Chapter 2. The Subordination of Urban Policy in the Time of Financialization

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Abstract

On October 21, 2011, the White House Office of Social Innovation and Civic Participation and the Nonprofit Finance Fund convened a meeting, with support from the Rockefeller Foundation, attended by ninety-six representatives from government, nonprofits, philanthropic foundations and academia. The convening aimed to generate interest in "Pay for Success" (PFS) programs funded by "Social Impact Bonds" (SIBs), described by the White House as "A New Results-Oriented Federal Commitment for Underserved Americans." By the end of 2014, twenty-three states and the District of Columbia had adopted or were considering Social Impact Bond programs or enabling legislation. This scale of interest and activity being directed at PFS and SIBs raises several questions. What is the logic underlying the Pay-for-Success approach and how is it unrolling in practice? Does the accelerating adoption of PFS and SIBs represent an innovative departure in the design and delivery of urban social programs or is it a continuation of longstanding practices? What explains the rapid emergence and diffusion of PFS at this particular historical moment? To what extent does the proliferation of PFS and SIBs reflect the subordination of urban and social policy to the financialization of the economy and with what short- and long-term consequences for the future? Replacing conventional ideas of governing in and through the state, the financialization of urban policy advances the practice of networked governance involving the finely calibrated interaction of multiple actors spanning the public, private and non-profit sectors and proceeds through the continuous and highly contested negotiation of the elusive boundaries between the market, state and civil society. Once achieved through the confluence of interests enacting the financialization of the economy, the dominance of finance in the sphere of social policy appears irreversible. The resulting reversal of ends and means mobilizes social policy on behalf of profitable investment outcomes and financialization is the process through which seeing like a state means enacting policy as a financial transaction. Most disadvantaged in the resulting policy practice are the client-recipients of the social-behavioral interventions funded through the policy mechanism, whose behavioral failures are targeted as the problem to be rectified while the underlying structural and institutional determinants of life chances in a financialized society remain intact.

Midway through the Obama Administration's first term, on October 21, 2011, the White House Office of Social Innovation and Civic Participation and the Nonprofit Finance Fund convened a meeting, with support from the Rockefeller Foundation, attended by ninety-six representatives from government, nonprofits, philanthropic foundations and academia (Nonprofit Finance Fund 2012). The convening aimed to generate interest and expand participation in "Pay for Success: Investing in What Works," described in the White House Blog as "A New Results-Oriented Federal Commitment for Underserved Americans" (Munoz and Gordon 2012). Meeting participants heard presentations explaining and illustrating the use of Pay-for-Success (PFS) contracts, also referred to as Social Innovation Financing (SIF), Social Impact Bonds (SIBs) or "impact-first investing," as a policy and funding mechanism for addressing urban social problems. As the Nonprofit Finance Fund (2012) reported in its summary of the meeting, "At a time when citizens and governments are being asked to do more with less, innovators around the world are seeking cost-effective solutions that can deliver better outcomes for their communities (and) Pay for Success has emerged as one such strategy."

The agenda for the day-long White House meeting included presentations from a coalition of voices informing the Obama Administration's approach to urban and social policy delivery. These included speakers from the Office of Management and Budget and the White House Domestic Policy Council; leading philanthropic organizations including the Rockefeller Foundation, Bloomberg Philanthropies, and the Pershing Square Foundation; nonprofit community development financial institutions including Third Sector Capital, Social Finance US, and the Nonprofit Finance Fund; social policy consultancies and think tanks including the Center for American Progress, MDRC, the Coalition for Evidence-Based Policy, and the Urban Institute; and academics from Harvard, Johns Hopkins and the University of Maryland. This alignment of government, nonprofits, foundations, think-tanks and academics both reflected and contributed to an explosion of interest in the Pay for Success formula in the relatively short period since issuance of the first Social Impact Bond in 2010. According to Judith Rodin, president of the Rockefeller Foundation and a strong proponent, "Social Impact Bonds have the potential to substantially transform the social sector, support poor and vulnerable communities, and create new financial flows for human service delivery" (Social Finance, Inc. 2012, 2). The Federal Reserve Bank of San Francisco devoted a 2013 issue of its *Community Development Investment Review* to twenty-two mostly celebratory articles discussing "Pay for Success Financing," asserting in the editor's introduction that "Pay for Success has the potential to improve the social sector's effectiveness by rewarding programs that work, encouraging innovation, validating progress, and attracting private capital to the anti-poverty cause" (Galloway 2013, 3). Within the private sector, the international consulting firm McKinsey and Company reported that "SIBs are another example of how incentives and investment can be recalibrated to stimulate social change" (McKinsey & Company 2012, 4). The Urban Investment Group (UIG) at Goldman Sachs established a Social Impact Fund to "provide investors with an opportunity to deploy capital to address a range of pressing social challenges in the US, while also seeking a risk-adjusted financial return." In the words of Goldman's CEO Lloyd Blankfein, "Anytime you can get natural forces to do what you want to have done, that's perfect" (DePillis 2013).

As revealed by this alignment of interests, the Pay-for-Success model of urban social policy delivery has attracted a substantial and powerful following in the brief span of years coinciding with the Obama presidency. According to the White House Office of Social Innovation and Civic Partnership, "The Obama administration is fostering a PFS market using all the tools at our disposal . . . These strategically designed programs are meant to encourage both smarter government and the development of a robust capital market for PFS" (Greenblatt and Donovan 2013, 19). The White House partnered with the Nonprofit Finance Fund and the Arnold Foundation in 2014 and early 2015 to follow up the 2011 national convening with "Pay for Success Regional Summits" in Bridgeport, CT, Chicago and Salt Lake City to "help communities catalyze future PFS projects" (http://payforsuccesssummit.org/index.html). The President's annual budget proposals sought Congressional authorization for PFS funding beginning in FY2012 with a $100 million allocation for exploratory programs in the Departments of Education, Justice and Labor. This amount expanded to a requested $300 million in FY2014, to be administered by the Treasury Department for "Strategies to Accelerate the Testing and Adoption of Pay for Success (PFS) Financing Models," and to over $900 million in FY2016 (Cohen 2015a; Federal Register 2013; Greenblatt and Donovan 2013). Twenty-three states and the District of Columbia had adopted or were considering Social Impact Bond programs or enabling legislation by the end of 2014 (Social Finance, Inc. 2014). In June of that year, a bipartisan group of Congressional co-sponsors introduced H.R. 4885, the Social Impact Bond Act, described in a press release as "legislation utilizing social impact bonds (SIBs) in order to improve social and public health outcomes, save taxpayer resources, and unleash non-governmental investment capital to help at-risk Americans" (Social Impact Bonds press release, 2014).

This scale of interest and activity being directed at PFS and SIBs under the Obama administration raises several questions. What is the logic underlying the Pay-for-Success approach and how is it unrolling in practice? Does the accelerating adoption of PFS and SIBs represent an innovative departure in the design and delivery of urban social programs, as is frequently asserted by proponents, or is it a continuation of longstanding practices? What explains the rapid emergence and diffusion of PFS at this particular historical moment? To what extent does the proliferation of PFS and SIBs reflect the subordination of urban and social policy to the financialization of the economy framing the Obama presidency and with what short- and long-term consequences for the future?

The Logic and Practice of Pay-for-Success Social Innovation Financing

Although the White House Blog's description of Pay for Success claims that "the concept is simple" (Munoz and Gordon 2012), implementation of PFS requires the coordinated efforts of several types of actors (Barclay and Symons 2013; Kohli et al 2012; Liebman 2011; McKinsey & Company 2012; Nonprofit Finance Fund nd; Roman et al 2014). Private investors supply capital funding through purchase of Social Impact Bonds or Pay-for-Success Contracts issued by a government entity, a private syndicator such as Goldman's Social Impact Fund or a non-profit

intermediary or bundler such as Social Finance, Inc. (2012). Revenues received from the sale of SIBs are deployed to pay a nonprofit social service provider to deliver a preventative treatment or curative intervention to a target population whose sub-optimal behavior (e.g., criminal recidivism, joblessness, homelessness) is defined as constituting a problem that otherwise would require a costly government program to address. An independent evaluator or assessor is engaged to determine whether the program intervention produces the level of quantifiably measured performance outcomes (e.g., a ten percent reduction in recidivism as compared to a control group not receiving the treatment) contractually specified in the SIB. If the targeted program outcome is achieved, the government entity pays the investors a return on capital, financing the repayment through savings realized from the reduced need for government intervention to address the problem. As summarized in an Urban Institute report, “Pay for Success (PFS) financing directs private capital to social programs, with the opportunity for a return on investment if the programs achieve performance targets” (Roman et al 2014, 2). Or as stated somewhat differently by the *National Journal*, “upfront investments in evidence-based interventions for at-risk individuals can save lots of money down the line, and . . . there is no reason why a for-profit company shouldn’t cash in on those savings” (Johnson 2015). SIB proponents often refer to the potential for double- or triple-bottom-line benefits as a compelling reason for expanding PFS programs: “The power of SIBs lies in their ability to align all stakeholders’ interests around achieving common objectives . . . Stakeholders in SIBs – nonprofits, investors, government, and communities – would all benefit from successful SIB programs” (Social Finance, Inc. 2012, 11).

The first Social Impact Bond was launched in the United Kingdom in September 2010 to fund a program aimed to reduce recidivism among male adults released after short term (less than a year) incarceration in Peterborough prison, a privately-managed facility located near Cambridge, about 75 miles north of London, that was experiencing a reconviction and reincarceration rate above 60 percent (Social Finance, Inc. 2012; Social Finance, Ltd. 2011). Social Finance, Ltd., a nonprofit financial syndicator and intermediary established in 2007 with funding from the Rockefeller Foundation, raised £5 million (US$8 million) through the sale of SIBs to seventeen investors, primarily private philanthropic foundations willing to absorb the risk of investing in this still-novel arrangement. As originator of the SIB, Social Finance, Ltd. used the funds to contract with a cluster of nonprofit providers to administer a variety of mentoring, advising, and behavioral counseling services (the “One*Service”) to 3,000 prisoners before and following release “to facilitate successful reentry into the community” (Social Finance, Ltd. 2012, 9). The UK Ministry of Justice and the Big Lottery Fund, as signatories to the SIB, agreed to repay the investors’ principal plus a rate of return of up to 13 percent if an “Independent Assessor” contracted by Social Finance, Ltd. ascertained that reconvictions fell by at least 10 percent in the first year and by 7.5 percent or more over an eight-year period, as compared to a control group of offenders released from similar prisons elsewhere in the UK who were not recipients of the One*Service counseling and behavioral interventions funded by the SIB (Roman 2014, 5).

The first program financed through a Social Impact Bond in the U.S. was initiated by the Urban Investment Group at Goldman Sachs in New York City in August 2012, less than a year

after the White House convening introduced the PFS model to the U.S. urban policy community. The Goldman SIB, closely modeled on the Peterborough Prison project in the UK, raised $9.6 million to reduce the rate of re-incarceration among 16- to 18-year-old adolescent inmates in New York City's Rikers Island prison (Olson and Phillips 2013; New York City 2012a,b; Rudd et al 2013). MDRC, a private nonprofit policy research organization serving as intermediary for the SIB, used the capital provided by Goldman Sachs to contract with two nonprofit service providers to administer the Adolescent Behavioral Learning Experience (ABLE) program, described in a New York City fact sheet as "an evidence-based intervention that focuses on improving personal responsibility and decision-making" (New York City 2012b). As described by MDRC:

> ABLE aims to equip adolescents . . . incarcerated in the New York City jail system with the social and emotional skills to help them make better life choices when they leave jail, yielding financial savings to city government by reducing readmissions to Rikers Island. During their time on Rikers adolescents participate in Moral Reconation Therapy, a cognitive behavioral program designed to help offenders reevaluate their choices and enhance their decision-making abilities. (Rudd et al 2013, iii)

MDRC also retained the Vera Institute of Justice as independent evaluator to assess whether ABLE succeeds in reducing the recidivism rate among participants by ten percent or more at twelve- and twenty-four-month post-release intervals. If Vera determines that the ten percent target is exceeded, the city's Department of Correction will repay Goldman's investors their $9.6 million principal plus "success payments" equivalent to a rate of return between 5 and 22 percent depending on the amount of reduction in re-incarceration achieved (Olson and Phillips 2013, 98). Or as explained by the *National Journal*, "last fall, Mayor Michael Bloomberg inked an unusual contract with Goldman Sachs. The bank would put up a $9.6 million 'investment' to teach 10,000 young offenders moral reasoning before August 2015. If these teens stay out of jail, the city saves money and Goldman Sachs will make a 22 percent profit. If not, the government pays Goldman nothing" (Quinton 2013). The provision that investors will not be repaid if the targeted reduction is not achieved, however, while consistent with the Pay-For-Success formula, was offset in the Goldman SIB by a $7.2 million grant from Bloomberg Philanthropies to MDRC to be used to repay investors regardless of the program's outcomes.

Goldman quickly expanded its investment in PFS by originating three new SIBs within little more than a year: for an anti-recidivism program in Massachusetts in January 2013; a program for pre-Kindergarten education in Salt Lake City in August 2013; and a second early-education program in Chicago in October 2014. New York State launched the first state-sponsored SIB in December 2013, aimed at reducing criminal recidivism through employment training and job placement, and Cuyahoga County, OH announced the first county-level SIB in January 2015 for services to homeless mothers with children in the foster-care system. State programs to promote and adopt the use of SIBs are being considered or have been launched in California, Colorado, Connecticut, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas, Utah, Washington and seven other states and the District of Columbia. The California legislature debated a bill (SB-9) in

December 2012 to establish an Office of Social Innovation and Entrepreneurship designed "to facilitate the use of social impact bonds (SIBs)" and considered new legislation (AB1837) in 2014 for a Social Innovation Financing Program for anti-recidivism projects in three California counties (www.leginfo.ca.gov/bilinfo.html). The federal Corporation for National and Community Service has provided annual rounds of competitive grants through its Social Innovation Fund (SIF) beginning in FY2014 for technical assistance to improve the capacity of local governments and service providers to develop and implement PFS projects (Corporation for National and Community Service 2015).

The national media have taken note of the emergence and spread of PFS and SIBs. According to *The Atlantic*, "suddenly, everybody seems to be looking for 'impact' investments that promise measureable social and environmental benefits along with financial returns" (Bank 2012). *Forbes* magazine described SIBs as an opening "to rethink the role of the capital markets in enabling social progress, and to explore the opportunity and the need to connect investment capital and the nonprofit sector" (Kanani 2012). Reporting on "The Promise of Social Impact Bonds," the *New York Times* called SIBs "a new idea that in a very short time has caught the attention of governments around the world" by offering "a more intelligent approach to social programs" (Rosenberg 2012; Preston 2012). *The Economist* (2013) hailed SIBs as "a new way of financing public services" and "a big financial experiment" that "promises returns to private investors if social objectives are met." Specialized and professional media have also widely commented on – and thus contributed to – the proliferation of SIBs. The *Chronicle of Philanthropy* reported that "With a Few Pay-for-Success Plans Under Way, the Idea is Gaining Currency and Criticism" (Wallace 2014) and the *Nonprofit Quarterly* affirmed that "Wall Street Finds Social Impact Bonds to Be Attractive Investment Options" (Cohen 2015b). *The Bond Buyer* has closely followed the spread of SIBs (Burton 2012) even while noting that "Social-impact bonds . . . are not traditional financial instruments and the use of the term 'bond' is somewhat inaccurate" (Jensen 2013). Writing in *The Chronicle of Higher Education*, researchers from the American Enterprise Institute opined that "It's time to experiment with a new way of leveraging private capital to finance postsecondary education and training – the social-impact bond" (Kelly and McShane 2013).

The academic community has not been slow to join the movement toward SIBs and PFS. Harvard's Kennedy School of Government established a Social Impact Bond Technical Assistance Lab with initial funding from the Rockefeller Foundation and a grant from the Social Innovation Fund provided by the Corporation for National and Community Service. Harvard's SIB Lab "provides pro bono technical assistance to state and local governments implementing pay-for-success contracts using social impact bonds" (hks-siblab.org) and has prepared a *Guide for State and Local Governments* offering detailed instructions for issuing SIBs for social programs (Liebman and Sellman 2013). (SIB Lab director Jeffrey Liebman previously served as Chief Economist at the federal Office of Management and Budget during the first two years of the Obama administration.) In January 2013, the University of Chicago received a $5 million gift to endow the Social Enterprise Initiative (SEI) within the Booth School of Business "to support initiatives that simultaneously promote entrepreneurial innovation and social benefit . . . in the impact economy" (University of Chicago 2013; http://research.chicagobooth.edu/sei/). That

same month, the University of Utah announced receipt of a $13 million donation to the Eccles School of Business to establish the James Lee Sorenson Center for Global Impact Investing (http://www.sgiicenter.com), "providing consulting and advisory services in the social entrepreneurship and impact investing sector." The Policy Innovation Lab within the Sorenson Center received a $1.2 million grant from the federal Corporation for National and Community Service in 2014 to "facilitate PFS deals across the Western United States (and) grow the number of PFS-ready entities." Stanford University's *Social Innovation Review* advocated the expansion of SIBs in two articles written by Tracy Palandjian (2013, 2014), the founder and CEO of Social Finance US, which describes itself as "a vertically integrated Social Impact Bond intermediary dedicated to launching high-quality Social Impact Bonds in the U.S." (Social Finance, Inc. 2012).

The Financialization of Urban Policy

Financing public purposes with private capital obtained through the sale of bonds has a long history. European monarchs sold bonds to finance territorial wars since the 16th century. In the US, the Pacific Railroad Act of 1862 authorized the federal government to issue 30-year bonds to help finance the construction of the first transcontinental railroad. Baptist (2014) documents the intricate bond-financing mechanisms that provided the investment capital needed to expand the slave economy (using the bodies of slaves as collateral) throughout the US south before the Civil War. In the aftermath of World War II, housing advocate Catherine Bauer recounted the private real estate industry's opposition to expanding the federal public housing program despite post-war shortages, yet pointed to "the spectacle of Wall Street backing public housing because the investment houses find local authority bonds profitable" (Bauer 1946, 68). The Opportunity Funding Corporation (OFC) established by the federal Office of Economic Opportunity (OEO) during the war on poverty in the early 1970s issued "Opportunity Bonds" to generate private capital for economic development projects in minority urban communities (Doctors and Lockwood 1971). Four decades later, in 2010, the US Treasury Department announced a Community Development Financial Institutions (CDFI) Bond Guarantee Program to support $325 million in bonds for local community and economic development purposes (www.housingfinance.com/affordable-housing/new-cdfi-bond-program-funds-housing_o.aspx). State and municipal governments and quasi-public authorities across the U.S. issue general obligation bonds, revenue anticipation bonds, tax anticipation bonds, industrial revenue bonds, and similar instruments to raise revenues for public purposes as a matter of course.

References to the innovative character of SIBs and PFS may appear misplaced in face of this long historical precedent. As a new form of an enduring practice, by this account, SIBs provide a mechanism to access the private capital needed to bring social programs "to scale" in an era of diminished public resources (Leventhal 2013, 529). Yet while the consistency of the "bond" terminology presents SIBs as a familiar and thus easily understood and accepted financial form, SIBs are not bonds in the traditional meaning of debt instruments and are more properly understood as performance contracts, that is, promises to repay the investor if a stipulated service target or cost saving is attained. More important than the technical

distinction, however, and despite the terminological familiarity, the financial logic underlying SIBs produces a radical realignment of ends and means in the structure and implementation of urban social policy. In all of the historical examples above, bond funding provided a means for attaining substantive public goals ranging from territorial wars and plantation agriculture to infrastructure development, public housing, community economic development, and municipal services. With the advent and proliferation of SIBs, a financial return on the funding mechanism is the goal for which substantive programmatic outcomes provide the means. While, previously, attainment of substantive program goals required a means to fund them, now PFS and SIBs name a funding source in search of substantive applications. Adoption of the "bond" nomenclature provides the appearance of continuity with earlier practice but it is precisely that apparent normalcy that allows SIBs to achieve a fundamental reversal of ends and means in the practice of urban social policy without attracting notice or concern.

The reorientation of ends and means within the logic of SIBs both reflects and advances the financialization of urban social policy within the larger transformation of the US economy that has coincided with the Obama presidency. At the level of the economy as a whole, financialization refers to the process through which the financial sector commands an increasing share of the economy (Krippner 2005, 2011), ultimately leading to the organization of the economy and society according to the logic and rationality of finance – the "penetration of finance into the fabric of daily life" (Moreno 2014, 244; see also Arrighi 2010; French, Leyshon and Wainwright 2011; Warner and Clifton 2014). Financialization as a process represents the continuation of what Polanyi described as "the great transformation" accomplished through the intrusion of the market economy into all aspects of social relations, from the market serving as a useful attribute of society to "the running of society as an adjunct to the market" (Polanyi 1944/2001, 60).

At the level of urban policy, financialization constitutes the most recent phase in the long-term and continuing evolution of urban governance. Observers of the fiscal crisis of the 1980s noted the transformation of urban governance from a managerial logic of project design and program implementation to an entrepreneurial logic of financial deal-making in support of substantive policy goals, a shift necessitated by the massive reduction in public spending ushered in by the neoliberal governance regimes of Reagan and Thatcher (Clarke and Gaile 1989; Fainstein 1991; Harvey 1989; Lake 1992; Leitner 1990). Municipal governance in the pre-1980 managerial city, a legacy of progressive-era political reform, concerned the efficient delivery of municipal services according to principles of scientific management financed through local tax revenues in service of the public interest. The resurgence of global economic competitiveness in the 1970s and 1980s, however, accompanied by the cascading effects of global oil shocks, national economic stagflation, and urban deindustrialization and disinvestment generated strident demands for tax reduction at all levels that forced a retreat from Keynesian monetary and fiscal policies. Taxation, in the process, was rhetorically, politically and materially redefined from a desirable means to support mass production through social consumption to an anti-competitive and unsustainable cost of production (Jessop 2002). This economic transformation culminated in the anti-tax pledge disseminated by the

conservative political operative Grover Norquist in 1986 and since signed by nearly 1,400 elected officials at all levels of government (www.atr.org).

The confluence of rapid private disinvestment and the abrupt curtailment of tax-funded public spending, symbolized in the infamous New York *Daily News* headline "Ford to City: Drop Dead," raised the recurrent and widespread specter of fiscal crises and municipal defaults (Alcaly and Mermelstein 1988; O'Connor 1973). Municipal governance, in response, became entrepreneurial, enacting a "paradigmatic shift" (Clarke and Gaile 1989, 574) from the efficient design of municipal service delivery to the structuring of increasingly complex public-private financing arrangements that enabled and therefore dictated the substantive possibilities for, and effects of, urban programs. A 1986 HUD handbook celebrated "the recent surge of entrepreneurialism throughout the nation . . . lighting the path of America's urban progress and destiny . . . . The name of the urban game today is turning city functions into money-makers" which "requires a creative entrepreneurial mind and solid business sense." City government officials were urged to adopt business-like practices, to partner with business, and "to approach their work as if they were private entrepreneurs" (Duckworth, Simmons and McNulty 1986, 3-6, 25). The new economic environment of the 1980s and its attendant downward pressure on federal spending required a radical transformation in the practice of urban governance:

> Public entrepreneurs must retool. Grantsmanship skills are no longer salient; even to continue with public entrepreneurial strategies will require a new knowledge base and financing skills more relevant to private capital markets. In particular, learning to make connections with private placement capital markets, to compete on the taxable bond market, and to link with global capital markets are fast becoming essential new local policy skills. (Clarke and Gaile 1989, 591)

The result of this reorientation and retooling was the emergence and refinement of a new set of programmatic approaches and attendant financing mechanisms in the form of tax-increment financing, special district tax schemes, and other revenue-sharing arrangements under the general heading of public-private partnerships for urban and community development.

If the transformation from urban managerialism to entrepreneurial deal-making marked a significant turning point in urban governance in the Reagan era, the shift from entrepreneurialism to financialization during the Obama presidency marks the next generation in the continuing evolution of the underlying logic governing the aims, design, and effects of urban public policy. While the entrepreneurial turn in the 1980s reoriented urban governance towards an encounter with finance, now financialization refers to the ascendance of finance to a dominant position driving urban governance in the twenty-first century. Within the realm of urban policy, financialization refers to the reimagining, repurposing, redesign, and implementation of urban governance as a practice directed by the logic of the financing instrument rather than a practice driven by the social and economic needs of urban residents (Lake 2015). Under financialization, the calculus of profitability of the investment vehicle becomes the medium – the language, the conceptual frame, the underlying logic, and the discursive field – within and through which urban governance is practiced and urban policy is

formulated and enacted. In this context, PFS and SIBs represent the most recent manifestation of financialization as the process through which financial rationality becomes entrenched as the governing logic of urban public policy.

SIBs and the Subordination of Urban Policy

Because PFS and SIBs name a funding mechanism rather than a substantive focus, they select policy objectives and program designs congruent with the underlying logic of the financial instrument rather than in furtherance of a social purpose. Programs that do not correspond to this logic are unlikely to be financed in a context of declining public funds for social programs. Program selectivity occurs at the level of substantive focus, delineating the locus and nature of the problem to be addressed and aligning the corresponding policy response with the problem as defined (Cohen, 2014; McHugh et al 2013).

According to the Nonprofit Finance Fund, “PFS/SIBs work best in funding preventative or early intervention programs” (Nonprofit Finance Fund 2015). In every program implemented to date, SIBs fund a social service provider to deliver a preventative intervention intended to reduce the incidence of problematic behavior. The most commonly targeted behaviors—criminal recidivism, homelessness, poor healthcare practices, insufficient educational preparation, and poor parenting—are viewed as amenable to correction through counseling, therapy, education, training or other techniques of behavioral modification. SIBs fund service providers to work with clients to correct their dysfunctional behaviors.

The Peterborough Prison SIB, for example, targeted the high rate of reoffending among male prisoners released after serving less-than-one-year sentences. An interim report reviewing the program’s first year found that “68% have a substance misuse (addiction) need” and “66% have an Attitudes, Thinking and Behaviour (ATB) need (e.g. anger management, communications difficulties)” (Helbitz et al 2011, 16-18). The $8 million raised through the sale of SIBs funded a network of twelve partner organizations engaged in a variety of behavioral interventions designed to help released offenders make better life decisions and thereby reduce the rate of repeat offending and reincarceration. Service providers sought to “instill the aspiration that everyone can change” and delivered therapeutic treatments aimed to “reduce anti-social behavior,” “help…service users…to identify and achieve their goals,” and help “offenders live a stable, healthy, law-abiding life” (Helbitz et al 2011, 31-34). In the same vein, the $9.6 million SIB-funded Adolescent Behavioral Learning Experience (ABLE) program to reduce recidivism among juvenile offenders at Rikers Island prison in New York City delivered Moral Reconation Therapy (MRT), described as a cognitive behavioral intervention designed to promote “the process of relearning how to think and act as a responsible person” (www.OsborneNY.org). A description of MRT on a U.S. Department of Health and Human Services Web site explains that:

> Moral Reconation Therapy (MRT) is a systematic treatment strategy that seeks to decrease recidivism among juvenile and adult criminal offenders by increasing moral

> reasoning. Its cognitive-behavioral approach combines elements . . . to . . . progressively address ego, social, moral, and positive behavioral growth . . . focusing on seven basic treatment issues: confrontation of beliefs, attitudes, and behaviors; assessment of current relationships; reinforcement of positive behavior and habits; positive identity formation; enhancement of self-concept; decrease in hedonism and development of frustration tolerance; and development of higher stages of moral reasoning." (www.nrepp.samhsa.gov)

Such cognitive interventions aim to reduce behaviors that otherwise produce repeated criminal offenses and high recidivism rates. The criminal offenses producing recidivism in Peterborough, according to the independent evaluator's program assessment, are breach of court order, drug possession, burglary, drunk driving, weapons possession, and breach of a suspended sentence (Jolliffe and Hedderman 2014, 14-15). An illustration is provided in the case of Bryan reported in the program's first-year review:

> He has a court order which prevents him drinking in public. If he opens a can of beer this means he can be arrested. This happens often because he is a homeless alcoholic. He's not a quiet drunk. On a good day he sings loudly and will become overfamiliar with passers-by, on a bad day he will be insulting. Working together under the One*Service umbrella, (service providers) can achieve a sustainable, long-term outcome which enables Bryan to make choices about how he lives in the future. We are working with him to consider the social aspects of his previous lifestyle so relationships can be managed in ways that do not cause a nuisance to others. (Helbitz et al 2011, 24)

In this example and others, the focus of SIBs on funding preventative interventions situates the problem of criminal recidivism in the dysfunctional behavioral choices and deficient moral reasoning of reoffenders. The governing policy logic conflates the undeniable need for improved mental health services, ironically exacerbated by previous reductions in tax-supported public spending, with a generalized characterization of the problem as situated in dysfunctional individual behaviors that can be corrected with the expenditure of capital raised through the sale of SIBs. Because the locus of the problem is in individual behavior, the solution lies in interventions aimed at altering behaviors through attainment of "higher stages of moral reasoning" leading to a "decrease in hedonism" and the ability to "make better life choices." Alternative understandings of the problem that, for example, would reduce the recidivism rate by removing nuisance behaviors from the criminal justice system – in Bryan's case, treating alcoholism as a medical problem rather than a criminal recidivism problem—are not encompassed within the logic of the funding mechanism and are disregarded. The focus on individual behaviors, furthermore, leaves structural barriers and institutional impediments intact, requiring individuals to improve their "frustration tolerance" rather than addressing the structural inequities or institutional practices that frustrate individual advancement and deepen social inequality. Such deep-seated societal reform is not only unattainable through SIBs funding but is likely to be actively resisted as destabilizing of the structural privileges that establish a financier class able to realize the profit to be made by investing in SIBs. A description of the ABLE program at Rikers Island traces the link between behavioral remediation and

investors' profits: "By providing cognitive behavioral services at Rikers, ABLE aims to equip these teenagers with the social and emotional skills to help make better life choices when they leave jail, hopefully leading, in turn, to improved life outcomes, a reduction in the recidivism rate, financial savings to government, and eventually returns to private investors" (Berlin 2014).

Subsumed within the transformational process of financialization, PFS/SIBs are an investment vehicle rather than a social policy instrument and, consequently, "tend to focus on proving the efficacy (and profitability) of the financing mechanism and less on the social policies to be demonstrated and disseminated" (Cohen 2015a). The monetization of policy goals, as suggested earlier, transforms substantive social outcomes from the status of ends in themselves to a means for reducing government spending and producing a financial return for investors. According to Tracy Palandjian, CEO of Social Finance, Inc., "the financial engine for SIBs is 'monetizing future government saving,' which isn't a standard and well-understood investable asset" (Kanani 2012). By transforming policy objectives into monetary terms, SIBs are more properly understood as an element of fiscal and tax policy than of social policy (McHugh et al 2013; Warner 2015**).** The opportunity to access private capital is particularly salient in the long-term context of declining public resources and ideological barriers to taxation as a revenue source for public programs (Roman et al 2014). In this context, SIBs represent a new asset class that provides access to previously untapped resources of private capital:

> By monetizing social outcomes, Social Impact Bonds create an asset that investors can invest in, expanding the pot of money available beyond philanthropy and government grants to true investment capital . . . . (T)here are some $200 trillion of financial assets; creating a pipeline from social outcomes to these $200 trillion forms a pathway to a new world. (Leventhal 2013, 529; see also Cohen and Sahlman 2013)

The logic of pay-for-success justifies SIBs as a cost-saving strategy when preventative interventions reduce the need for government-funded programs that are widely characterized as "remedial, ineffective and expensive" (Godeke and Resner 2014, i). The savings achieved by reducing or even eliminating the need for public programs are used to compensate investors:

> PFS investors can play a critical role by providing the risk capital to scale preventative programs in exchange for a return on their investment. This risk and return tradeoff will only be achieved with interventions in which there are sufficient savings to compensate the investors as well as provide cost savings to the taxpayers. (Godeke and Resner 2014, 9)

The announcement of H.R. 4885, the Social Impact Bond Act, introduced in Congress in June 2014, references "saving government money" and "saving taxpayer dollars" at least thirteen times in a one-page press release (Young and Delaney 2014). The proposed legislation, according to its sponsors, will "save government money," "realize government savings," "save hardworking taxpayers money," "prevent government waste," "ensure more effective use of tax-payer dollars," and "incentivize the realization of savings across multiple layers of government." A Princeton University report unequivocally states that "the purpose of the SIB

model is to generate cost-savings for a government" and that "the biggest motivator for governments to implement SIBs is the potential for cost-savings" (Princeton University Woodrow Wilson School 2014, 8-10). Following the logic of monetization to its conclusion, the cost savings achieved through program interventions are used by government to repay investors and the ability to do so is the primary criterion defining success. The inability of a program to achieve its contractual target (e.g., a 10% first-year reduction in recidivism) is not interpreted as a substantive policy failure but as creating an unacceptable investment risk that threatens continued access to private capital (Barby and Gan 2015).

The interrelated policy goals of public cost-saving and investor return are congruent with the long-run transformations affecting the economies of the US and UK in the first decades of the twenty-first century. While SIBs are often described as benefitting the double-bottom-line of both governments and investors, the logics of monetization and financialization provide a double benefit to private capital: a direct benefit in the form of return on investment and the indirect benefit realized through the reduced tax burden attained through lower government spending.

The Obama Administration in the Age of Financialization

That the financialization of urban policy emerged at this particular historical moment suggests that the Obama Administration is an observer rather than the initiator of the transformational processes currently underway. The 2011 White House convening advocating the Pay-for-Success model for urban social programs was less the bold policy innovation claimed by its proponents than a recognition of and capitulation to an increasingly financialized political economy. The path from a market economy to entrepreneurial governance to the hegemonic dominance of financial rationality can be traced over decades if not centuries, both reflecting and enacting the onward march of neoliberalization within the urban process (Peck 2010; Polanyi 1944/2002). Rather than inaugurating a new policy model, the Obama Administration's enthusiastic embrace of PFS and SIBs reflects an inevitable path-dependency in which urban social policy aligned with the prevailing trend.

Replacing conventional ideas of governing in and through the state, the financialization of urban policy advances the ideology and practice of networked governance involving the finely calibrated interaction of multiple actors spanning the public, private and non-profit sectors. The ascendancy of networked governance proceeds through the continuous and highly contested negotiation of the elusive boundaries between the market, state and civil society (Jessop 2002; Lake 1997, 2002). Networked governance under financialization appears both operationally, in the design and implementation of specific policy instruments such as SIBs and, at the broadest level, in the enactment of institutional arrangements and ideological formations.

Operationally, implementation of a social impact bond generates private capital to fund a nonprofit service provider to produce savings that the state uses to repay the private

investor. The model's success depends equally on each actor fulfilling its role and the practice of governance is dispersed among the interdependent participants, with as yet unaddressed implications for democratic accountability. More broadly, institutionalizing a financialized governing rationality for urban social policy requires the complexly orchestrated interactions of multiple participants pursuing mutually supportive institutional and ideological agendas. The growth and expansion of the financial industry does not fuel the financialization process in the abstract but requires the continuous invention of new products and markets. Social impact bonds constitute a robust growth sector within the burgeoning global market for impact investing and social entrepreneurship, with the financial industry aggressively marketing the idea that investors can accomplish a social purpose while obtaining a robust return on their investment (Cohen and Bannick 2014). The Global Impact Investing Network (GIIN), for example, a collaborative with more than 225 banking, foundation, and investment industry members, seeks to "elevate the profile of the impact investing industry" as part of the global marketing of the ideology and practice of social impact investing and social entrepreneurialism (www.thegiin.org/cgi-bin/iowa/aboutus /index.html).

Markets, however, do not create themselves and expanding the financialization of social policy requires active facilitation and intervention by the state, articulated through monetary and fiscal reform, processes of regulation and deregulation, discursive statements, ideological formulations, and White House convenings (Krippner 2011; Lake 2002). As Polanyi (1944/2001) famously observed, "laissez-faire was planned" and markets cannot operate without the constitutive enactments of the state. The massive reduction in federal spending on social programs initiated by the Reagan presidency in the 1980s and echoed in the 2013 budget sequestration attendant on the recent economic crisis were not the least of the state's actions mediating and facilitating the growth of private funding for urban social policy.

Finally, the mobilization of private capital for social entrepreneurialism required an investment target in the form of an increasingly professionalized and corporatized nonprofit sector able to deliver social services at a scale sufficient to satisfy the burgeoning demand created by the new investment vehicles (Newman and Lake 2006). The Social Impact Fund offered by the Urban Investment Group at Goldman Sachs, for example, has capitalized over $4 billion in "impact investing opportunities" since its inauguration in 2001 (www.goldmansachs.com/what-we-do/investing-and-lending/impact-investing), requiring the nonprofit sector, in turn, to "scale up" its service-delivery capacity to keep pace. The accelerated development of social metrics and calculative methods of policy evaluation, such as the Robin Hood Foundation's "relentless monetization" of program outcomes used to "assign a dollar figure to the amount of philanthropic good that a grant does per dollar of costs" (www.robinhood.org/metrics), has rationalized and solidified the relationship between financial investors and nonprofit recipients, with significant if as yet insufficiently documented effects on the composition and practices of the nonprofit sector.

Once achieved through the confluence of interests enacting the financialization of the economy, the dominance of finance in the sphere of social policy appears irreversible. The resulting reversal of ends and means mobilizes social policy on behalf of profitable investment

outcomes and financialization is the process through which seeing like a state means enacting policy as a financial transaction. Most disadvantaged in the resulting policy practice are the client-recipients of the behavioral interventions provided through the policy mechanism, whose behavioral failures are targeted as the problem to be rectified while the underlying structural and institutional determinants of life chances in a financialized society remain intact.

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