key organizations involved in the funding arrangement, along with other figures from the voluntary/charitable sector. We also analysed extensive documentary evidence on St Mungo’s, SIBs and the London Homeless SIB. SIBs are still at the experimental phase and so this paper presents the opportunity to see the technologies and rationalities of the actors, as well as the changes implemented, as they are happening.

This paper contributes to our understanding of the use of accounting in effecting social policy in the neoliberal era. It illuminates the rationalities and mechanisms of neoliberal governance (Harvey, 2005; Kotz, 2011) that have produced what Donzelot (2008) called “the transition from the social welfare state to the social investment state” (cited in Willse, 2010, p. 173). In particular, it seeks to understand how social impact bonds have been used to introduce market mechanisms and financial incentives into areas of social policy traditionally governed by bureaucratic mechanisms and formerly considered inappropriate for marketization (Cooper & Taylor, 2005). In this field, Woolford and Curran (2013) identify a need for theorization of the “conceptual connection between the neoliberal era and changing social service practices.” This paper draws upon the tools of Foucault’s (1978, 2008) biopolitics to help answer this call. While SIBs are still at the experimental stage, from a public policy perspective they represent a radical fissure. Traditional privatization initiatives simply offer private investors the chance to provide services to the state in return for a guaranteed payment. As will be described in more detail later in the paper, SIBs are in practice a series of payment-by-results contracts in which named homeless people are the targets of various performance outcome metrics. In effect, homeless people become commodities, in that they themselves carry the potential to produce future cash flows for investors.

In addition, this paper extends our understanding of how accounting is used to structure discourse around social goals and the government of populations (Graham, 2010; Miller & O’Leary, 1987; Miller & Rose, 1990; Rose, 1991). As others have argued, neoliberal reforms of government do not so much reduce the welfare state, as outsource the social service function of government to diverse locations and non-state actors (Schram, Soss, Houser, & Fording, 2010, p. 742). We investigate the accounting mechanisms that participate in this. We extend research on how accounting is used to shift the boundary between public, private, and nonprofit sectors (Broadbent & Guthrie, 2008; Miller, Kurunmäki, & O’Leary, 2008; Neu, 2006) by showing how financial innovation changes the allocation of risk in attempting to expose nonprofit service providers to pressure from investors.

## 2. Theoretical framework

In our analysis, we will draw heavily on Michel Foucault’s development of the concept of “biopolitics” (Foucault, 1978, 2008). Biopolitics is the endeavour to rationalize the problems

presented to governmental practice by the group of living human beings constituted as a population (Foucault, 2008).<sup>2</sup> In Foucault’s (2008) analysis, he argued that the problems presented to governmental practice by “population” could not be disassociated from the framework of political rationality within which they appeared, namely liberalism. Foucault saw liberalism as a method of rationalizing the exercise of government, resonating with its principle that “One always governs too much”—or at least, one should always suspect that one governs too much” (Foucault, 2008, p. 319). That is, Foucault does not see liberalism as an unrealized utopia but as a tool for criticising modes of government or the state.

Foucault’s work on biopolitics sets out a complex historical depiction of the birth of neoliberalism. Foucault compared German post-war neoliberalism (Ordo-liberalism) and American neoliberalism of the Chicago School. Both Ordo-liberalism and the Chicago School maintained the liberal concern with excessive government. In the case of Ordo-liberalism, the excessive government was the Third-Reich (Nazi totalitarianism), and for the Chicago School, it was Simons, the New Deal, and the economic and social programmes generally supported by post-war Democratic administrations in the US. Ordo-liberalism worked on the thesis that market competition was the best way to prevent excessive private or public concentrations of power, so government regulation should be used to establish and promote free markets. But, it should also include a policy of social interventions (unemployment pay, healthcare coverage, a housing policy, and so on) to “socialize” the risks inherent in free market economic systems.<sup>3</sup> American neoliberalism, in contrast, sought to place market risk back onto the shoulders of individuals and to extend the rationality of the market into all social arenas (Foucault, 2008; Yergin & Stanislaw, 2008). Foucault states that this represents two processes, “... one that we could call the extension of economic analysis into a previously unexplored domain, and second, on the basis of this, the possibility of giving a strictly economic interpretation of a whole domain previously thought to be non-economic” (Foucault, 2008, p. 219). The encroachment of market rationalities into arenas previously considered to be “social” means that *financial economics* has become a “governmentality”.

To put this in terms of homelessness, German neoliberalism would have the state put safety nets and social programmes in place to protect the most vulnerable and mitigate the negative impacts of markets. American neoliberalism would extend economic rationalities into the field of homelessness, turning homelessness into a business opportunity and making it productive for the circulation and investment of capital. It is this latter (now dominant) form of neoliberalism which provides the financial economic rationalities of the present case study.

### 2.1. “The social” or non-market relations

Thus far, it has been argued that Foucault theorized that

<sup>2</sup> Developing Foucault’s biopolitics in a more contemporary setting, Willse (2010, p. 157) argues that it is “the register of governance where political economy meets the population”.

<sup>3</sup> German (Ordo) liberalism offers a new form of rationality according to the model of enterprise, but with a safety net. Foucault explains that, “The enterprise society imagined by the Ordo-liberals is therefore a society for the market and a society against the market, a society oriented towards the market and a society that compensates for the effects of the market in the realm of values and existence.” (p. 242) Thus, Foucault, quoting phrases from Röpke (1952), argues that there is a political and moral framework to Ordo-liberalism: “This political and moral framework must ensure ‘a community which is not fragmented,’ and guarantee cooperation between men who are ‘naturally rooted and socially integrated’” (p. 243).

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