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Social Investment Policy – A New Political Economy of Social Service Production

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1 Social Market – New Organization of Social Service Production

For years and in most capitalist societies, the welfare state has been „under attack." Apart from the specifics of the national regulation of social policy, the programs of change are more or less similar. A supply side economy with low taxes for the entrepreneurs, a forced market-orientation in the design of social service delivery, and the search for social innovation and prevention are dominating the measures to find a more effective and efficient way to address social policy. The new design of the welfare state has had many different titles: some speak of the "Schumpeterschen Workfare-State" (Jessop 2002), others classify the redesign of social policy as productivistic – "produktivistisch" (Nullmeier 2004) – in the sense that the social investment state stresses the difference between productive and unproductive citizens, or as a "social policy for the market" (Homann/Pries 1996). The overwhelming critical judgment is that of a neoliberal reconfiguration of social policy (Butterwegge et al. 2018). The status-conserving type of welfare state has to be transformed into a social investment state. In this concept, investment stands for the strengthening of human capital to improve the conditions for labor market integration.

In the 1990s, Anthony Giddens and others promoted the concept of social policy beyond market and state. This concept increased the incorporation of market principles into the organization and delivery of social services on the one hand, and on the other, it claimed a new role for civil society and the activation of civil engagement. The intention of this concept was to strengthen social policy in a time of economic crisis. The capitalist economy should be stabilized especially by the deregulation of the labor market. A shift in labor market policy from the support of unemployed by financial transfers to a policy of activating the unemployed (and the still employed as well) to adapt themselves to what is needed in the market and to accept nearly each kind of work, was a main goal of this new policy. Reducing labor costs for the companies (supply side economy) was thought to be best to overcome the crisis.

The confidence in the ability of markets, respectively the economy, to solve even social problems (i.e. unemployment) was part of this new type of social policy. Market concepts, therefore, were not only used for the financial consolidation of social policy, but also for the strengthening of the capability to regulate and govern the process of social service production.

Already in the year 2000, Ronnie Horesh criticized the new public management design because the incentives for producing outcomes were too low. In his opinion, the output orientation of the contract management was not "radical enough, and the reforms have been constrained by their institutional structure," (Horesh 2000: 77). He voted for more market

orientation by a bond financed social policy. The kind of financing he proposed, needed quantifiable outcomes and even impact indicators for those who were interested in financing social services. At that time, outcome measurement was already discussed in some fields, but it had no influence on overall contracting.

The use of market procedures to incorporate the production of social services into a more state-regulated social policy already started in the 1990s and gained momentum in the early years of the 21st century. The connected shift in administration and regulation of social service production led to a paradox result: the social service production itself was transformed in a new form of social economy. Social entrepreneurs had to generate profits to reduce the financial risks they were forced to take. As they had no power to set prices, the only ways to increase profits were by reducing costs, especially for labor, and expanding social service production. This led to the social state paying for the performance of the social economy. From the point of view of the financing institutions, social expenditure is always thought to be too high. On the other hand, social entrepreneurs and social welfare organizations recognize public social financing more and more as a restriction of their potential market performance.

2 Social Service Policy: From Care to Social Investing

Quality and amount of social services depend to some extend on fiscal restrictions as they are financed by taxes or social insurance contributions. Because most of the population that receives social services either are not able to pay for them or not willing to pay enough, the welfare state organizes the financing in a specific way. This kind of reallocation has always been criticized as a burden on the national economy which has to generate the money for these transfers.

For social services, the market value is not that important, but rather the value lies in its use. Social services have to produce what is needed by the individual. The definition and interpretation of what these needs are is part of the political dispute (Uebelhart/Zängl 2013). With social investment, a new benchmark of social service policy is established. Social services should no longer be viewed as a reallocation tool to improve those who are in need, but as an investment in human capital. From the investment perspective, expected monetary returns of social services become important. The beneficiaries of social programs transformed from people in need to users responsible for their own abilities to get a job and success in the commercialization of their manpower.

With the classification of social services as an investment, public spending is no longer interpreted as costs only. As investments, social expenditure has the ability (and the intention) to generate a return. But the returns of these investments are not comparable with those in the commercial sector. The return of social expenditure does not result in a yield for the investor, the public sector, only. The return is a surplus of the investment for the whole society, and this surplus can be calculated as social returns on investment (SROI). The conceptualization of social service policy as investment has consequences for this perspective on social work and its performance. In the past, social work was interpreted as a process of individual support, addressing social benefits to people who are not able to reproduce them in their lives and who need help from others. From the investment point of view, social work is addressed to people who are responsible for themselves, and therefore, they have a duty to do everything to get rid of the need for public help. As a consequence, social work can be seen as a process to produce a benefit for society.

The (actual) policy of social investment in the social service sector is a reaction to the problems that arise from the nature of social expenditure: the social state has (1.) to ensure a reliable supply with social services and it has to (2.) generate the financial resources for this. As the state cannot generate these resources by itself, it has to reduce market incomes via taxes or social insurance contributions. To solve social problems that arise in market economies, social policy needs resources from the market, and these resources should be as few in numbers as possible. The implementation of market instruments in the social service production was hoped to ensure lower expenditures or at least reduced expansion of expenditures. This policy did not lead to the intended results. Therefore, a shift from output- to outcome-contracting is thought to be the adequate answer (Tabatt-Hirschfeldt 2018). This shift is compatible with the concept of social investment policy.

In the traditional understanding, social policy is interpreted as a compensatory reaction to – in a wide sense – problems of the reproduction of labor commodities. Social policy belongs to market economies, as they produce individual distress, that cannot be solved by the people, themselves. To enable people to participate in the market and to be or become part of a potential productive labor force is a major function of social policy. It is therefore necessary to facilitate further capital accumulation. Nevertheless, the resources for this policy are to be generated in the market economy with the above-mentioned problems.

With the change in denomination (parts of) social expenditures as social investments, social policy is no longer solely characterized as consumption. Instead, social policy should be understood as an investment in human resources. The new policy approach of social expenditure as an investment leads to an upgrade of social services in relation to financial transfers like unemployment payments. It also leads to a different allocation of social services with a higher emphasis on prevention. Beneath these effects, the definition of parts of social expenditure as investments leads to the question of the kind of return that is achieved by these investments.

3 Investing in Impact

As investments are connected with returns, social investment policy demands for indicators of return. What kind of return do social investment policies expect? An often-mentioned return in connection with social investment is the so-called social impact. But is this a goal for social policy? Social impact investment is, first of all, a strategy for private investors (Kehl/Then 2018: 864).

Impact investors are a modern kind of investor with so called social responsibility. In contrary to traditional financial investors who expect financial returns only, impact investors expect a financial and a social return (i.e. social impact) as well. Investors in impact are presented as following two goals (simultaneously) with the money they invest: on the one hand, they expect a social impact from the investment, and on the other, a financial return. Due to this investment strategy, there is no basic conflict between these two goals. Concerning the financial return, investors have to decide whether they accept a risk-adjusted return that is below market rates – what can be interpreted as a kind of price for the social (or environmental) impact – or whether they do not. Both decisions are consistent with impact investing: this strategy does not necessarily call for below market returns.

Although impact investing relates to whatever kind of social impact, its origin is not in the public sector. Impact investing is a well-known strategy in special fields of financial markets. A famous promoter is the Global Impact Investing Network (GIIN). This organization defines

impact investments as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return," (GIIN 2019b).

Who are the promoters of impact investing? They are not only financial institutions and foundations, a look at the supporters of GIIN shows that governmental institutions also support this concept. Lead supporters of the GIIN consist of three governmental organizations, the United States Agency for International Development (USAID), the Great Britain's Department for International Development (DFID) and the Australian Department of Foreign Affairs and Trade. Further supporters are foundations, insurance companies, and banks. Press reports of GIIN, "the global champion of impact investing," (GIIN 2019a) are well recognized in business newspapers like the Financial Times (FT), or the Frankfurter Allgemeine Zeitung (FAZ) and the Handelsblatt from Germany.

To get an impression of what impact investment actually means, data from the annually published report on impact investing is helpful. GIIN´s annual impact investor survey of 2019 is the ninth addition. The basis for the data presented within are responses from 266 "organizations, not individual investors," (GIIN 2019a: I). According to the published figures from 2018, the majority of impact investors are fund managers (64%), with most of them being for-profit fund managers (51%). Foundations comprise 13% of the sample, banks 5%, and other types of organizations have lower proportions (GIIN 2019a: 1). The fact that for-profit fund managers account for over half of the impact investors, gives an impression of the relevance of financial return for impact investments.

What are the investors` targets for financial returns? Two thirds of survey respondents (66%) answered, "principally target risk-adjusted market-rate returns" (GIIN 2019a: 4). Only one third of them target returns below market-rate. Most of them (19% of all respondents) wish for returns that are closer to market rates. Only 16% of all impact investors in this sample seek below market rate returns that are closer to capital preservation. This distribution indicates that the "normal" impact investment is desired to generate more or less market rate returns. What consequences does this have for social or environmental impact? If the impact is "high" (whatever this means) but the expected financial return is low, then an investment is unattractive. This leads to the question of the motivations to make impact investments; "Both impact and financial factors motivate impact investors to enter the market," (GIIN 2019a: 4).

Among the different motives, demanded for in the survey, "commitment as a responsible investor" and "dedication to the organizations´ mission" are declared to be very important by roughly 85% of the respondents (ibid.). The "responding to client demand," a financial factor, is very import for half of the investors (51%) and somewhat important for another 34%. "The financial attractiveness in relation to other investment opportunities" is also important for most of the so-called impact investors. Only 27% of respondents declare this motive as not important. This financial motivation is to some extent the result of low market returns for conventional investments and successful public relations of organizations like GIIN.

In theory, impact investment demands the generation of positive and measurable social and environmental impacts. For these impacts, targets are necessary and they have to be evaluated. Concerning the measurement of social and environmental performance, investors use different tools (GIIN 2019a: 29). Qualitative information is mentioned by 69% of the investors, proprietary metrics by 63%. Some kind of standardized measurement is used by 49% (IRIS) respectively 37% (other standard frameworks). The measurement of impact is more or less individual, and results are not comparable with others. The relevance of the

social or environmental performance seems to be far less important for impact investors than the financial performance.

Impact investment is a strategy for private investors. The financial return – at least the repayment of the invested capital – is essential for this strategy. Social expenditure does not generate any financial returns for the public authorities (defined as investors in the concept of social investment policy). Public authorities are obliged to make these expenditures, and although they sometimes try to calculate a kind of financial return (i.e. higher tax revenues as a result of higher employment), those potential returns are not comparable with financial returns from an investment in the capital market. Therefore, the described kind of conventional impact investing is not a strategy for social investment policy.

4 Social Impact Bonds – A Somewhat Different Story

With a new tool for financing social services, the so-called Social Impact Bonds (SIB), impact investments are radicalized in the sense that the measurement of the social performance (social impact) has become more important. Investments in SIBs generate a financial return for the private investor only if defined targets are reached. In these constructions there is a direct link between the achievement of the investment with defined, necessarily measurable, targets for social impact and the financial performance. Local authorities or other public institutions only pay if these targets are reached. Social impact bonds therefore are classified as forms of pay for results or pay for performance. From the point of view of the private investor, this kind of impact investment is far riskier than conventional impact investments. There is another important difference that brings social impact bonds nearer to the concept of social investment policy: it is the public authority that defines the social impact that it is willing to pay for.

Although public authorities or other public institutions aren´t called investors in these settings, from the point of view of social investment policy, the defined social impact can be interpreted as the desired performance of the social expenditure which is called social investment in the logic of social investment policy. From the point of view of the return, this interpretation seems to be plausible, but as there is no risk for the public authority, the expenditures cannot be classified as investments as they are always more or less risky.

Referring back to social impact bonds (SIBs), private investors are necessarily involved as a party in multi-stakeholder construction which gives credit for a social intervention done by a social service provider. The third necessary party in this construction is the above-mentioned public authority. The (financial) risk is taken by the private investors and in some SIB-constructions by the service providers as well. Because of the link of the financial performance to the social impact, SIBs aren´t comparable with most of the above presented conventional impact investors. To make SIBs attractive for private investors, either their risk must be reduced or investors with a special mission are asked for. These latter kinds of investors have goals other than the return of their capital. They “invest” their money, but their intentions are nearer to philanthropy. They interpret their credit as a kind of donation. If the money is lost, for them it doesn´t matter. If they get the money back, then they are able to give another donation. Some promoters of SIBs therefore don´t see SIBs has an impact investment tool (Ruf 2016), but others still do.

Using private capital for examining the performance (in the sense of outcomes) of social services is the idea behind SIBs. Private investors give the money so that service providers can do their work and the responsible public authority pays for the results. Public authorities

aren't just payers, they also define the outcomes they want to be achieved because they are responsible for the supply of social services, and they also set the prices of the performances. There are different ways to get appropriate prices: the easiest way is the comparison with prices for contracted activities. This is only possible if contracted activities still exist and if they are comparable with the work done in an outcome contract. Another possibility is to make a cost-benefit-analysis (CBA) which makes it theoretically possible to calculate prices for products that have no market prices.

Promoters of SIBs have different goals. Most importantly seems to be the desire of a shift in public management: instead of contracting output, outcomes (and social impact) should be the focus of social policy. This shift is in line with a concept of social investment policy. From this view, expenditures for social services are made to generate social impacts. If this impact is measured in monetary terms, i.e. by calculating potential savings for the public households or higher tax incomes from labor market integration, it is interpreted as return on social investments.

5 Social Return on Investment – A Criterion to Allocate Public Expenditure?

Investments generate returns. If social expenditure is defined as an investment, then the return has to be calculated. A popular kind of calculation is the so-called Social Return on Investment (SROI). Although promoters of SROI often state that social returns must not only be expressed in monetary terms, the only published and noticed figures are, in fact, monetary returns that seem to be a financial return. But what are the returns that can be generated from social expenditure? The so-called returns are measured on different levels. Therefore, SROI is called a multi-stakeholder approach. Quite common is the measurement of the financial return for (1.) the service provider, for (2.) the public authority, that pays for the service and the financial (and perhaps non-financial) return for (3.) the users of the social services. The public authorities in fact have no direct revenue or income from their social expenditure. The calculated incomes are, for example, potential incomes from tax payments of the users if they are integrated in the labor market. Other kinds of so-called incomes are expected lower social expenditures due to the social intervention. The returns for the users are more or less comparable: higher income due to labor market integration or better education, or lower expenditure for health care due to more fitness training and so on.

Although the SROI can be classified as a type of Cost-Benefit Analysis, it is primarily used by social service providers as well as companies that want to demonstrate the value of their social responsibility. The purpose of calculations by social service providers and their welfare organizations is to quantify a kind of social value added through the analyzed work. These organizations are interested in interpreting the money spent as investments because investments have a positive connotation in the market sector. With the calculation of (fictional) returns, they satisfy politicians who believe in figures and like to have an economic view on social expenditures - a perspective supported by some academics (Kehl/Then 2018).

The economic view on social expenditure is the result of neoclassical concepts that "blurs the boundaries between the market and the state and civil society as well," (Schram 2015: 25). Economic thinking dominates all spheres, political decisions as well as philanthropy (mission investing), but it also demands economic behavior from everyone.

> "It is a philosophy that prioritizes people learning to be economically minded about everything they do so they can more profitably develop their human capital and become less in need of relying on the government for assistance. Everyone must learn to think

about all aspects of their lives in terms of return of investment (what is commonly now called ROI)," (ibid.).

6 The Impact of Social Investment Policy on the Service Providers

As already exemplified, the new approach of the concept of social investment policy is thought as an answer to the strategy of social service provides to generate profits by expanding their supply above the needed level. With outcomes as the new targets in contracts – instead of outputs – the "failure" in allocation is hoped to be overcome. This new approach has some consequences for the providers of social services. In the traditional interpretation, social interventions are fundamentally useful for the concerned people. Criterion for success is the situation or the development of the individuals in the target group, and success can be different to some extent. The goal of social spending changes with social investment policy from spending for individual needs to spending for producing additional value for the whole of society (in the sense of SROI). This turn establishes a new political economy of social service production:

1. A new benchmark for acting professionally is claimed. If defined results are viewed as impact, the social service organization and the staff management have to focus on the fulfilling of predetermined norms. The intention of social investment policy seems to be the dogmatic requirement only for those social services for which outcomes and measurable impacts can be achieved. But what happens to those social services for which measurable outcomes cannot be stated?

2. With a strict reference to impact, a fundamental reduction and reinterpretation of the targets of social interventions are connected. Traditionally, those targets move between the subjective needs and interests of those receiving benefits and the requirement of the help system. The subjective needs are possibly not the same as the targets of public interventions. Sometimes they may even be in contradiction to them. This is the reason why the process of addressing services has its own quality. The quality of addressing services can be more important than the results. Process- and results-quality can be opposite, or even antagonistic to one another.

3. The measurement of the outcome or impact of social service delivery gets a new direction: with the concentration of impact orientation the requirement of an economically justified legitimation of financing social services will be radicalized. This leads to the assumption that the financing of services could be a dependent factor of verified impacts, a technical operation derived from calculable factors, instead of open-ended coproduction processes.

4. In the concept of social (impact) investment, the process quality is reduced to an instrument to achieve impact quality which, in fact, is not the case. To point out: the interests of clients and the characteristics of their individual situations in life are unimportant for the concept of social investing. Due to the strict reference to results in the sense of quantitative (measurable) benefit, social investment legitimizes, in a more or less principal way, fiscal interests of the public social service policy. Subsequently, professional social work is only acting effectively if it produces a measurable benefit for society. In this case, the most important determination for professional acting in professional theory – that is the case related application of knowledge in the context of open-end interaction – will have to be revised. The result of professional acting is

predetermined by economic or political goal setting, and therefore, it must be measurable as a contribution to a return on investment.

7 Conclusion

It is the (local) state that uses and supports impact investing as a form of financialization of public policies. The creation of a welfare market to mobilize private capital for financing social programs as a kind of public private partnership, is also an instrument to overcome the traditional types of spending in social service production. For outcome-based contracts, the bureaucratic structure of the public administration is a barrier. Public authorities have to learn to deal with private investors who are the new stakeholders in the welfare market. In this more business-orientated welfare market, new social entrepreneurs can be mobilized and involved in social service production. Public authorities are imagined to gain from the cooperation with private investors, as payments to the investors should be lower than the cost reduction for the (local) state. With the incorporation of private impact investors, new (and perhaps more effective) programs can be financed and addressed to target groups that are not being reached by the established public financing system. Impact investing therefore is – in times of austerity – a tool to strengthen the capabilities of the local state in the field of social service production.

The political economy of social investment must be seen as a new *idealistic* concept. It ignores the contradiction between the reason and final purpose of social policy – organizing and financing social care to ensure the reproduction of the labor class – and the struggle of social policy to implement this policy in a capitalistic way of investment. Therefore, it is a policy in which the systematic problems of a class society in a market economy are redefined as a problem of not having invested enough in the human capital. Of course, this idealistic concept will also fail as the implementation of marketization in the field of social services has not reached the results that the social policy expected. However, the ideological relevance of such concepts and their influence on the professionalization in social work and social services should not be underestimated.

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