After Austerity: Social Impact Bonds and the Financialisation of the Welfare State in Britain

Emma Dowling
Department of Criminology and Sociology
Middlesex University, London
e.dowling@mdx.ac.uk

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Abstract

This paper provides an analysis of the financialisation of the British welfare state. In a continuation of neo-liberal privatisation and labour market activation, the financialised welfare state pursues a policy of welfare retrenchment, while engaging in forms of social engineering aimed at producing self-responsibilised individuals and communities who are financially literate, 'investment-ready' and economically productive. New financial instruments such as social impact bonds are deployed to these ends, both to 'solve social problems' and enable cost saving. Through the use of such financial instruments, the implementation of regulatory infrastructures and tax incentives, the financialised welfare state becomes a vehicle for the transfer of wealth from the public to private investors, while subjecting the domain of social policy to the vicissitudes of global financial markets. This paper offers a critique of these developments, situating the case of Britain within the broader global context and with regard to the implications for understanding the current political economy of the welfare state.

Keywords
Financialisation; primitive accumulation; accumulation by dispossession; welfare state; social impact bonds; impact investing; social investment; austerity.

The global financial crisis of 2008 unleashed a wave of critical sentiment against the financial sector that was seen to have caused financial meltdown due to excessive self-interest or even reckless and unethical practices. One response has been to call for better governmental regulation of the sector. Another response has been to suggest that finance could be put to good use and serve a social purpose, and that one route out of crisis may well be to 'do well' by 'doing good', according to advocates of what is known as venture philanthropy or 'philanthrocapitalism' (Green and Bishop, 2011).[1] A new generation of 'millennials' are said to embrace this spirit of ethical entrepreneurism, wanting their business models to reflect their civic-mindedness (Tanenhaus, 2014). Social investment (or impact investing as it is also known) is a core aspect of this 'social turn' for finance and involves the financing of projects and enterprises that have an explicit social or environmental purpose.

In recent years, finance's social turn has also become relevant for public policy and the welfare state. Britain is one of the pioneers of the 'social impact bond' (SIB), which has been taken up as a mechanism through which to attract private finance for social interventions commissioned by the state, examples of which are the improvement the employability skills of young people 'not-in-education-employment-or-training' ('NEETs') or the reduction of recidivism. Governments pay investors a return on their investments if and when interventions achieve their aims. Overall, the aim is to 'solve social problems' such as unemployment, crime, ill-health or welfare dependency, while at the same time providing cost-savings to the welfare state.

Situating the case of Britain within the broader context of a growing global social investment market, the paper provides an analysis of what is identified as the financialisation of the welfare state. Recent research in critical IPE has demonstrated

the state's active role in the financialisation of the economy (cf. Davis and Walsh, 2015),[2] has drawn attention to the transformation of the state itself (cf. Lagna, 2016)[3], and the role that finance plays in shaping the marketisation of welfare in different sectors of the welfare state, e.g. with regard to pensions, housing, education or healthcare (Pollock, 2004; Blackburn, 2006; Aalbers, 2008; Engelen et al., 2014). The financialisation of different aspects of welfare presents a complex and variegated picture. This paper seeks to contribute to understanding this picture by providing an analysis of the introduction of 'social impact bonds' (SIBs) into social policy in the UK as part of a current social turn of finance.

The paper argues that the defining characteristic of the financialisation of the welfare state is in effect a co-imbrication between the state and finance: on the one hand, the state accesses finance to achieve social policy goals, on the other hand, finance uses the state to accumulate financial profits. The social policy goals are underpinned by a neoliberal agenda that combines fiscal consolidation and austerity with efforts to curb welfare dependency and promote labour market activation policies. In addition, there is a new orientation on promoting financial literacy programmes that help people to become better able to function as 'responsible' borrowers in an increasingly financialised economy. The financialisation of the welfare state is characterised by the the introduction of a financial calculus into policy-making and an increased exposure to financial market logics that lead to a new form of privatisation marked by the transfer of public assets to private investors as interest payments on the money lent to governments to fund these social policy initiatives. While Britain is playing a leading role in growing the nascent social investment market, this is a global phenomenon that is supported and promoted at the supranational level.

This paper thus begins with a discussion of the promotion of impact investing by the G8 Social Investment Taskforce in response to the global financial crisis. The paper provides a brief overview of the global social investment market and then turns its attention to the UK and the use of 'social impact bonds' (SIBs) for a variety of different social interventions since 2010. The paper explains what SIBs are and how they work, providing a critique in particular of the way that they are used not simply to fund services, but to restructure the welfare state. The paper takes issue with the cost-saving agenda that is attached to the initiatives that are being funded and discusses the ways in which they have been tethered to an austerity agenda in regressive ways in order to argue that the creation of a new financial market for social investment constitutes part of the attempt to find new drivers of economic growth that are premised on processes of what David Harvey (2004) has termed 'accumulation by dispossession'. While the paper focuses on SIBs and social policy in particular, the paper also points to the rise of an entrepreneurial approach to social change that equates progressive social change and democratic participation with the expansion of the capitalist market economy.

Discovering the market's 'invisible heart'?

In 2014, the G8 Social Investment Taskforce published a report entitled *The Invisible Heart of Markets,* outlining a strategy for developing the global social investment market and implementing it in the respective G8 member states, invoking Adam Smith's (1982) metaphor of the market's 'invisible hand', the idea that in the pursuit of one's self-interest social activity is steered via the market in beneficial ways for the collective good. The quip here is that the market not only has an invisible *hand* that steers it, it also has an invisible *heart* that beats for the good of society. This is a response to criticisms that arose in the wake of the financial crisis, namely that

markets – and in this context specifically unchecked *financial* markets – have created and exacerbated social ills and negative outcomes. Implicitly harking to the image of 'greedy' or 'selfish' or 'excessive' individuals (especially bankers) conjured up in the context of the financial crisis, the message here is that financial markets do not have to be dysfunctional. Instead they can be made to work in the general interest, utilised for enhancing social good by trading with an explicitly social, environmental or even ethical purpose.

The conceit of an 'invisible heart of the market' is the attempt to resolve the criticisms that had arisen in the wake of the global financial crisis as to the social shortcomings of financial liberalisation. In many countries, including in Britain, anti-austerity protests arose as an expression of this critique: a lack of democracy and accountability of elites, of the financial sector and of political institutions; and a blatant disregard for people and planet in favour of an overriding concern with profit (Ortiz et al., 2013). [4] Not unlike the promotion of 'globalisation with a human face' in response to the antiglobalisation movements of the late 1990s and early 2000s,[5] advocates of a purported 'social turn' for finance capital are suggesting that, rather than curbing the power of finance, the solution lies precisely in promoting it, because it is finance that can enable the creation of – not just economic – but social value through focussing on the social *impact* that financial investments might have. As the report states (2014: 1):

> The financial crash of 2008 highlighted the need for a renewed effort to ensure that finance helps build a healthy society. This requires a paradigm shift in capital market thinking from two-dimensions to three. By bringing a third dimension, *impact*,

to the 20th century capital market dimension of risk and return, impact investing has the potential to transform our ability to build a better society for all.

Financial investors are not simply to be concerned with maximising their financial returns or managing their risk, they are to invest with a view to producing socially beneficial outcomes. Against indifference and the consequences of harm caused by financial trading, investors are to care where their money goes and what it creates in the world.

Taken to its logical conclusion, the above would actually imply a paradigm shift *away* from the doctrine of Adam Smith's 'invisible hand' (or heart), because it suggests that actors in the market place should not only pursue their own self-interest as Adam Smith suggested, but they should – as their guiding motivation – be concerned with the effects of their actions. There is clearly some confusion in the metaphor deployed here. In the remainder of this paper, this confusion will be unpacked in order to ascertain what is at stake in finance's social turn.

Using the state to remake society

In his Hugo Young Lecture in 2009, Conservative prime minister David Cameron proposed his vision of a 'Big Society'[6] that would devolve political power to a local level, where municipalities and volunteer citizens could take control of local services and provide for their communities. This did not only involve a moral vision serving as a smokescreen for cuts as critics argued (cf. Williams, 2011), it also involved a finance model and a commitment to growing the social investment market in Britain. In a reminder that neoliberal globalisation has not diminished the role of the state in as much as it has transformed its political economy, David Cameron argued for the

need to 'use to the state to remake society' (Cameron, 2009) with Britain is at the helm of the social turn for finance.[7]

While social or impact investing only really gained ground after 2009, as an idea it has its antecedents in the late 1980s (Schram, 2015). In Britain its beginnings date back to 2000 when the UK Government set up a 'Social Investment Taskforce' under New Labour (UK Social Investment Taskforce, 2000). This was chaired by venture capitalist Ronald Cohen who more recently led the 'G8 Social Investment Taskforce' as well as 'Big Society Capital',[8] a social investment finance institution set up provide investment and enable the growth of this new sector, with £400 million of initial funds from dormant bank accounts and £200 million in equity investment from major high street banks (Edmonds, 2015). The City of London Corporation (2015) cites OECD research that identified 350 impact investment funds in existence globally in 2012 with a total capital of $40bn. According to Big Society Capital (2016), social impact investing is worth at least £1,500 million. Aside from active support from the G8 countries, the EU also provides support and has formally recognised funds that invest 70% of investor capital into European social businesses as so-called 'European Social Entrepreneurship Funds' designed to enable more and better fundraising.[9]

The relative importance of financial services for the British economy helps to explain why Britain is leading this particular innovation.[10] The aim is for Britain to achieve a further competitive advantage in financial services by encouraging the use of social investment in the UK, promoting London as a leading global hub connecting social enterprise to capital markets (City of London Corporation, 2015). Moreover, as Linsey McGoey (2014) has argued, the role of the state is central in supporting market creation and the growth of the venture philanthropy sector. Consequently, it stands to

reason why successive governments in Britain have provided considerable assistance in establishing the necessary regulatory frameworks and introducing legislative changes that inscribe the logic of the social investment market into various levels of municipal and national policy-making.

Initiatives have included the political promotion of volunteering and civic engagement under the 'Big Society' slogan and the establishment of a National Citizens Service for young people.[11] Legislation includes the 2011 Localism Act, which grants greater powers to local councils and community groups to bid for and run welfare services.[12] Legislation also includes the 2012 Public Services (Social Value) Act that requires organisations bidding for government contracts to demonstrate not just the economic value, but also the social and environmental value they produce.[13] Aside from releasing funds from dormant bank accounts, the UK Government has also implemented a series of tax incentives of up to 30% income tax relief for investors in order to attract investment to the sector.[14] The City of London Corporation is collaborating with the Cabinet Office and Big Society Capital to set up a Social Investment Research Committee to improve regulatory and fiscal framework and improve transparency and reporting.[15] This comes after alleged cases of misuse of funds in 2014 by the organisation Big Society Network, a company set up to promote and enable social investment projects (The Guardian, 2014; Third Sector, 2015). Other initiatives include the promotion of social enterprise procurement, developing a 'Buy Social Directory', championing business volunteering within social enterprise and developing investment readiness funds for social sector organisations. The Cabinet Office has also set up a 'Social Outcomes Fund' consisting of £20 million providing 'top-up' funding for projects.[16]

Solving social problems: social impact bonds and the welfare state

The social investment market involves a number of different repayable finance models for communities, enterprises and organisations developing projects with a social or environmental purpose. Examples include access to housing, employability skills, mental health services, eldercare, social care, healthcare, childcare or renewable energy projects. Social investment involves different kinds of funding models and investment capital for growth (secured debt, unsecured debt, community shares, blended risk capital and grant-loan-community contributions). It also involves bridging, matching or underwriting traditional asset ownership (purchasing them and transferring assets once they become viable), setting up platforms for community engagement or fundraising through grants as well as loans (cf. Swersky and Plunkett, 2015).

While there is a much bigger research agenda regarding the political economy of these new social finance models, this paper focuses specifically on the use of social investment in social policy through the uptake of an instrument called a social impact bond (SIB) at the level of the welfare state. SIBs are used to 'solve social problems' such as recidivism, foster care, social isolation of elderly people, drug addiction, or the prevalence of young people 'not in education, employment or training' (NEETs). Governments commission a consortia of third sector organisations who seek to address these social problems on the basis of a 'Payment by Results' (PbR) system. PbR means contracted third sector organisations commissioned to provide social or public services must evidence the achieved outcomes of their services before receiving payment. PbR has been criticised for favouring large providers and disadvantaging more 'grassroots' organisations who work successfully with their constituencies but cannot afford to pay for running costs in advance (Garton

Grimwood et al., 2015: 3). Advocates of SIBs (including the UK Government) suggest that the problem can be resolved with SIBs because funding can be provided by private finance who in effect lend the organisations the money they need (The Economist, 2016).

Britain is home to the first SIBs to be implemented and the first few have already reached maturity (typically after three to five years). The first ever SIB was used reduce recidivism at Peterborough Prison in 2010; another SIB was developed by the Private Equity Foundation to mentor disadvantaged young people at risk of 'becoming "NEETs"'.[17]According to UK Cabinet Office Centre for Social Impact Bonds, as of June 2016 there were 32 SIBs in use in Britain, with a steady growth of new ones being issued.[18] There are currently three types of SIB: direct (delivery contract between outcomes payer and service provider), managed (delivery contract between outcomes payer and prime contractor) and intermediated (delivery contract between outcomes payer and investor-owned special purpose vehicle which contracts the service provider). Private investors investing in SIBS are to expect an annual rate of return between 15 and 30%, depending on achieved outcomes (cf. Whitfield, 2015: 17). The three government departments involved with commissioning SIB funded projects to date are the Cabinet Office, the Ministry of Justice (MoJ) and the Department for Work and Pensions (DWP).

For example, a project aimed at supporting disadvantaged young people into education and employment sees the DWP "pay for one or more outcomes per participant which can be linked to improved employability."[19] The DWP will pay £700 for an "improved attitude toward school", £1300 for "improved behaviour" and £1400 for "improved attendance". The DWP will also pay for the attainment of

qualifications, paying more the better the qualification. Entering into as well as sustaining employment are also priced. The list of outcomes – from improved attitude towards school to the final outcome of sustained employment – are not incrementally but differentially priced. The highest educational certificate has the highest price attached to it, while improved attendance figures highest on the behavioural scale. Overall, educational achievement ranks higher than employment in the assumption that education provides more long-term rewards than the short-term goal of gaining immediate employment. It is noteworthy that entry into employment carries a higher payment than sustained employment. This may be a recognition of the high levels of precarity in the contemporary labour market at entry-level, or simply just an easier target to achieve. Attaching performance targets to pricing mechanisms is necessary for financialisation because it gives financial investors a framework within which to compare what investments would be likely to yield the most return. These interventions aim to use financial instruments, institutions and market mechanisms to produce certain subjects who think, feel, act and perform in ways that conform to ideas of productive citizenship and non-dependence on welfare, a point that will be returned to in a more detailed discussion later on in this paper.[20]

The example above illustrates how the ability to quantify and measure social outcomes is key to linking social enterprise to capital markets, because investors must be able to ascertain the financial returns they can expect on their investments. As the G8 Social Investment Taskforce stipulates (2014: 35), the expansion of the social investment market "depends crucially on the development of reliable measures of social and environmental impact […], the more that impact measurement makes it possible to link accurately progress in achieving social outcomes to financial returns, the more compelling impact investment will become." This builds on and extends

existing efforts by organisations to evidence their achievements and thereby justify their value to commissioners, funders or grant makers.

In this context the terms 'social value', 'social impact', 'added value' or also 'social return on investment' have arisen. These terms refer to the non-financial impacts of programmes: the ways in which interventions contribute to a better functioning of society or to environmental sustainability. Social impact can include outcomes like reducing homelessness or obtaining educational qualifications or employment, as illustrated in the example above. These are measures that are readily quantifiable because the outcomes can be counted – the amount of homeless people housed, the amount of qualifications achieved or the amount of individuals in employment. However, social impact can also include less tangible and more subjective factors that have an affective quality – feeling less lonely or isolated, feeling good, feeling worthy, having a voice, feeling sufficiently included in decision-making or feeling engaged in something meaningful (Wood and Leighton, 2010). There are a large number of accounting models to enable quantification and monetisation. The most widely adopted model is the *SROI* model, a model of 'Social Return in Investment' first tabled by a venture philanthropy fund in the US in the 1990s (*Ibid*.). Its particular advantage is that it can quantify and ascribe monetary value to social value by calculating cost-efficiency and returns.

Different to other types of bonds that pay a guaranteed interest, SIBs are performance-based. This means that if and only when certain outcomes are actually achieved, an investor receives a return. There are several models for setting prices and returns.[21] The model most common to the way SIBs are being implemented by the UK Government has at its core a concern with achieving cost-savings. As the Cabinet

Office explains, "the starting point for most existing SIBs is to estimate the cost savings (or avoided future costs) that will accrue as a result of improvements in outcomes."[22] In the wake of the global financial crisis, the UK Government embarked on a path of public deficit reduction through the implementation of extensive austerity measures (Streeck, 2014). While this 'crisis of debt' discourse has been criticised as justifying policies unable to deliver its promise of renewed economic growth (Hay, 2013), it is nonetheless still the guiding doctrine of policy-making. Consequently, the UK Government remains concerned with fiscal consolidation. Therefore, finding alternative sources of funding for welfare *and* achieving short- as well as long-term cost-savings are a considerable priority.

On the surface, SIBS seem to offer solutions to both of these policy priorities. First, SIBs enable governments to attract funding from the private sector to finance social policy initiatives. Moreover, there is an accounting advantage in the creation of this new asset class, because such funds no longer appear as government expenditure in national accounts.[23] Second, the use of SIBs is supposed to enable innovation and cost-efficiency in service delivery, based on the argument common to privatisation initiatives, namely that market mechanisms and financial discipline inherently achieve such ends. However, it is unclear whether the proposed benefits of private finance actually do materialise. It is also unclear at whose expense cost-savings will be carried out. Both of these concerns will be discussed in more detail below.

Furthermore, the kind of welfare state model that underlies the imperative to save costs is one that constructs the very idea of a welfare state as a burden to society, revealing its particular ideological underpinnings in continuing the neoliberal project of dismantling public services and welfare provisioning while privatising social

responsibility. This may at first seem paradoxical in that much of the discourse of social investment is couched in terms of community empowerment and citizen engagement. These are sentiments that are often understood as pillars of collective social responsibility. However, the social responsibility invoked here is not a public one that commits to social provisioning through the public institutions of the state based on a set of generalised entitlements afforded to its citizens. Instead, it is private in both senses of the term: routed through business models and capitalist markets and based on the personal motivations and voluntary commitments of non-state actors (whether individual or collective). Moreover, it is not only the case that private finance is used to resource social services (albeit regressively).[24] Of essence is the fact that such projects that will justify the further retrenchment of the welfare state and produce a certain kind of social subject: the overwhelming majority of projects that are being funded are about intervening in society to shape people's behaviour or attitudes[25] in order to reduce the very need for welfare entitlements or health and social services.

This is why critics have pointed to SIBs as a continuation of neoliberal welfare reforms (Schram, 2015). Neoliberal welfare reform has been characterised by a combination of retrenchment in welfare spending, investment in human capital and 'workfare' or labour market activation policies (Betzelt and Bothfeld, 2011). This paper agrees that SIBs constitute a continuation of this neoliberal approach that tends towards a residualist welfare model and a narrow focus on labour market activation. However, the paper also argues that there is a specific quality to what is identified here as a financialisation of the welfare state. The difference lies in the shift from a social investment *state* (cf. Morel, 2012) to a social investment *market*.

Despite ongoing discussions about concessionary rates being afforded to projects by investors who wish to support projects with a social purpose for ethical reasons (Foley, 2015), the logic of the undertaking dictates that only what is profitable will be funded, which raises questions for the quality and nature of the services delivered. Moreover, it is clearly stated that social investment markets will operate in the same way, that is with the same kinds of risk and return characteristics as any other kind of financial market, with potential investors including governments; trusts and foundations; individual retail investors; wealthy individuals; and mainstream banks.[26] As has been pointed out, the use of private finance to meet public policy goals means that these goals become subordinate to the demands of financial yield and to global financial markets (Bryan and Rafferty, 2014; Mitropoulous and Bryan, 2015). This paper extends this insight to argue that the financialisation the welfare state is currently undergoing at present is marked by a co-imbrication of the state and the financial sector. While the state utilises private finance to intervene in society in ways that ostensibly seek to reduce welfare costs and welfare dependency, the state is utilised as a vehicle for financial capital accumulation.

Reducing the cost of societal externalities

The key here is that investments are to achieve an identifiable social impact by solving social problems, which are in turn constructed as costs to society. In other words, social problems are defined as anything that constitutes a cost to the welfare state (and thus to the tax payer): e.g. 'at-risk' children being cared for outside of the home, welfare dependency and insufficient economic productivity of the unemployed, the burden on health services of rising levels of mental illness, the health costs of social isolation in the elderly or the cost of crime and the criminal justice system. Cost-savings can be concrete savings such as a reduction in expenditure due to

improved cost-effectiveness of an existing service, or they can be projected savings that are made because an intervention successfully resolves an issue that would have otherwise been a lingering problem for governments and tax payers, such as environmental degradation, unemployment, crime or the costs of welfare provision. A high number of SIB-based interventions are aimed at targeting people with poor life chances that are considered a high cost to society as recipients of benefits or other forms welfare and because they are not sufficiently economically productive.

Savings can be one of three different types. First, they can be a reduction in the historical costs of delivering outcomes, i.e. providing a service more cheaply. Second, there can be future cost reductions, i.e. reducing the cost unemployment, ill-health or old age. For example, reducing the amount of people using hospital beds or the amount of days a child spends in care services, or reducing the rate of re-offending. A third area of cost-saving is more abstract, namely the projected cost-savings achieved by avoiding future expenditures. For example, this could be reducing the cost of so-called 'poorly adapted individuals' to society through interventions aimed at transforming such 'poorly adapted' individuals into 'well-adapted' individuals who commit fewer crimes or become less reliant on social services or benefit payments, or who find employment and therefore an income with which to sustain their livelihood. In these cases, counterfactuals need to be used to determine the projected future savings or avoided future costs: proxies have to be invented that can quantify what costs would have been incurred if the intervention had not been undertaken.

Given that long-term future savings or costs avoided can also constitute aspects of the metrics for returns to investors, a thorny question arises. To what extent can these really be said to be real savings. Are they not actually speculative ones? The attempt

to valorise speculative futures is a key feature of financialisation. Or, as Randy Martin (2002: 105) put it, "forecasts and predictions do not need to be right, they need to be quantifiable." A closer look at the ways in which returns to investors are being calculated on the basis of projected future savings or the use of counterfactuals (what might have happened without the intervention[27]) would suggest that this may well be a feature of the ways that SIBs are used. And yet: while some of the ways that potential savings are to be calculated may end up being speculative, the monetary payments that are made to investors as a result are very real.

Cost-saving: limits, inconsistencies and critiques

In addition, is not clear whether these cost-savings will actually be achieved. Recent research has argued that setting up the infrastructure for social finance is in itself a costly endeavour. Moreover, there are significant questions of scalability that would enable cost-savings to actually materialise (Joy and Shields, 2013; Whitfield, 2015). Furthermore, while advocates hail the combined effects of innovation and cost-efficiency enabled by the market, critics have been concerned about the negative effects of a market logic that seeks to obtain maximum outcomes at the lowest cost. Historically, the cost of market-based provisioning has actually been as high or even higher and where cheaper service provision occurs, this has usually meant lower pay and unstable working conditions for staff (Loxley, 2013).

Consequently, we can ask who it is who actually bears the cost of cost-saving where cost-savings are made by cutting wages and changing working conditions? Dowling and Harvie (2014) have argued that the metric of social value relies on a recoding of labour inputs (that would require remuneration) to social value outputs (that do not require remuneration). The authors use the example of artists providing

unremunerated art therapy in eldercare homes as a form of community engagement; other examples might include young people volunteering in nursery schools under the proviso of a 'win-win' for all in which the nursery school children benefit from the presence of the young adults who in turn benefit from the experience of being with children, or pensioners mentoring young people as a way of passing on their life experience and knowledge to young people and as a way of combatting loneliness and isolation in old age. The labeling of community and volunteering activities as social value outcomes or as added value in service delivery contributes both to deprofessionalisation (that legitimises lower wages) and the invisibilisation of work (which justifies non-remuneration). Hence, even where social or impact investing is understood to be producing an actual social good as opposed to merely reducing costs, the profits that are made are potentially sourced from the exploitation of unpaid labour. This development concurs with a broader trend of utilising volunteer labour in the third sector (Dean, 2015).

The pressure to achieve targets risks resulting in the misrepresentation of results (Silver and Clarke, 2013; Whitfield, 2015) as happened in the case of the Peterborough Prison SIB, the first project to be undertaken in the UK. Robert Ogman's research (2016: 59) has shown that in actual fact, no cost-savings were made:

> While the intervention successfully reduced reoffending, it failed to reduce public expenditures. As a result, the state was not able to create savings to share with investors. Instead, it was compelled to increase expenditure in spite of its supposed fiscal problems, forming special 'outcome funds' to pay investor returns.

Furthermore, these contradictions did not prevent the government from hailing it as a success or using it to justify the further expansion of SIB projects across the country.

It is socially, ethically or politically debatable whether welfare can really be delineated in such narrow cost-saving terms, especially when it reinforces the normative claim that the welfare state exists merely as a residual welfare state whose sole aim is to reduce welfare dependency and foster the self-sufficiency of individuals.

Privately financed, but publicly funded: accumulation by dispossession

Critical IPE literature has provided an analysis of the consequences of the global economic crisis of 2008 for the UK. In the face of fiscal consolidation following bank bail-outs (Blyth, 2011; Streeck, 2014), the restructuring of the British economy has been shown to involve further public sector retrenchment, a reduction in welfare provision and a permanent austerity agenda that is linked to lowering public debt and engaging in market-led growth (Kerr et al., 2011; Taylor-Gooby, 2012). This restructuring is geared towards resolving capital's crisis of profitability through the creation of new commodities and markets in a recovery model led by private finance. However, as Green and Lavery (2015) argue, the recovery that Britain has witnessed has been regressive in its distributional dimensions. The authors argue that the promotion of a business-led recovery has been marked by "rising asset wealth for the few and falling living standards and economic insecurity for wage earners" (*Ibid*.:893) premised on quantitative easing and asset price inflation coupled with labour market restructuring and the increase of low-paid and precarious employment, emblematic of which is the dramatic increase in zero-hour contracts.

The growth of the social investment market in Britain since 2008 constitutes yet another piece in the puzzle of 'regressive redistribution' that Green and Lavery identify. First, in terms of the potential longer term effects of a cost-saving agenda on working conditions and pay in the sector as discussed above. Second, there is a regressive redistribution of wealth occurring because the UK Government is borrowing money from private investors, which it then pays back *with interest* as explained above. The use of SIBs in social policy facilitates the transfer of wealth from the public purse to private investors. As discussed above, it is the cost-savings that are made that constitute the return on investment that is paid to investors. Even if this cost-saving approach made sense and even if cost-savings were to be made, the way that SIBs operate means that any savings that are made do not actually remain in the public purse and are not put to use in other ways that would promote public interests. Instead, they are paid to private investors as a form of interest on the loans they are providing. This is a form of 'accumulation by dispossession' (Harvey, 2004) whereby public funds are being privatised through the use of financial instruments such as SIBs, amounting to their 'quiet confiscation' (cf. Marx, 1976: 882). Consequently, it is evident that these social interventions may well be privately financed, but they are still publicly funded. While the justification for this is that private investors must be incentivised and in turn rewarded for providing these allegedly much-needed resources, in actual fact, public funds are transferred to private investors as a source of profit.

Marx describes primitive accumulation as the original process that made industrial capitalism possible, primarily through the expulsion of agricultural workers from the commons and the enclosure of this land, as well as the exploitation of resources in the

colonies. Analytically, the concept refers to the ways in which capital amasses wealth through outside of the formal wage relation or market exchange. This happens either through confiscation, fraud, brute force or more formally through the apparatus of the state that provides a legal framework for the conversion of various property rights into exclusive property rights, along with the ideological legitimation for doing so. 'Accumulation by dispossession' (Harvey, 2004)[28] is a term that seek to explain and evidence the continued relevance and necessity of processes of primitive accumulation for capitalist development today to which recourse is sought when capitalism is in crisis as a way of overcoming limits and finding new sources of profitability (cf. De Angelis, 2001; Bonefeld, 2011). Contemporary examples include the privatisation of public assets, increasing indebtedness, the (gendered) off-loading of the cost of social reproduction onto individuals and households (Pearson and Elson, 2015), land grabs on the African continent and in Latin America (Backhouse, 2015) or the expansion of individual and household debt (Montgomerie and Buedenbender, 2015).

One of the reasons for the concerted interest in growing the global social investment market is undoubtedly to find new avenues for capital accumulation and with that, routes to economic recovery in the face of crisis. However, the analysis of SIB-based interventions provided in this paper not only concurs with the argument that economic recovery is regressive as Green and Lavery have argued, it also suggests that the paths sought to economic recovery are not necessarily based on 'real' growth, i.e. expanded reproduction (Harvey, 2004). Instead, they are reliant on forms of dispossession.

Producing financialised subjects: democracy and the entrepreneurial approach to social change

The initiatives that are to be funded by social impact bonds are orientated towards producing self-responsibilised, financially literate and economically productive subjects in line with the kinds of neoliberal welfare reforms discussed above. Furthermore, the targeting of individuals in need of remedial intervention reinforces the idea that the remedy for a social problem is to be found at the level of its symptom. In other words, by changing the individual affected as opposed to transforming the social, political and economic structures that create such social problems in the first place (Silver and Clarke, 2013). The interventions that are being developed also involve financial literacy and financial inclusion in attempts to actively produce 'investment-ready' financial subjects – ready, one could argue, to be 'invested in' – but also ready to participate as debtors and creditors in a financialised economy.[29]

Investors need to ensure their investments are successful and that projects run accordingly. For example, giving investors the right to replace service providers if they fear the outcomes will not be achieved[30] affords a level of power and decision-making to investors that shapes social policy according to their interests in ensuring a financial yield. This effectively constitutes a process of de-democratisation that turns private financial investors in particular and financial markets more generally into public policy-makers. This is underscored by recent research that has demonstrated that contrary to the stated aims, the involvement of service users in the design, operation and assessment of projects so far has been very limited (Whitfield, 2015; Burmester and Wohlfahrt, 2015).

In effect this amounts to yet another kind of 'privatisation' underpinned by the growing acceptance of what this paper suggests is best understood as an

entrepreneurial theory of social change. An entrepreneurial theory of social change puts centre-stage private individuals as agents of social change. These private individuals are often high-net worth individuals who shape public agendas based on their views of how society should be organised, using their private wealth to do so. This fuses the figure of the philanthropist with the figure of the entrepreneur, finding a new expression in concerns for social justice framed as social enterprise as opposed to the more traditional conception of charity. This may seem progressive, but there are political implications for democracy and the governance of public interests. This is not only the case with regard to wealthy individuals and the undue power they wield to shape public interests. The proliferation of new business models for community and social enterprise that we are currently witnessing, along with the new financial innovations that seek to involve ordinary people more and more in financial activities, constitute a second aspect of this de-democratisation. Examples include the crowdsourcing of SIBs (Cohen, 2015), the promotion of investment through initiatives like 'Social Saturdays' (Jones, 2014) that encourage ordinary people to invest their money into social enterprises; the establishment of social pensions to attract investment from pension funds. De-democratisation occurs where democratic participation becomes synonymous with asset acquisition. Moreover, the new kinds of community business models that are currently being rolled out mean that local municipal services become increasingly subsumed under the logic of the market and the requirement to function as a business and/or repay investors.[31]

Risk management and securitisation

The UK Government states that the advantage of using social impact bonds to fund social interventions is that it conveniently shifts risk from the public to the private.[32] This is because investors are only repaid and receive a return on their investment if an

intervention achieves its stipulated outcomes. If it does not, then the investors not only lose the money they put in, they also do not receive a return. As advocates clearly state, social investment is about ‘financing the unbankable’ (Social Investment Research Council, 2015), i.e. it is about bringing into the realms of finance those organisations and initiatives that would normally not receive private finance because they would be considered too risky. Consequently, there will be mechanisms put in place to mitigate exposure to risk, whether by intervening directly to avert unsuccessful outcomes or by developing financial derivatives with which to securitise risk.

Financialisation involves the management of risk through securitisation using derivatives that are traded in financial markets. The more financialisation expands and encompasses aspects of social life, the more “ordinary people are being decomposed into a range of risks and assets as bundles of exposure” (Bryan and Rafferty, 2014: 899). What is traded is not the asset itself but the exposure to the risk of the performance of that asset, where uncertainty of future performances is converted into knowable risk and thus also made tradable. Current risk management strategies in the social investment market include that capital provision over the life of the SIB is not guaranteed, the draw-down is staggered to mitigate underperformance, there is a phased service delivery over discrete cohorts, investors can replace service providers, and contracts with providers only last one year (Social Finance, 2015). Not least, as has happened in 2015 with Goldman Sachs (who consider themselves a pioneer in social impact bonds), investors can also pull out of projects in the face of uncertainty about repayments and returns.[33] Although SIBs are currently not tradable (cf. Schram, 2015), the UK Government has explicitly stated it wishes to see a secondary market develop (cf. Disley et al., 2011). As Edmonds (2015: 11) explains, Big Society Capital/Big Society Bank aims to “create effective financial markets to trade and

issue securities”. This is a sentiment echoed too by the financial sector. Already in 2011, this was discussed:

> The cash flow of a SIB could be securitised. This would be easy to do in its current form as it is British Government cash flow. That would create an instrument that would trade as a function of the achievement of that individual social target. One could possibly see a number of these instruments traded on a Social Stock Exchange.[34] This would then de facto create a secondary market providing liquidity and exit to investors.[35]

Goldman Sachs had insured its investment in the Rikers Island recidivism project with Bloomberg Philanthropists to the sum of US$ 6 million (Gonen, 2015). Moreover, a report by JP Morgan and the Global Impact Investing Network confirms that the lack of risk management strategies for investors is one of the main impediments to the growth of the market. Some of the problems it mentions that relate to risk are the "lack of appropriate capital access [to] the risk return spectrum, […] difficult exiting investments [and] a lack of innovative deal/fund structures to accommodate investors or portfolio companies' needs" (JP Morgan, 2015: 8). The City of London Corporation (2015) also stresses the need for more 'complex financial instruments to shift risk reward requirements' and recommends the need for guarantee structures and peer-to-peer lending. Consequently, it cannot be precluded that secondary markets will not develop in the near future for the purposes of securitisation, thus exposing this field of social policy – and with that the (often vulnerable) people and projects funded by SIB initiatives – to the vicissitudes of global financial markets.

Critique and legitimation

As with any new initiative, there are different constituencies that need to be convinced of the efficacy of social and impact investing. Individual investors may still be cautious of putting their money into these new ventures (Lethbridge, 2015), yet for capital overall, this is potentially a significant area of profitability. While there has been some critical journalism (Toynbee, 2011; Cohen, 2014; Maisano, 2014), the proliferation of reports by governments, multilateral institutions, think tanks, foundations and non-governmental organisations set up to promote impact investing demonstrates considerable efforts to produce consent to impact investing. McHugh et al. (2014) have discussed how the third sectors in the UK and the USA are divided in their acceptance of this social turn for finance, although resistance is diminishing as the premises and tenets of neoliberalism become more accepted among a younger generation. Among social investment supporters there have also been concerns that the original aims and ethos of social investment is being undermined by the new move to connect social investment to large financial players with social investment becoming an asset class modelled on the venture capital market (Alternative Commission on Social Investment, 2015). For public service unions there is the concern about the effects on their members in terms of the working conditions of public sector workers and the effects on public procurement regulations (cf. Lethbridge, 2015; Whitfield, 2015; Unison, 2016: 14).

Furthermore, there are divergent discourses in different country contexts as evidenced in the country reports of the G8 Social Investment Taskforce. In the UK where austerity is a dominant policy orientation, there is a focus on the role of the social investment market in plugging the public funding gap. On the other hand, in Germany, a country with a less ostensive austerity agenda, there is also less emphasis

on social investment as an answer to austerity, instead pointing to the projected increase of welfare costs, even without cuts, due to factors such as population ageing.[36] This divergence in legitimation suggests that the support for social or impact investing can be inserted into different legitimation discourses depending on the specific context as well as the constellation of public opinion and the specific state formation.

Conclusion

This paper has sought to provide a critique of the financialisation of the welfare state and the introduction of social impact bonds (SIBs) as a social turn for finance. This social turn arises in part in response to the global financial crisis and the criticisms levelled against the deregulation of the financial sector, as well as the requirement to find new drivers of economic growth. With reference to the first report of the G8 Social Investment Taskforce set up under the UK's most recent G8 presidency, the paper discussed how the notion of an explicitly 'social' orientation for finance constitutes an internalisation of these criticisms in ways that legitimate the further expansion of financial markets. The paper has analysed how SIBs have been taken up by the British government and used to support continued neoliberal welfare reform premised upon an austerity agenda, where SIB-funded projects are designed to deliver cost-savings for society without addressing the structural conditions of social and economic inequality that produce the social problems it seeks to remedy in the first place. Not only does this imply that welfare and public services are nothing more than a burden to the tax payer, it also constitues a form of privatisation in which the state is used to accumulate financial profits from public funds. Moreover, the paper raises concerns about surbordinating social policy objectives to global financial markets and the consequences this will have for projects that are funded in this way.

While advocates of social investment may argue that accessing private finance makes available much-need resources and funding to provide social services, the development of this financial architecture for social investment and the attempt to connect the social interventions of the welfare state to global capital markets amounts to much more than a simple provision of funding. This is because the purpose of financial investment is to yield financial return on the investments made. Advocates of a social turn for finance wish to suggest that extending the concerns of finance from simple risk-return metrics to include a concern with impact marks a progressive turn. Yet, as this paper has shown, there is a regressive logic at play here that is merely obfuscated by the discourse of social impact.

Even within the financial sector, there have been criticisms of the cost-saving approach to social investment and the dangers of an economic logic overriding that of social outcomes have been pointed to (Brown, 2013). Similarly, underlying the whole discourse of a *social* return on investment lies an intention to find ways to make visible and account the *non-economic* dimensions of social outcomes. However, the problem is that in the last instance, for social investment to work for investors, there needs to be a financial profit. Without a profit, the overwhelming majority of investors will simply not invest their money. The attempts to harmonise the profit motivation of financial investors with a social purpose leads to the subordination of the latter under the former and not the other way around. Financialisation is not a simple process of allocating resources to one place or another, it imposes a set of disciplinary measures that shape the social processes they affect, in turn privatising gains and socialising risks and costs. Overall, the paper points to the co-imbrication between the state and the financial sector in which the state is using finance to

intervene in society in ways that ostensibly seek to reduce costs and welfare dependency while at the same time the state is used as a vehicle for financial capital accumulation.

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[1] See also McGoey, 2012; 2014 for a critique of philanthrocapitalism.
[2] with regard to Britain.
[3] with regard to Italy.
[4] Aside from anti-austerity movements contesting rising inequality, more recently even economists at the International Monetary Fund have also stated that an overemphasis on fiscal consolidation has contributed to the rise of inequality (Ostri, Foungani and Lurceri, 2016).
[5] See for example the speech made by the former president of the World Bank James Wolfensohn (2003) in Geneva to the World Bank Group in February 2003 on 'making globalisation work for the poor.'
[6] Slocock et al., 2014 provide an 'audit' of the Big Society from the perspective of civil society organisations.
[7] The social investment market is developing rapidly in the USA, Australia and Canada too, followed more recently by countries such as Germany, Belgium and Switzerland, along with some parts of Southeast Asia and significant interest in the African continent.
[8] The link to the UK Government's Big Society is evident in the name, showing how impact investing inserts itself into the discourse of civic action and community empowerment.

[9] Further information is provided by the European Commission on its website: http://ec.europa.eu/finance/investment/social_investment_funds/index_en.htm [accessed 3 January].

[10] According to Banks et al. (2014: 14/15) in a report published by the UK Office for National Statistics, "along with the US, the UK economy has long had a relatively high share of financial services; however between 2006 and 2009, the share in the UK rose markedly. UK financial services accounted for 10% of GDP in 2009 – markedly higher than any other major economy – with Canada the second highest (6.7%) and Germany the lowest (3.9%) […] this share fell by 2.9 percentage points following the financial market shock, while the share in other major economies remained broadly stable […] Output in the UK financial services industry is currently 13.6% below its pre-downturn level."

[11] The website of the National Citizens Service can be found here: http://www.ncsyes.co.uk/ [accessed 4 June 2016].

[12] For the legislation, see here: http://www.legislation.gov.uk/ukpga/2011/20/contents/enacted [accessed 3 January 2016]

[13] For the legislation, see here: http://www.legislation.gov.uk/ukpga/2012/3/enacted [accessed 3 January 2016].

[14] For the legislation, see here: https://www.gov.uk/government/publications/social-investment-tax-relief-factsheet/social-investment-tax-relief [accessed 3 January 2016].

[15] Big Society Capital provides further information on its transparency programme here: http://www.bigsocietycapital.com/what-we-do/current-projects/transparency. [accessed 6 June 2016].

[16] see: http://blogs.cabinetoffice.gov.uk/socialimpactbonds/outcomes-fund/.

[17] See the project website: http://think-forward.org.uk/ [accessed 3 January 2016].

[18] There also Development Impact Bonds (DIBs) being introduced to replace aid and other development funding. The G8 Social Investment Taskforce names a further financial product in addition to *social impact bonds*, namely *development impact bonds,* that are to be used to attract investment for development projects in Global South countries, involving "bilateral aid agencies, foreign aid ministries, multilateral institutions and philanthropists" (G8 Social Investment Taskforce, 2014: 38).

[19] See https://data.gov.uk/sib_knowledge_box/funding-0; this page also includes further examples.

[20] See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/212328/hmg_g8_factsheet.pdf.

[21] For an overview, see Centre for Global Development and Social Finance (2014).

[22] See https://data.gov.uk/sib_knowledge_box/using-unit-costs-value-and-price-outcomes.

[23] There is the need for further research to be conducted here to investigate the ways that the introduction of SIB projects is accounted for in national accounts, which exceeds the scope of this paper.

[24] This is one aspect of these developments, but is not an aspect this paper is focussing on directly. See for example Swersky and Plunkett (2015) for a discussion of new community business models.

[25] A trend in public policy that the UK has been leading in for some time now, see for example the UK Government's 'Behavioural Insights Team', http://www.behaviouralinsights.co.uk [accessed 7 June 2016].

[26] For an overview, see http://www.bigsocietycapital/social-investment-market.

[27] Also referred to as 'implicit assumptions of dead weight' (Dear et al, 2016: 58).

[28] This has also been termed 'new enclosures' (Caffentzis, 2013; Linebaugh, 2014).

[29] See for example Cabinet Office (2015).

[30] See http://www.bigsocietycapital.com/ [accessed 8 June 2016].

[31] See Percy et al. (2016).

[32] Although in Australia, Mitropoulous and Bryan (2015) explain that the risk is shared by the state and by investors.

[34] With initial support from Big Society Capital and the Rockefeller Foundation, the social stock exchange was launched in 2013 to enable the financing of companies with a social and/or environmental purpose. See the website of the social stock exchange here: http://socialstockexchange.com/about-ssx/us/.

[35] See: http://www.socialenterpriselive.com/section/social-investment/money/20110906/how-the-market-can-turbo-charge-social-impact-bonds

[36] See http://socialimpactinvestment.org/reports/Abschlussbericht%20NAB%20Deutschland.pdf.