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Newsletter

Sometimes Bad Ideas in Education Go Away. Did This One?

Back in the 2010s, they were all the rage.

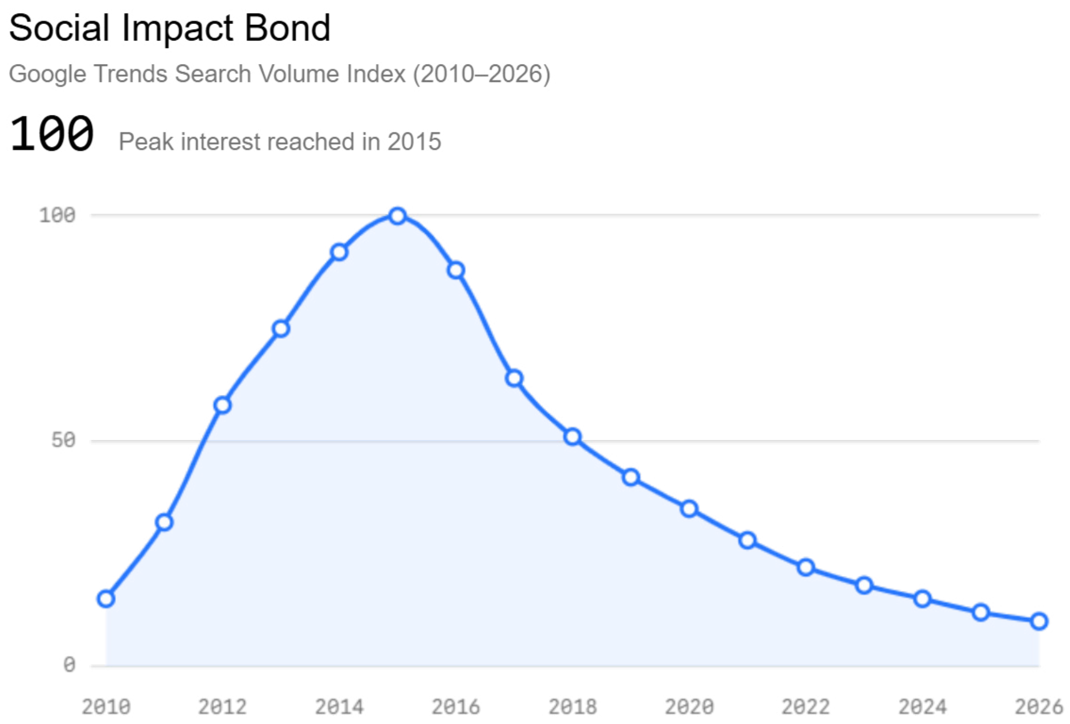
Major investment banks backed them. The federal government funded them. The idea spread across the world.

But these days, mentions of social impact bonds are much rarer.

Does this mean that this type of public-private sector partnership has gone the way of Gangnam Style flash mobs and Tumblr?

It looks like that may be the case.

Given their lower profile in recent years, a quick definition is in order: Social impact bonds reward investors if the interventions they fund result in cost savings down the road. In the realm of education, it was mainly used to fund preschool programs with the goal of reducing the need for students to receive costly special education services once in K-12 schools. Outside education, the approach funded counseling, homes, or jobs after prison terms end so as to reduce recidivism, and health interventions designed to prevent people from developing type 2 diabetes.



A quick tally of the number of Google searches for the term "social impact bond" suggests that interest most likely peaked in 2015. The search word declines started soon thereafter, when Goldman Sachs received a payout of $260,000 based on the questionable finding that the money the investment bank had paid for a Utah early childhood education intervention had actually prevented 109 children from later needing special education services.

At the time, NEPC Fellow W. Steven Barnett of Rutgers questioned whether the program had really obtained the results the backers claimed. He noted that the funding provided by Goldman was quite low ($1,700 per student) and was spent not only on preschool, but on daycare and recreational programs at the YMCA.

"There are hundreds of studies of programs like this, and none of them find a large positive impact," he told the *The New York Times* back then. "You have to spend real money to get results."

"We're all happy if Goldman Sachs makes money as long as they are making it with smart investments that make a real difference," NEPC Fellow Clive Belfield of Queens College added in that same article. "Here they seem to have either performed a miracle, or these kids weren't in line for special education in the first place."

In a 2020 NEPC policy brief, Fellows Martin Carnoy of Stanford University and Roxana Marachi of San José State University raised serious concerns about social impact bonds, including:

- Social impact bonds are supposed to be used for investment in social services that have the potential to cut costs yet are viewed as too risky for government agencies to fund. But in reality, the interventions are not at great risk of failing to deliver results: For example, a large body of research supports the idea that high-quality early childhood education provides a host of benefits down the road. A review of 18 social impact bonds funded between 2010 and 2013 found that almost all met the criteria for success—that is, investors had a payday. This raises the question as to whether private sector involvement was necessary or wise in the first place.

- Social impact bonds typically transfer the responsibility for collecting data to the private sector. Carnoy and Marachi called for guardrails to protect children's privacy, to ensure that parents can opt out of data collection and to make it clear to families how the data will (and will not) be used.

- In addition to collecting data, private sector participants may provide the interventions themselves, eliminating important public oversight.

- Because they necessarily look to relatively short-term measured outcomes, social impact bonds may focus public attention and funding on immediate needs or quick interventions "and away from large-scale solutions to structural issues associated with poverty and social segregation."

Carnoy and Marachi conclude:

> [W]e urge education leaders to recognize that such projects have been designed to: (a) turn public services into centers

> for the extraction of private profit; (b) view individuals from a deficit lens, as in need of being "fixed" with narrow/short-term metrics of success; (c) amass vast amounts of data that can be used for predictive profiling of targeted communities; and (d) remove community voice and control from governance of public services.

Despite their questionable value and declining popularity, social impact bonds have been written into federal legislation, including the 2018 Federal Social Impact Partnerships to Pay For Results Act (part of the Social Security Act)—which focuses on non-education interventions—and the 2015 Every Student Succeeds Act, Carnoy and Marachi note. A 2019 analysis published in the *Public Administration Review* found that the few districts that did try to use ESSA dollars to fund social impact bonds (to support preschool) encountered significant logistic, political, and structural barriers.

Meanwhile, a new trend du jour has stepped up to quench the thirst of those who aim to bring this sort of market-style approach to public education. Called "outcomes-based contracting," the practice allows districts to withhold a portion of funds from vendors that fail to deliver on their products' promises. Stay tuned for a new Google Trends search, in a decade.

NEPC Resources on Neoliberal Reforms

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