

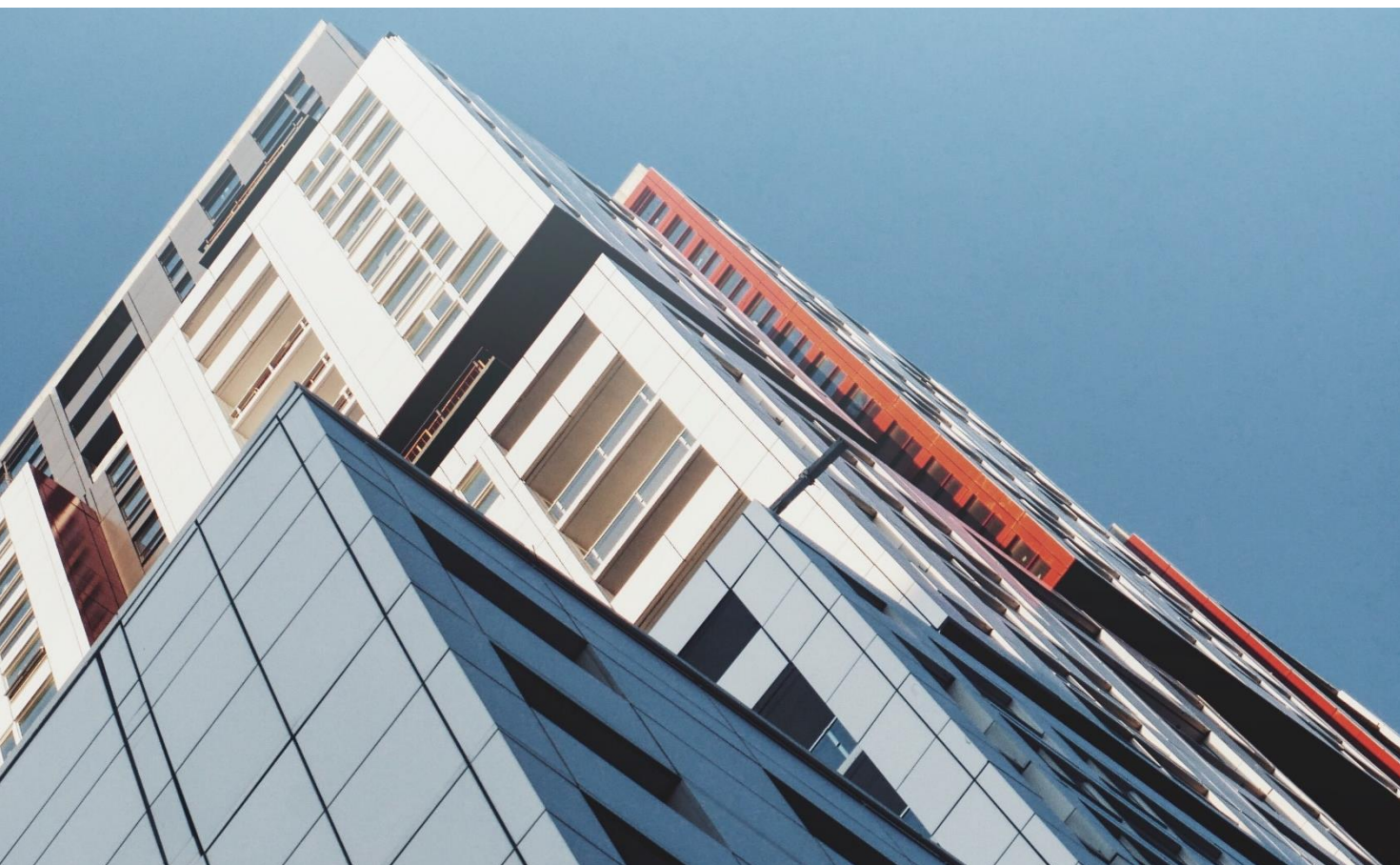


Austerity and Social Innovation

The Case of Social Innovation Labs and Social Impact Bonds

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ABOUT US

Austerity and its Alternatives is an international knowledge mobilization project committed to expanding discussions on alternatives to fiscal consolidation and complimentary policies among policy communities and the public. To learn more about our project, please visit www.altausterity.mcmaster.ca.

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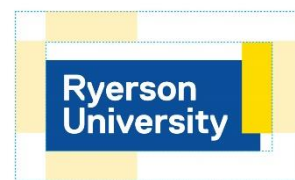
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Abstract

Social innovation has become one prominent approach recently embraced to address the challenge of austerity and long-standing social policy problems. By unleashing the power of social innovation and entrepreneurship, we are informed, these challenges can be met. We critically explore this proposition and contend that the social innovation agenda is in actuality a driver of neoliberal change that serves to entrench structural inequalities in society (See: Joy and Shields, 2017).

The Social Innovation Agenda

What is the social innovation agenda and how does it impact social policy and a socially inclusive society? The Center for Innovation at the Graduate School at Stanford Business casts social innovation as being about creating effective solutions to highly difficult social issues to foster social progress. "The concept of social innovation", it notes, "focuses attention on the ideas and solutions that create social value—as well as the processes through which they are generated, regardless of where they are coming from" (nd). Social innovation is presented as an approach that embraces various innovative tools that can address existing public policy problems. Supporters of the social innovation approach tend to offer it as a neutral way to tackle such problems; of simply identifying and using 'what works.' This is, however, decontextualized from the actually existing politics of public policy and the broader social structures that have shaped social issues like poverty, underemployment and homelessness.

It is significant to note that the social innovation agenda came to the fore in the aftermath of the 2008 financial crisis and has been closely connected to what has been termed 'fast policy'. Fast policy is about policy learning across jurisdictions and outside of siloed government. It encourages entrepreneurial approaches to problem solving that privilege behavioural and market-based solutions. Fast policy is centred within the contemporary neoliberal policy environment featured by austerity driven social policy, a further shrinking of the state and government policy capacity, a recommitment to the value of market-based approaches to solutions, and a turn to innovation and entrepreneurship to manage state fiscal crisis and to tackle wicked social policy problems (Peck and Theodore, 2015). This is an approach that is politically charged and rooted strongly within a competitive capitalist values system.

Neoliberalism has proven itself to be very adaptive and resilient. It demonstrated its ability to capitalize on the 2008 crisis, flexibly adjusting to different policy adaptations like social innovation, rooted in markets, to ride out the crisis and to retain its policy hegemony. Because past neoliberal policy interventions have tended toward failure, neoliberalism has had to engage in a 'permanent revolution' of market centred reforms. Ironically, neoliberalism has



engaged in so much experimentation at the policy level because it has had so much failure with its market driven reforms (Peck, Theodore and Brenner, 2012).

As “an adaptive creature of crisis”, neoliberalism has had to adopt a “flexible credo”, absorbing new innovative policy reforms in an effort to drive the neoliberal agenda forward. The embracing of social innovation is an example of neoliberalism’s movement from a ‘roll-back’ to a ‘roll-out’ mode. This is one where neoliberalism has shifted from a “greed-is-good” (for example the trickle-down economic policies of Reagan and Thatcher) to a “markets-with-morals” (for example, social policy reforms initiated by Third Way and compassionate conservative administrations in the UK) rationale (Peck, nd).

Too often in this regard, social innovation has simply been a case, as Andrew Curtis contends, of “dressed-up neoliberalism” (2014); neoliberalism with a smile. Part of the challenge with social innovation is that it is a concept lacking in any firm definition, opening it up to manipulation and easy adaptation to “the shifting contours of policy directions and challenges” (McGann et al., 2018). The ambiguous character of the concept lends itself to the charge that it is at the same time about everything and nothing, thus, a rather hollow concept.

The reality is that neoliberalism has been very adept at co-opting such ideas to its own needs, “especially”, as Curtis observes, “if the ‘innovations’ question the status quo, or affect the markets of business” (2014). The co-optation of social innovation and such approaches also serves to rob them of their truly progressive and innovative potentialities that exist when such approaches work at the margins and are not mainstreamed into the support of dominant forces in society (Curtis, 2014).

There are progressives that are supportive of the social innovation agenda. In the context of government austerity, it is argued, where there is a lack of state finances to support social programs to pursue social good, tapping into private capital is a necessary and pragmatic alternative that should be used. *The Stanford Social Innovation Review* has been a major advocate for such a position. In contrast to this ‘realist position’ among progressives are those, like ourselves, who advance a more ‘critical’ approach. We contend that the social innovation agenda has been captured by neoliberalism and is being used to undermine redistributive social policies, making the creation of social policy less democratic and turning them into profit-making opportunities for wealthy investors. This is a case of “profiting from pain” (Joy and Shields, 2018b). Peck (nd) has noted that one of the big questions regarding social innovation is the “redistribution problem”; i.e., social innovation’s failure to be concerned with redistribution issues.

Social innovation at the public policy level has been most especially associated with two initiatives: Social Innovation Labs (SILs) and Social Impact Bonds (SIBs). We will now turn to examine what we understand as neoliberal policy experiments.



Social Innovation Labs (SILs)

SILs have become an important component of social innovation and the need to 'do more with less' agenda. They have expanded rapidly since the 2008 financial crisis. We have identified at least 59 SILs in Canada alone as of December 2017. SILs are said to promote independent problem solving away from state-centric processes. In this regard, SILs are cast as pushing policymaking from government hands to society. SILs are designed to tackle complex and hard to solve social problems by bringing together a diverse team of experts from many fields focusing on a 'doing what works' approach to problem solving. SILs are said to embrace 'change thinking' designed to break with the 'government think' mold, pushing entrepreneurial and business centred ideas into the problem-solving process. This can, consequently, move policy decision making beyond the overly bureaucratic and siloed state-based processes.

In these ways, SILs are part of the bigger policy innovation ecosystem. It is also claimed that SILs help to democratize policymaking by bringing societal interests into the policymaking. However, SILs are also part of the 'fast policy' drive through the understanding that meaningful democratic decision-making processes are deliberative and slow. This is also occurring in a context where non-profit service providers are being pressured to refrain from exercising their voice function by government funders; the problem of 'advocacy chill' (Evans and Shields, 2018). It is important to observe that there has been a tendency under capitalism to cast social issues as technical problems when distributive justice issues arise (Sossin, 1993). Moreover, SILs emerged in a political environment shaped by austerity and neoliberalism that rubs against progressive democratic instincts.

So while there are crosscutting currents that have moved SILs forward, the dominant force shaping their development is neoliberalism and austerity. In fact, SILs can be understood as an innovation to New Public Management (NPM). It is critical to note in this regard that innovation in the government sector actually has a long history dating back in the neoliberal era to the 1980s. Osborne and Gaebler (1992), for example, popularized the 'reinventing government movement' along with pushing NPM reforms that sought to breakdown bureaucracy and make the state more entrepreneurial and business-like. NPM has been the neoliberal public management approach for transforming the state along market-centred lines. NPM has served as a transmission belt for neoliberal ideas into the state bureaucracy and the non-profit service delivery sector (Shields and Evans, 1998).

SILs work to create a 'knowledge market for policy' outside of government, providing an expanded role for consultancies like KPMG. Neoliberalism's shrinking of the state has also meant that the government's policy capacity has been greatly reduced and disabled (Baskoy et al., 2011). There is an anti-statist orientation to these developments. The state is presented as inherently risk adverse and unable to embrace the innovation necessary to address wicked policy challenges. Complex



social problems are thus cast as beyond the state's sole capacities to solve and, consequently, they must be met through the use of a 'social policymaking market'.

Additionally, SILs constitute a turn to a kind of rationalist policymaking that is centred in the idea that social solutions can be found in 'objective', technical and scientific approaches to problem solving that have universal application (Torgerson, 1986). So-called rationalist approaches are an attempt to move beyond ideological and politically based divisions in seeking technical solutions to problems (Fisher, 1989) – focusing on 'doing what works'. The idea is that technical problems can be solved through the use of experts utilizing practical applied knowledge and experience as applied to social issues. However, this divorces social problems from the deeper socio-economic and political context in which they have been formed and sustained.

In this regard, SILs are being used to bypass value conflicts with the claim that overly politicized government policymaking processes have kept the state from learning from citizen experiences and from the more applied and practical experiences offered by the private sector and civil society. This orientation pushes toward viewing social problems as being individually rooted, with solutions to be found in behaviour modification (re: behavioural economics) rather than systemic change. For example, Indigenous poverty may come to be viewed through the lens of individualist behavioural problems that can be addressed through behavioural incentives and reforms ignoring the structural problems created by colonialism.

This approach is one that side-steps the role of values and power in social problem creation and resolution. It is essential to policymaking to know the dominant interests who are framing the social problems to be addressed by SILs. Is this framing constructed around individualized and neoliberal narratives of social problems and their solutions? If such is the case, the problems will largely be about the problematic behavioural traits of 'failed citizens' and solutions presented as resting in market-centred social reform directed at modifying negative behaviours. The structural roots of problems will be left unaddressed.

The Case of Social Impact Bonds (SIBs)

If SILs offer a social innovation for structuring the system of policymaking, SIBs constitute a social innovation tool, one that matches well with neoliberalism. SIBs also began to flourish after the 2008 financial crisis and implementation of the neoliberal austerity agenda. One conservative calculation places the number of SIBs at 108 in 24 countries by 2017 and spreading rapidly (Social Finance, 2018).

SIBs claim to be about building partnerships between government, private investors and non-profit providers and might best be thought of as a public-private partnership applied to social policy. This policy tool is part of a larger pay-for-performance drive in government where payments for contracted services/programs are dependent on the success of the intervention. A SIB is a



financing mechanism utilized to actualize pay-for performance. Since government is only obligated to pay when predetermined targets are met, SIBs are considered to be “a risk-free way [for government] to fund social programs for prevention and early intervention” (Hebb et al., 2016). They are also devices well matched to austerity agendas since they promote ‘value for money’ contracting.

SIBs represent a shift from the funding of public services to funding policy outcomes and doing so by tapping into private financing. Markets are presented as a neutral force that can be used for social good. This idea is brought to the fore by the recent “Invisible Heart” documentary on SIBs by Nadine Pequenez (2018). The title is a take on Adam Smith’s famous phrase the ‘invisible hand’ but in this case the ‘invisible heart’ suggests that within the free market are forces of altruism that can be unleashed through the use of policy tools like SIBs. Private capital can be channeled into ethical social investments where private investors and entrepreneurs can employ innovative approaches to solving social problems. The success of these social interventions would then be awarded with a healthy return on their investment (TVO, 2019). These privately financed social programs would be delivered by non-profit providers with a proven track record of effective delivery.

SIBs are particularly suited for social issues related to prevention and early intervention. To date, SIBs have been targeted at programs related to issues such as recidivism, early childhood education, homelessness, employment and supports for people with mental health. ‘Social value’ is produced through savings that flow from such things as the reduction in criminal reoffending, transforming the unemployed into working taxpayers, and reducing the need for social spending for vulnerable populations. The realized social value should be able to offset the cost of the social intervention and the profit paid on the private investment. “The claim is that the interests and needs of all SIB partners can be aligned: targeted individuals are reformed; taxpayers save money; private investors gain a new asset class; intermediaries profit by advancing a new market; and service agencies are supported and recognized for their creation of ‘social value’” (Joy and Shields, 2018a, 682).

SIBs work to extend the market deeply into the welfare state and as such, pass important elements of social policy construction into private hands. While taking SIB directed social programming out of the public realm by engaging in a so-called practice of “what works” appears on the surface as an apolitical action, the reality is a profoundly neoliberal inspired policy shift.

Such developments in social policy have a transformative impact at the level of the citizen. The idea of the citizen under neoliberalism is shaped by an individual and market lens. As Joy and Shields note: “... the definition of a worthy citizen under the neoliberal project becomes the self-reliant, responsible, ever resilient, pro-active lean citizen; those who fail to conform to these norms are failed citizens subject to policies aimed at behaviour modification and state sanctioned discipline”



(2018a, 688). SIBs help to transform so-labeled risky individuals into responsible tax paying citizens. For private investors the risky individuals become an asset class where social problems are marketized and risky individuals are commodified.

One of the advantages of SIBs is their supposed ability to innovate and bypass the problem of government's aversion to risk taking. In reality, however, the types of projects that SIBs have developed around have a proven record of success as private investors are strongly motivated to get a safe return on their money. Additionally, the expectation of investor profit level is high (8 to 12%). Government is able to defer payment into the future but ultimately it is the public purse that pays for the programing plus the profit dividend, hardly a real cost saving for social initiatives that are lacking in innovation (TVO, 2019). Is this really good value for public money?

Conclusion

The social innovation agenda, including SILs, SIBs and pay-for-performance are closely tied to the fiscal crisis of 2008 and the implementation of the neoliberal austerity agenda. Social innovation is not a neutral apolitical approach to solving wicked social policy problems as is commonly asserted. Rather it is an avenue that has been used to privatize policy to the benefit of private market interests against the collective good.

It is also very interesting that the SIL which has been promoted as the best and longest standing example and model, MindLab, has recently been cancelled by the Government of Denmark (Guay, nd). This was also the fate of the first social impact bond in the UK, the Peterborough Social Impact Bond, which after three years of operation was abruptly ended by the British Government before the completion of the experiment. The private investors were paid back in full with a 3% dividend in each year of operation (Ainsworth, 2017) even though an external evaluation concluded that this SIB did not actually foster innovation (Sharman, 2016). These cases raise many questions about the effectiveness of the social innovation agenda.



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