ABSTRACT

An Examination of Social Impact Bonds from a Thomistic Viewpoint

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The social impact bond (SIB) is a recent innovation which attempts to bridge the gap between private financial markets and charitable causes. The SIB is a financial instrument intended to raise revenue for a charitable cause while supplying an equitable return for investors. In practice, many SIBs have fallen short of economic ideas of justice expounded by Thomas Aquinas centuries ago. This thesis surveys the St Mungo's and Goldman Sachs Utah SIBs which were set up with the laudatory goals of reducing homelessness and promoting preschool literacy yet have disappointing results. Both used simple performance metrics to calculate financial payouts which had the effect of reducing people to numbers on a spreadsheet. In particular, the St Mungo's SIB had little benefit for their homeless clients, while providing an ample return for investors. To Aquinas, these bonds would be deemed unjust because they did not serve their clientele well, and more seriously, lacked "regulated self-control" as they put profits before people. In contrast, the Denver Homelessness SIB is discussed that was set up by the city to reduce homelessness. The payout scheme was simple and unambiguous as the city would pay an amount for each day a "rough-sleeper" was in stable housing. This SIB fulfils the Thomistic ethic by being fair to both its clientele and investors. In all, SIBs can live up to Thomistic virtues, but must be constructed carefully so their charitable aim is not lost by reductionist payout methods.

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AN EXAMINATION OF SOCIAL IMPACT BONDS FROM A THOMISTIC VIEWPOINT

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DEDICATION

To my parents

CHAPTER ONE

Establishing the Thomistic Framework on Economics, Social Responsibility, and Money

According to a Harvard Business School survey in 2016, only 42 percent of millennials support capitalism, while the majority said they do not support it (Ehrenfreund, 2016). As defined in current pop culture, capitalism seems to be at odds with its common definition established over the years. As penned by Max Ehrenfreund of the *Washington Post*, “Capitalism can mean different things to different people, and the newest generation of voters is frustrated with the status quo, broadly speaking” (Ehrenfreund, 2016). Millennials, in the survey, seem to focus on the negatives of the free market as a means of distributing wealth. Capitalism seems to be represented as the mechanism that distributes unequal wealth. Somewhere, along the way, the picture of the unscrupulous businessman has tainted the image of commerce and capitalism. This statistic implies that there is a pervasive narrative that labels commerce and capitalism as a disenchanting, immoral force that many see as not worthy to support. However, business is not necessarily an immoral force and the problems of capitalism do not have to define how we see business. From the writings of Aristotle and Aquinas, we have a body of work that makes a cohesive framework to guide modern day businesses on how to conduct business. For this thesis, I will utilize the writings of Thomas Aquinas, who provides an excellent framework for analyzing economic issues and trends because he has a large body of literature that has a cohesive, moral ideology that can be applied to business. He is known as a famous Catholic philosopher who pioneered the Neo-Aristotelian movement in the 13th century. In addition, I seek to analyze the topic of social business trends through the analytical lens of Aquinas, whose work transcends beyond Christian ethics. Following the virtues and morally informed ethics, Aquinas has left behind a cohesive ideology that touches all aspects of society and especially business.

Who is Aquinas?

Thomas Aquinas (1225-March 1275) was a Dominican Friar and a Doctor of the Church who wrote the seminal works *Summa Theologica, Disputed Questions on Truth,* and *Summa contra Gentiles*. He lived in a critical time when Greek and Roman texts were entering into academia.

Before the 12th and 13th centuries, major works from Aristotle, Plato, and other Greek philosophers were either arcane or had no reliable translations available. However, Aristotle's works fared better in the Middle Ages as they were more readily accessible. Several translations existed of Aristotle's work, such as Marias Victorinus' translations of the *Categories* and *On Interpretation.* A little over a century later, a litany of Aristotle's more logical works was available. However, only *Categories* and *On Interpretation* were in general circulation. The rest of Aristotle was eventually translated into Latin; however, these translations were not made until the Mid Twelfth centuries. As written by historian Dr. Paul Vincent Spade, "This 'recovery' of Aristotle in the twelfth and thirteenth centuries was a momentous event in the history of medieval philosophy" (Spade, 2018). Aristotle's introduction to Western philosophy was critical because it called into question the roles of faith and reason.

Aquinas was deeply influenced by Aristotle and drew heavily on his works. Aquinas combined Aristotelian thought with traditional Catholic thought, which was mainly influenced by St. Augustine and St. Jerome, whom he quotes semi-regularly.

Aquinas adopted Aristotle's thoughts "on physical objects, his view of place, time and motion, his proof of the prime mover, his cosmology" (McInerny, 2018). Aquinas also adopted Aristotle's analysis of sense perception and the properties of the intellect and wisdom. In addition, Aquinas' works on moral philosophy closely followed Aristotle's teachings from his works, *Metaphysics* and *Nicomachean Ethics*. In fact, one can glean a deeper, more thorough understanding of Aristotle through reading Aquinas.

Aquinas was also influenced by other sources as well, those rooted in early Catholic thought. Sts. Augustine, and Boethius, Pseudo-Dionysius, and Proclus were all deeply influential. However, in the end, Aquinas' works are profoundly Aristotelian. However, it is also important to note that Aquinas' work is different from Aristotle because it draws from a very different background, which is that rooted in the Catholic tradition.

Just Price: The Essence of Thomistic Economic Thought

Probably one of the most well-known pieces of Aquinas' economic philosophy, the Just Price encapsulates his thinking because he not merely settles on what the market price is, but what price is truly just. He does not frame pricing in terms of efficiency, but instead, what brings fairness and justice to the participants of the transaction. Justice, to Aquinas, is key to pricing because this virtue is defined as rendering what one is due. It is the highest virtue because justice is relational, functioning as an occurrence between two or more people. However, in order to talk about this concept, we must contextualize it in Aquinas' day.

At the center of the Medieval Economy was the town market. Here, prices were often determined through negotiation and sometimes, barter. However, there was often conflict over these prices and how the average person's economic life should be conducted. Around Aquinas' time, the marketplace was dominated by workshops, guilds that codified and regulated a certain trade. While workshops provided stability to the marketplace, they often promoted the formation of monopolies. This led to artificially high prices.

The Just Price, as defined by Aquinas, was partially based on Aristotle's notion of distributive and corrective justice as discussed in his work *Nicomachean Ethics.* These concepts focus on fairness. Distributive justice stresses the ethical distribution of benefits and goods among the community. In contract, corrective justice is concerned with transactions between individuals. According to William Boydt, a famous Thomistic Scholar from Yale University, "A transaction that satisfied corrective justice according to Aristotle was one that preserved equality in the exchange, understood as an arithmetic proportion around a mean, and thereby avoided an unfair gain for either party" (Boydt, 2018). Corrective justice directly deals and addresses the fairness of each exchange, which the Just Price is also concerned with. Aquinas' understanding of corrective justice helped shaped his view on the fairness of an exchange, and thus the Just Price.

The need to establish the theory of a Just Price was extremely important because of the monopolies in the urban cities and the subjective nature of bartering. Thomas Aquinas was mired in this economic problem. Informed by both Aristotelian thought and Christian doctrine, he formed the Just Price Theory. He identified the Just Price of a product to be a fair price that was negotiated by two just, high-minded persons. This meant that both parties had their needs met and engaged in a fair exchange. Notice the word ‘just.’ He did not define the Just Price as a marketplace phenomenon, but as a moral phenomenon.

The Just Price considered the wellbeing of the market participants. The Just Price must provide proper compensation for the seller and is defined as an amount that is enough to sustain biological, social, and moral needs. The Just Price also considers risk and the pressing needs of the individual. If the product took great means to produce or is a risky endeavor, Thomas Aquinas believes that the price should be high enough to provide compensation. He also believes that if the transaction has an unfavorable effect on the community, then there either must be higher compensation or a refusal to go through with the exchange. The Just Price has merit because it considers the wellbeing of the community, market participants, and even negative externalities, which are the negative consequences faced by outsiders who are not party to particular transactions and where the costs of those negative consequences are not captured in the price of goods or services included in the transaction. He was prescient in understanding that other parties may be negatively impacted by the economic actions of others.

Role of Virtues in Thomistic Economics

A large part of Aquinas’ teachings is based on the discussion of morals. To Aquinas, the virtues are an important part of how one should conduct himself or herself because virtues represent the mean of excess and deficiency. Aquinas’ understanding of virtues is deeply indebted to Aristotle’s teachings on this subject. Aristotle, in his seminal work *Nicomachean Ethics,* defined the virtues in a similar way, writing “Now virtue is concerned with passions and actions, in which excess is a form of failure and so is defect, while the intermediate is praised and is a form of success…Therefore virtue is a kind of mean, since as we have seen, it aims for the intermediate" (Aristotle, II.6.3).What this means is that the virtues signify the perfect balance, the right way of moderation. Virtues also symbolize the right ordering of the soul. The right ordering of the soul refers to what object the individual pursues in relation to themselves and what ordering of the passions are in relation to the will and the intellect.

To talk about virtues, we must first understand Aquinas' broad framework. Aquinas believed that before the fall of man, we had what is called original justice, the proper ordering of the soul as God intended. Back then, we desired the right things in the right way and acted in perfect prudence. However, after we had fallen from God's grace, we lost that part of ourselves. To Aquinas, the virtues are meant to restore that proper ordering of our souls, with virtues like temperance, fortitude, justice and prudence.

The Cardinal Virtues—temperance, fortitude, justice and prudence—are the four most important virtues because they deal with the ordering of the soul. Temperance and courage regulate the passions. Temperance governs the realm of attraction, regulating the amount of desire to the right things as reasonable. Courage is in charge of rendering the desire to avoid harm or adversity. This virtue is a mean of foolishness and cowardice; it regulates our fear and how we respond to adversity. Prudence and Justice relate to the will and intellect. Prudence is practical wisdom and manages our intellect by giving us the proper sense of how to respond to different situations, whether trivial or important. Justice orders the disturbed will and ensures that fairness will be delivered. Together, these four virtues provide the foundations of the soul. Aquinas' elevation of these virtues has to do with the fact that temperance, fortitude, justice, and prudence are moderating forces. Aquinas believed in living with a rational ordering of the soul, which is indebted to Plato's conception of a rightly ordered soul. Plato, in *The Republic*, argued that that the soul has three parts: the reason, the spirit and the appetitive (Smith, 1999). Like Aquinas, Plato believes that reason, the moderating force of the soul, should be emphasized and promoted as the preserving force because reason pursues wisdom, which then pursues knowledge. There are different kinds of virtues that play a subservient role to the Cardinal Virtues. There are Infused Virtues, which comes from the grace of God, like gratitude and hope. Then there are the Secondary Virtues, which enhance the function of the Cardinal Virtues.

As important as virtues are, so are the objects that are desired. Thomas Aquinas put an emphasis on how we regulate our passions and desire for an object. Higher ordered goods are goods that promote the virtues or the privation of vices. Both the object and how we desire it are equally important. Sometimes, even the object itself can inspire disordered passions. Desire for natural wealth is virtuous because natural wealth, according to Aquinas, is designed to fit a need. Natural wealth, to Aquinas is "that which serves man as a remedy for his natural wants" (ST I-II.2.1). For example, the desire for money to cover living costs and upkeep is righteous and acceptable. However, Aquinas gives us an excellent distinction. While there is natural wealth, there is also artificial wealth, which he has defined as "that which is not a direct help to nature, as money, but is invented by the art of man, for the convenience of exchange" (ST I-II.2.1) When one starts to desire artificial wealth, that is when our desires start becoming ravenous. The nature of artificial wealth inspires this because this type of wealth is infinite, ever increasing. It is not designed for a final end, but instead, functions as an ever-expanding target. There is no satiation because there is no terminal value. Instead, when one desires an infinite object, their passions become infinite and disorder the soul. He defines the desire for natural wealth as proper self-interest, while the desire for artificial wealth, is disordered concupiscence (ST I-II, 2.1). The beauty in Thomistic economics is that he gives clarity to the human condition. He gives us a vocabulary on our intrinsic nature. For one, most of society does not necessarily differentiate between proper self-interest and disordered concupiscence. Often, we view spending as one habit, when it really is an umbrella of behaviors.

Another aspect of proper self-interest is maintaining private property. To Aquinas, owning private property is virtuous because it promotes the maximization of virtue. For one, owning private property makes community affairs more orderly. If every man and woman have their own property to which they can focus their self-interest, there will be fewer quarrels among trying to distribute resources in the neighborhood and proper self-interest will be promoted. Also, there is more peace among the community when each household is content with its own property. To Aquinas, this is according to natural law because he asserts that it is part of natural law to provide for yourself and procure necessary property and resources to maintain a certain standard of living. Likewise, owning a homestead and taking care of yourself foremost promotes the virtue of Charity. A part of the act of charity is loving yourself and being able to take care of yourself first because "our first love is the love of God, who is the cause of all happiness" (ST II-II.26.2c). What this quote implies is that if we were to love other creatures more than ourselves, we would be neglecting our most direct connection with the highest good, which is God.

However, this thinking can also be applied in a secular fashion. Aquinas' views can be said in simpler words, which is that we must be able to love and take care of ourselves as we do others; and if we cannot do that, then we cannot properly love others and do charity in the proper sense, which is to wish good on others, through friendship, kindness and neighborly love. However, while we can boil down Aquinas' words to its essentials, it is important to look at the source material. Aquinas affirmed this, saying that

> Hence, just as unity is the principle of union, so the love with which a man loves himself is the form and root of friendship. For if we have friendship with others it is because we do unto them as we do unto ourselves, hence we read in Ethic. ix, 4,8, that "the origin of friendly relations with others lies in our relations to ourselves." Thus too with regard to principles we have something greater than science, namely understanding. (ST II-II.25.3)

If a person is barely meeting their needs, we cannot expect them to provide for the rest of the neighborhood.

Aquinas believes that charity is the act of giving from an overabundance of wealth to someone of lesser circumstance (ST II-II.32.2). However, how he defines overabundance poses interesting implications. He defines an overabundance as anything that we do not necessarily need to provide for our social, biological or virtuous functions. For example, a member of the Austin Philharmonic Orchestra should not give their instrument away because it is socially necessary for their job. Anything that we need to keep up our everyday lives is not considered an overabundance. I want to emphasize how important this is: Thomas Aquinas is not promoting the picture of reckless charity, but conscientious charity. However, Thomas Aquinas also believes that if we have an abundance of wealth that we are still holding onto, we are committing a mortal sin against our neighbor because the privation of generosity is greed. There is also another exception: if we encounter someone in dire need, Thomas goes on to argue that we might give out of this need if the deficit can be easily recovered. Nevertheless, if we hold onto goods beyond what is needed, we are guilty of covetousness , which hurts our neighbor to the point of being a mortal sin (ST II-II. 118.4c) . To Aquinas, we are made and designed for community and to promote the highest good among our neighbors. This comes not only from biblical tradition, but also is a product of virtue ethics. According to ethicist Dr. Glen Pettigrove of the University of Glasgow, virtue ethics is “an approach to **Ethics** that emphasizes an individual's character as the key element of **ethical** thinking, rather than rules about the acts themselves (Deontology) or their consequences (Consequentialism)” (Glen Pettigrove et. al., 2003).

One problem of exercising Thomistic virtues in today’s economy is the fact that our standard of living has improved drastically that the definition of what is socially necessary changes often. As Mary Hirschfeld, a professor at Notre Dame, said, “As those standards of living rise, even practitioners of economic virtue will feel socially compelled to raise their own standards of living” (Hirschfeld, 2014). Today’s society is dynamic and changing at such a rapid pace that exercising the virtues can be hard.

However, above all else, Aquinas believes that an economic life is ordered to maximize happiness. Aquinas believes that happiness is ‘mankind’s supreme perfection.’ He believes that happiness is a byproduct of perfect union with God’s grace and from the successful operation of exercising the virtues. The result of happiness is from the exercising of the intellect, and not the will. To Aquinas, trying to grasp happiness through the will is not the right way because that only procures a false imitation of happiness. In all, our lives are called to be filled with happiness since happiness comes from our union with God, which according to Aquinas, is the most delightful state to be in. This applies to our economic life because as our life is called to live in happiness, so too is our economic life. Money itself should not bring happiness, but the ends that money can contribute to often does; money allows us to lead a sustainable life.

The Role of Money in A Virtuous Life

Money, if used properly, can maximize the exercising of the virtues. However, money can often turn into the ultimate end itself in our economic lives instead of our happiness being the final end. According to Aquinas, money should not be the end of economic life, but instead, should be a means of exchange. Aquinas believes that money can mimic God and disguise itself as being the most important end goal because money is both abstract and seemingly infinite. The increasing abstraction of money, to Aquinas, leads to a journey of infinite gains (ST I-II.2.1.c) As previously said, this type of wealth is known as artificial wealth and can bring forth an unfortunate result: a life held captive by infinite gains and greed.

Money, instead, should be a medium of exchange in which we provide for ourselves and also maximize virtues through charity and buying goods that can help us promote the virtues. The use of money, to Aquinas, should be to maximize functionality and practicality. He argues that the *telos* of an object is determined by what function it provides. For example, air might be very useful to us; however, air provides more utility when we are high in the atmosphere, where air is thin. Money is similar to the air we breathe. To the impoverished, money provides more utility due to the scarcity in their lives, while the rich experience a diminishing margin of returns. What this implies is that the use of money can differ among the differing levels of income and that utility is maximized when there is a scarcity of income. His explanation of utility is represented by the law of diminishing returns, where the profits earned are less than the money invested

Prudence is also important in terms of money and economic value because it helps establish the means to an aim. What this implies is that prudence is at the epicenter of money because practical wisdom allows the holder of money to establish what would provide the most utility in the context of natural wealth. Without prudence, we would spend our money foolishly and seek artificial wealth and an increasing abstraction of returns. Money, after all, is precisely a medium of exchange and in order to use it well, we must practice prudence in how we use it. As Aquinas said:

> To choose rightly, two things are necessary. Firstly, right disposition to the human aims: to the final end of human life, and to each particular aim or value, which is subjected to the final end. Secondly, a certain disposition to judge and distinguish those things which are suitable for the aims. The first disposition is obtained by charity and by the other moral virtues, the second by the custom of the mind to consider and to judge those issues which conduct to the end. But this custom is called prudence. Therefore, prudence is most needed by man. (ST II-II.47).

In order to arrange how we use money, we must use the virtues and prudence. Without that, we would not use money well. Because money is an abstract form of an exchange, abusing that resource is easy when we do not have the necessary prudence.

Why the Thomistic Perspective Matters: As Demonstrated by the 2008 Financial Crisis

Thomistic thought and Thomistic Economics provide an excellent framework for how we do business today because this framework allows us to approach business in a morally upright way that is both informed from a long line of tradition and also considers virtues and the overall health of the community. Often, business ethics fixes its focus on changing principles. For example, in management classes today, students are straying away from the traditionally profit-driven style of management, conventional organizational behavior, and shifting to a more holistic form of management, sustainable organizational behavior. The trends of management and business ethics are changing and evolving (Rose et. al.,2016). While these trends are moving towards a more holistic point of view, the Thomistic framework can help foster this trend towards a tradition that is tried and true and has enough substance and relevance to be applicable today. Thomistic thought also helps us gain awareness of the human condition. Through the vocabulary it provides, we can describe the very essence of money, trade and how humans function and ought to function. It gives us an inspired, cohesive ideology to strive for.

The effects of not using a solid framework of ethics can be devastating in business. In order to illustrate this point, let us consider what happened in the 2008 financial crisis. For years, the housing market was booming, so much so that mortgage lenders chased rewards by giving mortgages on expensive homes to people who could not afford it to earn a higher return. Corporations would then bundle up these mortgages and commodify them into sellable assets to put on the secondary market. This bundling of subprime mortgages turned out to be very profitable. Representing the increasing abstraction of money, investors pursued artificial wealth that was detached from real assets because mortgages were bundled in separate securities that were only weakly linked to physical capital (Amadeo, 2019). These bundled securities are detached from physical capital and may act as a risk to it. Because these mortgage bundles became so profitable, banks issued more subprime mortgages for expensive homes without the due diligence, representing extreme neglect.

The causes of the 2008 financial crisis were myriad. For one, there have been claims of predatory lending. Countrywide Financial, sued by the California Attorney

General, was accused of purposefully lending to prospective homeowners with weak credit. Ameriquest, America's leading mortgage provider, was accused of falsifying mortgage documents to promote sales of mortgage bundles with large financial firms on the secondary market. Another problem was the deregulation of the mortgage industry. In 1999, Bill Clinton signed the Gramm Leach Bliley Act, which repealed the rule that banks could not own other investment firms; this led to the integration of mortgage companies and investment firms. In 2004, the SEC amended the net capital rule, which relaxed the amount of debt a bank could take on (Carney, 2012). A large part of why these laws were passed was because of industry influence. With the repeal of these laws, banks and investors were able to become even more profitable and chase after artificial wealth. Of course, there are other causes of the crisis, but these two factors were the ones that stood out because they reflect the chasing of immediate gains and increased abstraction of money.

The effect of these factors and the high rates of approval for subprime mortgages led to a housing bubble. Soon, the securitization of mortgage bundles became essential capital for banks and other organizations to keep afloat. The housing bubble led to extreme increases in housing prices, which drove up the value of mortgages. However, because so many people bought homes they could not afford, they started defaulting on their mortgages. As more people started to default on their mortgages, housing prices started to collapse, which led to the complete devaluation of the subprime mortgage industry and resulted in big firms such as the Lehman Brothers declaring bankruptcy (Lioudis, 2019). Eventually, with the sup-prime mortgage industry collapsing, the banking industry also went through a financial crisis, which pulled the rest of the international economy into a recession.

The financial crisis represents the chasing of artificial wealth.The bundling of securities represents the creation of artificial wealth . What the financial crisis exemplifies is the exploitation of securitization and a lack of business ethics. Many of these firms lent large amounts of capital to prospective homeowners with weak scores; this practice even became an entire industry, a crutch that the banking industry relied on to uphold itself. The Great Recession still affects our economy today. There is more inequality today in America than before the recession. Between 2007-2010, the bottom 80 percent of Americans lost 39.14 percent of their wealth. And many still have not recovered. The lack of business ethics practiced by big firms have hurt regular, middle-class Americans.

What went wrong in the financial crisis was the disregard of due-diligence and practicing a holistic acumen. At the time before the crisis, many agencies saw that there was a housing bubble. However, Freddie Mac and Fannie Mae were dismissive of the housing bubble and did not foresee a financial downturn. One employee of Countrywide Financial, who was charged with two felony counts of wire fraud, said that "If you had a pulse, we gave you a loan."(Richard Greenberg et. al., . 2009). There was a large consensus among the business community that lending as many mortgages as possible was profitable. They chased short term gains, despite the growing housing bubble and the threat of collapse. Industry leaders, firms worth billions, turned a blind eye to this problem. What this shows is that a disordered concupiscence can disorder the human soul so much that they disregard the potential effects that subprime mortgage loans could have on the economy and people’s lives. This disregard of responsibility demonstrates what leading an economic life without a strong framework of ethics can do.

Despite having lived 800 years ago and believing that loaning money at interest is usury, Thomas Aquinas’ work is relevant to this matter. Several things went wrong in the events proceeding up to the financial crisis. For one, as we have already established, the chasing of increasing abstraction of returns fueled the banking industry’s insatiable hunger for profits. The industry’s desire for higher returns, ever-increasing profits, led them to disregard formerly established norms of the industry, such as only lending large amounts of capital to borrowers with sound credit, the separation between banks and investment firms, and the limiting of easy credit. Thomas Aquinas defines this immoderate desire as covetousness, which is both a special sin and a mortal one as well. He defines the act of coveting beyond what one is due as man “stealing or retaining another's property”(ST II-II.66). . What this means is that in order to obtain a lot of capital, by necessity, someone else will be worse off. The mortgage industry demonstrates this fact by commodifying subprime loans and benefiting from the risk tied to exploiting the lack of due diligence in the industry by lending to high-risk, aspiring homeowners. Covetousness, to Aquinas, leads to the disregard of our neighbor and of rendering what one is due in order to turn a profit. To Aquinas, this is a grievous sin.

Another mortal flaw that the banking industry committed is the disregard of the sanctity of private ownership. To Aquinas, private property is known as an instrument to promote virtue and lessen conflict in the community. However, by exploiting the sanctity and necessity of private property in everyday life, the banking industry corrupted the worth of property, into forming a market bubble that was eventually going to burst. As house prices rose, prospective homeowners had to borrow more to obtain what Aquinas considers a natural progression of our dominion over the natural world. What this means is that Aquinas considers external goods, such as private property, as natural to man. He even defines the right of owning private property as a necessity for three reasons: As he said,

> First because every man is more careful to procure what is for himself alone than that which is common to many or to all: since each one would shirk the labor and leave to another that which concerns the community, as happens where there is a great number of servants. Secondly, because human affairs are conducted in more orderly fashion if each man is charged with taking care of some particular thing himself, whereas there would be confusion if everyone had to look after any one thing indeterminately. Thirdly, because a more peaceful state is ensured to man if each one is contented with his own. (ST II-II.66).

What this quote implies is that by contributing to a market bubble and raising prices to the point where private property ceases to be affordable, the banking industry negated man's necessities to lead a virtuous life. An important distinction: even though every man has a necessity for private property, one cannot give a man more than what is fitting for a person's situation. A man with limited resources, who cannot sustain an upscale home, should not be given a mortgage for a home he cannot sustain, otherwise this leads not only to potential bankruptcy but also to ostentation. However, the conundrum is that when the price of houses in general escalates so much that someone with limited resources pays more for a house than they can reasonably afford, they end up paying more than what Aquinas would see as "due" for the house, thus violating the Just Price Theory.

As mentioned previously, Aquinas believed that loaning money at interest is usury; still his economic principles may be applied in assessing the problems that lead to the recent financial crisis. Negligence, to Aquinas, is the lack of a due act, thus negating justice. As Aquinas writes, "Omission regards the external act, for it consists in failing to perform an act which is due. Hence it is opposed to justice, and is an effect of negligence, even as the execution of a just deed is the effect of right reason" (ST II-II 54.2.b). By not performing due diligence in the form of credit checks, responsible lending and proper literature, the mortgage industry exhibited negligence by not performing a due act. When lending capital or performing a transaction, Aquinas believes in fair exchange and rendering what is due to parties of an exchange. However, the mortgage industry did not facilitate equitable transactions because they exploited both the housing bubble and the market on subprime loans. According to Aquinas, "First, as denoting inordinate desire for riches: and thus it is a special sin" (ST I-II:72:2). Therefore, from a Thomistic standpoint, the mortgage industry committed a special sin.

The common theme of all the sins that both the banking industry and the mortgage industry committed was the undue harm these firms committed against their communities and thus, their neighbors. Aquinas believes that harm against one's neighbor comes with ramifications for the community as a whole. He summarizes this, saying "the greater the good taken away, the greater the injury"(ST II=II:72.2). By exploitation, negligence, and covetousness, the banking and mortgage industries deprived man of justice, which is the ultimate virtue. They committed the highest form of sin by taking away a spiritual good. The ramifications of this injustice led to several consequences: the everyday man suffered, the international economy nearly collapsed, and millions of people lost their homes, their natural wealth, and their way of life. The echoes of that hurt are still felt today, even among the people I, personally, see.

Current corporate governance is characterized by the belief that the market is efficient enough to direct socially beneficial outcomes. However, as we have seen with the Great Recession of 2008, we are also reliant on the self-restraint of financiers. The Great Recession happened due to investment firms' lack of due diligence in giving loans, the loosening of regulations, chasing artificial wealth, and a lack of an ethical framework. Essentially, investment firms found that pooling sub-prime mortgages into financial securities and trading those on the market proved to be very profitable. More banks began lending out riskier loans to earn a return on this new trading strategy. As a result, a housing bubble began to form, and when the borrowers couldn't pay back their creditors, the housing bubble collapsed, which derailed the entire US and Western economy. The crucial exigence of this crisis was the investment banks' chasing of artificial wealth and lack of ethical acumen. The lack of self-restraint led to a total collapse of the economy. Each bank pursued its own self-interest, but this pursuit led to very detrimental consequences. This lack of self-restraint was a result of loosened trading regulations, lack of an ethical framework, and the very profitable nature of risk pooling sub-prime mortgages. However, all of this stemmed from a crucial source: avarice. It was unchecked avarice that led to the 2008 Great Recession. This shows that how we do business depends on our morals. The Great Recession demonstrates that we cannot just rely on policy and institutions to guide good human behavior. Instead, as Dr. Hirschfeld writes, "it would seem that markets can only deliver their good results to the extent that they can draw on a reservoir of moral sensibilities in the culture" (Hirschfeld, 2015).

This case study demonstrates why the Thomistic perspective matters because the 2008 Financial Crisis highlights what injustice and lack of ethics can do to the communities by negating people's dignities and their humanity. Thomas Aquinas, through his writings, demonstrated empathy and understanding for the human condition. The Just Price theory not only considers what the participants need to sustain themselves, but also the effects of the transactions on the community and negative externalities. It provides us a compelling vocabulary to describe how we interact with our communities; from the way we handle money to how we pursue wealth. Sometimes today, the nature of business is to chase artificial wealth and abstract gains, neglecting the human condition. However, we must remember that commerce does not just involve numbers and capital gains, but also touches real human lives. It is for this reason that I will be analyzing current business trends through the lens of Aquinas.

Why does Aquinas Matter and Why does Our Business Acumen Matter?

The notion that our economic behavior is entirely individualistic comes from that our quality of love depends on the fruit of our own labor. This concept is called possessive individualism, which "on this view, individuals are proprietors of their own person and capacities, for which they owe nothing to society. The essence of freedom is independence from the will of others" (Hirschfeld, 2014). As our economic lives depend solely on our own labor, our lives are untethered to others; so therefore, we owe no great economic or social burden to our neighbor. However, this view neglects to take into account the social, interconnected aspects of economics.

As a school of thought, possessive individualism is a dominant force in our economic lives. The assumption many people have is that their income and wealth alone determine their economic lives. The notion that we are the masters of our economic lives and therefore, do not owe anything to others is particularly endemic in the larger

American culture. However, this thought neglects the fact that our economic lives are highly influenced by the market and the collective societal structures we abide by. As Hirschfeld writes, “The language of both possessive individualism and economic science eclipses the contributions from persons and social structures to the benefits we receive in markets” (Hirschfeld, 2014). This tempts us to believe that our success is a result of our actions and the direct exchanges and trades we make with others.

Why possessive individualism does not work: it is a view that implies that our role in society is atomized and isolated from bigger economic events. It allows us to think that our individual actions do not affect the larger, societal context of society. This thought is alluring because it is logical since we comprise only a small part of a larger macroeconomic schema. Because of increasing globalization, assigning culpability on an individual level is made even more oblique because the chain of causation is much more intricate, the market is extremely large and vast in numbers, and the increasing anonymity in our investing actions. Therefore, according to Dr. Albino Barrera at Providence College, “it has become increasingly difficult to individuate culpability for communal faults” (Barrera, 2011). The language of possessive individualism eclipses the individual contributions we receive, tempting us to think that our own success and economic standing lies on our own efforts, instead of through interconnectedness and cooperation with whom we directly trade. As a result, possessive individual blinds us to our own individual culpability and the benefits we receive from others, thus obfuscating the socially embedded nature of our economic lives.

Our quality of life depends on the diversification of talent in the modern-day economy. Our existence is defined by the fact that we enjoy other people’s fruits of labor when we eat, when we use the internet, when we access electricity and running water; virtually, anything we do is refined and bettered by the aggregate work of our neighbors. Likewise, our economic lives would not be the same without the sociopolitical institutions that regulate the overall economy, such as the Federal Reserve, the Central Bank and the SEC. Without these institutions and the diversification of labor, our economic lives would be quite different. The market is also a social phenomenon. therefore, as Dr. Hirschfeld writes:

> Because the market is an inherently social institution, our responsibility for the market takes social form. If the concern is that the market system generates unintended consequences that harm some, the appropriate response is at the social level, not the individual level. It therefore calls for a response through the exercise of our powers as citizens (Hirschfeld, 2018).

Despite what possessive individualism may imply, our economic lives are highly interconnected with those of others.

Beyond possessive individualism, it is an arduous task to pinpoint a person's contribution to the general economy. As Barrera writes, "Thus, the precise causal contribution of an economic agent to an accumulative harm is difficult to establish, if at all possible" (Barrera). Even with the social interconnectedness of the economy, the market is such an amorphous, anonymous mechanism, that tracing everyone's responsibility is hard, from a purely economic standpoint.

However, when we apply a salient, moral framework that is external to economics, we can fully recognize and uphold our effects on others from our own economic stewardship. Each one of our actions has *telos*, a final end. As such, the final end we pursue in our framework reflects what we are prioritizing. Under Aquinas, our actions, even in such a globalized economy, still can be held accountable because our economic habits form our own character. Barrera also affirms this by noting, “many are keenly aware of their responsibility to correct collective harms even if there is no legal basis for such duty. People simply take it upon themselves to do their share in ameliorating collective harms because of their character and virtue” (Barrera, 2011).

Social causality matters because it recognizes that our economic actions are highly interconnected. Thomas Aquinas believes that because we are inherently interconnected with our neighbors, we must act with a two-tiered level of prudence in our economic lives: regnative prudence and private prudence. Private prudence is how we conduct our lives in our own immediate social sphere. Regnative prudence is our civic duty as citizens to maintain the social and economic integrity of the market and sociopolitical institutions. Regnative prudence should be guided by neighborly love and the want of promoting the overall good of society. This translates into economic and political behavior that promotes the overall uplifting of society through charity, neighborly love, and the recognition that our actions affect others. The goal of regnative prudence is to promote the overall human flourishing of the economy.

Thomistic economics matter because it guides us on how to promote this human flourishing of the economy. Aquinas espouses a kinder, more refined view of economics. First, he differentiates between unregulated and proper self-interest which allows us to clarify our version of happiness and human flourishing. This discernment is important because it affects what goods we chase after. We could be hurt financially, relationally and socially by pursuing material excess. Unregulated self-interest can lead to financial troubles, excess materialism and a certain emptiness due to the constant need to buy and attain more. Our society puts great emphasis on conspicuous consumption and “keeping up with the Joneses". The beauty in Thomistic economics is that the new refinement on self-interest as a two-tiered system will add further insight and practical wisdom in what goods we are wanting to pursue.

Thomistic economics allows us to be kinder to ourselves and our neighbors through the redefinition of charity. As discussed in this thesis, charity is done with love of our neighbor and love of ourselves. Aquinas teaches us that we must provide for ourselves before others, and then, we give the excesses away. This promotes self-love and kindness to ourselves by promoting self-care and preservation before giving to others. Aquinas calls us to lead balanced, well-lived lives, instead of giving too much of ourselves.

In a similar manner, Aquinas refines our concept of justice through social causality, just price, private-property, and the virtue of justice. He promotes social causality as recognizing our impact through regnative and private prudence. He defines these lines of thoughts through the virtue of justice, which is rendering to what each person is due. This virtue extends from both individuals to institutions. Rendering to which each person is due is also a core value in both the concepts of just price and private-property attainment. The just price ensures that each person gains equivalent benefits while being able to sustain biological, social and spiritual needs. Likewise, each person retaining property ensures society being well-balanced in terms of self-interest and economic ordering

What This Thesis is Really About?

When I learned about the fact that 42 percent of millennials do not approve of capitalism, was able to understand why. My generation grew up in midst of the financial crisis and were personally affected. We have seen the transformative power that unethical business can have in our society. However, I know that business does not have to be conducted this way. Currently, there are significant efforts to incorporate charity work within the finance industry. From catastrophe bonds to socially responsible mutual funds, there has been a push to do business ethically. This thesis seeks to analyze social impact bonds, which combines finance with charity and necessarily, open up a conversation of: what does socially responsible finance really look like? Through Thomistic thought, this thesis will analyze the effects of conducting charity with a profit orientation and finance from a charity perspective. This thesis will be structured as a case study of analyzing social impact bonds and demonstrating how the Thomistic school of thought can interact with new ideas.

CHAPTER TWO

Analyzing Social Impact Bonds and Their Ethical Implications

According to the social scientist Brice McKeever at the Urban Institute, “In 2017, total private giving from individuals, foundations, and businesses totaled $410.02 billion… total charitable giving rose for the fourth consecutive year in 2017, making 2017 the largest single year for private charitable giving, even after adjusting for inflation” (McKeever, 2018). The growth of the non-profit sector in the U.S. is admirable, with money donated totaling half a trillion dollars. According to the International Money Fund’s 2019 report, that amount of money is more than the GDP of Austria, Norway or Singapore (Lipton et. al., 2019). With this increased interest and recognition in charity and social initiatives, revenue in the non-profit sector is experiencing significant growth, and raising awareness for socially responsible investing. According to a leading research group on this issue, the Forum for Sustainable and Responsible Investments in their 2018 report, the industry has grown explosively, with the total industry valued at 12 trillion dollars, which accounts for 25 percent of all investment assets under professional management (US SIF, 2018). This unprecedented growth demonstrates that with the interest in charity giving, people are becoming committed to investing with more consideration to their moral framework. The rising growth of donations and interest in socially responsible investing demonstrates that there is greater demand for a merger between private investing and charity. With this mounting call for the integration of finance and charity, many academics and leaders in both the non-profit and financial worlds have contributed to an ongoing debate that seeks to assess whether this new trend contributes positively to both finance and charity. This chapter will focus on this continuing debate and recent innovations of sustainable investing that have arisen in this area, such as social impact bonds. Although social impact bonds have potential as securities, they suffer from the crucial flaw that their success depends on the quantitative analysis done, and by the nature of quantifying complex social problems into a single outcome of return. The methods used can lead to reductionism and over-simplification of profoundly human problems.

The Rise of Social Impact Investing

As a result of the increased interest in the intersection of charity and business, greater awareness of moral issues has contributed to a shift in the investing world, and thus, resulted in a shift in how we conduct business, and the business strategies used, such as corporate branding. What drives this greater awareness is rooted in social cognition. People will take notice of these social dilemmas and will wish to help solve them. Dr. Kenneth Butterfield, an expert in moral cognition, argues that moral awareness depends on how much attention is being attracted and that the amount of attention depends on accessibility of information (Kenneth, et. al., 2000). With social media becoming more prevalent, people are inundated more with current social problems, such as global warming, with increasing intensity. In contrast, what an investor's decision to invest ethically in depends on recognition that the issue is important. This recognition depends on the fact that the investor must perceive that his or her choices can have a measurable impact.

With this increased awareness, investors now realize the impact of their monetary decisions, and thus, are gravitating more to socially sustainable options, causing unprecedented growth. As Dr. Amy Domini writes, “Today a growing number of individuals and institutions recognize the basic truth that the way we invest matters. Because of this, the field of socially responsible investing (SRI) has experienced explosive growth over the past few years” (Domini, 2001). In other words, this explosive growth can be partially accounted for by the increasing moral awareness of socially responsible investing. Dr. Domini substantiates her claim of explosive growth, writing , “assets managed with social criteria, or with active shareholder dialogue, or in community development initiatives” have doubled almost every year since 1992 (Domini, 2001).

As of 2018, the market for socially responsible investing is 24 times larger than the charity donations in 2017, meaning that the combination of private finance with the public good has seen a meteoric rise in demand. With such a large industry and market capitalization, this fact necessitates that socially responsible investing has more variety, with different strategies used, and a larger impact from this diversity. The Forum for Sustainable and Responsible Investments affirmed this point: “Asset management firms and institutional investors are addressing a diverse set of environmental, social and governance concerns across a broader span of assets than in 2016” (US SIF, 2018). This diversification is represented by the issues being addressed and the types of products available that tailor to investors’ tastes and can be partially explained by the outgrowth of new current securities and new innovations.

With the intersection of the public good and private finance growing, many have raised concerns about this topic, as many non-profits and investment firms have increased their usage of combining different methodologies, such as investment firms creating portfolios centered on ethical companies, or a nonprofit using financial analysis and social impact measurement to attract new donor revenue. This intersection has raised many questions and has sparked a long-running debate, that is entrenched both in financial theory and business ethics. Some critics have viewed the intermixing of the two fields of private finance and public charity as "an 'invasion' of the market into the nonprofit sector" (Domini, 2001). Many feel uncomfortable with the integration of the two because the union leads to a dilution of the motivation for that field or complicates the principles of that field. For example, the literature on the subject portrays charity as community-based and altruistic while private sector businesses are seen as self-interested and individualistic. Combining the two can compromise each. Some critics argue that conducting charity work with private finance methodologies or instruments betrays the ideal of doing non-profit work in the first place—bettering the community—because utilizing private finance introduces self-interest.

An Introduction to Social Impact Bonds

With the intersection between charity and finance gaining momentum, social impact bonds (SIB) have gained traction as a way to serve as a noteworthy compromise between the two. According to Dr. Mildred Warner, SIBs are defined as "a form of outcomes-based contract between public or nonprofit service providers and private investors, in which private financiers provide upfront funding for interventions to improve specific targeted social outcomes" (Warner, 2013). This new financial security is a recent innovation, with origins rooted in the 2008-2009 global economic crisis. According to Dr. Warner, these bonds originated in the EU, where austerity policies, passed in response to the budget shortfalls from the Great Recession, limited welfare expenditure. Many government agencies looked for a way to fill the gaps between the increasing need for welfare and the reduced budgets. As a result, SIBs, reputed as a private solution to a public problem, were born (Warner, 2013). As he writes, "This has created a tension, and incited practitioners and scholars to suggest changes in the welfare field: private philanthropy should fill funding gaps; more services should be delivered by private providers; more resources should be devoted to the prevention of social problems rather than to their cures" (Warner., 2013). A combination of SIBs and private finance has been presented as one of the solutions for filling in budget deficits. This emphasis on private finance leads to the notion that perhaps privatization of some services could be the solution, a hard-won compromise. While many feel that charity should be done with altruistic selflessness, the fact remains that budget shortfalls have led to many charities scrambling to find other sources of revenue, and as such, private finance is naturally a tantalizing solution to the ailment of many charities.

The arrangement of the SIB varies between each initiative, and the success of each project largely depends on its construction. In a typical bond, the originators of the bond create a specific benchmark, and if this criterion is satisfied, then the private investors get a return (Warner, 2013). In order for the SIB to offer a rate of return, there must be a noticeable improvement in the social initiative that the bond is trying to address (Warner, 2013). To measure the improvement, Dr. Warner, in his article, explains that the criteria must have “a high degree of scientific accuracy” (Warner, , 2013). At the core of a SIB’s framework is the quantifiable analysis. As Dr. Warner writes, “payments” for these bonds are based on the quantitative analysis by being structured “to ensure intervention targets are met and private financial risk is adequately priced and compensated (rate of return)” (Warner, 2013). The design of the bond’s payout is based on a very narrow definition of what is a fair compensation and that a SIB’s success necessitates strong, precise quantitative analysis that provides the foundation for exact compensation.

The design of the bond is an important factor, but ultimately, the structure of the bond depends on the authorities who develop it. SIBs are typically developed to attract charities and government agencies. Non-profit entities dominate in the level of participation of both developing and investing in the bond. Unfortunately, SIBs do not attract a large amount of capital from more conservative investors “because of the stringent performance payback schemes and the significant risk transfer to the private investor” (Warner, 2013). What some have described as the fickle nature of SIBs, in attempting to invest in the unquantifiable, suggests that there should be more precise means of determining how they provide returns to investors. However, attempting to quantify social problems itself can be flawed, leading to unsystematic risk that can harm the investor. To attract large investment firms, there must be collateral of some type. According to Warner, “Thus, while SIBs claim to merely ‘pay for success,’ the only private investor attracted to date, Goldman Sachs, requires a substantial guarantee in the form of a loan guarantee or subordinated debt” (Warner, 2013). In this excerpt, Dr. Warner highlights that social impact bonds are highly dubious for an investor. The added risk is an obstacle for this security because the social impact bond must have some further guarantee of return built into its construction, and that further narrows the criteria needing to be fulfilled. This need for an added return necessitates SIB developers to engineer a bond with more programmatic, accurate analysis because social impact bonds heavily depend on their construction, which is based on quantitative analysis. Providing either collateral or subordinated debt for the investor brings more pressure to the non-profit to make its SIB more profitable because the costs of failure are greater than for conventional bonds. Although SIBs are attractive to certain institutional investors, they are generally considered a risky investment.

A Case Study: Goldman Sachs, Social Impact Bonds

In 2015, Goldman Sachs funded a social impact bond aimed to improve the education of preschoolers in Utah. In the program, the Pritzker Family Foundation, a charity specialized in early education initiatives, selected certain preschoolers who experienced more trouble in understanding key concepts. The charity then grouped the children in a special preschool aimed at bettering their education by targeting parameters in areas where students had learning difficulties so that they can catch up with their classmates. After reaching parity with their classmates, these students were then mainstreamed into regular kindergarten. The organizers hoped that this specialized preschool would further boost students' potential to excel in a mainstream environment, rather than being relegated to special education. They maintained that mainstreaming would allow public schools to give a more affordable and comprehensive education (Williamson, 2015).

It is important to assess the financial construction of this particular SIB to understand how it functions. The financing for the payoffs was based on the difference between the upfront loans of private investors and the state reimbursements for each child considered at risk. The upfront loans covered the cost of providing pre-K programs, such as overhead, teachers' salaries, school supplies, etc. The bond was essentially a bet. Investors loaned 4.6 million dollars into the program and were paid back if the program was considered a success (Williamson, 2015). A successful preschool program would avoid the incurred costs of the state providing special ed kindergarten. As Dr. Richard Williamson writes, "Total savings calculated in Year 1 for Cohort 1 are $281,550, based on a state resource special education add-on of $2,607 per child. Investors received a payment equal to 95% of these savings" (Williamson, 2015). While investors earned a return, the state saved money through its pay-for-success model.

With this fantastic performance, this SIB seemed like a success. According to Natalie Popper, a contributor for the *New York Times*, the SIB gave Goldman Sachs a payoff of $2,500 for every student who was mainstreamed into regular classes.
The program, at first glance, yielded astounding results: as Popper writes, "among the 110 students who had been expected to need special education had they not attended preschool, only one actually required it this year" (Popper, 2015). This resounding success has encouraged the proponents of SIBs for the future of this financial instrument.

However, many critics have questioned these 'miraculous' results. Natalie Popper, in her subsequent article entitled "Success Metrics Questioned in School Program Funded by Goldman," writes that education specialists at the *New York Times* have identified statistical irregularities that lead many to believe that "Goldman Sachs and the State" have "significantly overstated the effect that the investment had achieved in helping young children avoid special education" (Popper, 2015). According to Popper, Goldman Sachs reported a 99 percent improvement for students; that remarkable improvement goes against the industry average for similar programs, which yield results of 10 to 20 percent. In addition, programs that have yielded strong positive results "have expenditures four to five times larger than that spent" on the programs supported by the Goldman Sachs SIB (Popper, 2015). These miraculous results, Popper argues, are based on the faulty notion that "many of the children in the program would have needed special education without the preschool, despite there being little evidence or previous research to indicate that this was the case" (Popper, 2015). The Utah Bond was based on a critical flaw: the payout assumed that by enrolling academically challenged students in preschool would lower the need of enrolling children in Special Ed. As the article states, this strong correlation does not seem to be supported by rigorous scientific research. As Clive Belfield, an economics professor at Queens College, said, "Here they seem to have either performed a miracle, or these kids were not in line for special education in the first place" (Popper, 2015). These vaguely impressive results reflect the fatal flaw that many SIBs seem to succumb to: quantifying complex social problems is inherently risky and often leads to results that can be skewed.

The vaguely impressive results also came from the type of identification tool the SIB used to gather the first cohort. The Utah SIB used the Peabody Picture Vocabulary test as a measurement of risk. Any student who scored two standard deviations below the mean on the test are considered at risk (Tse, 2018). As Dr. Allison Tse of Harvard writes, "Education experts criticized use of the Peabody Picture Vocabulary Test because it is not commonly used to screen for special education and may disadvantage non-English-speaking children when administered in English" (Tse, 2018). There was an over-identification of potential special ed students. And although the Utah SIB Committee faced harsh criticisms of the methods used, the SIB still moved forward with the results and the SIB Committee affirmed that their evaluation was legitimate and they did not make dramatic changes to the payment structure (Utah SIB, 2017).

Educational specialists question whether preschool attendance guarantees better educational outcomes. There was a recent study in Tennessee to measure the effects of intensive early education on a child's academic career. With a sample of 1076 children, Tennessee's Pre-K program measured whether a robust Pre-K education made a long-lasting difference. The participating children showed some near-term improvement in the first year, but the gain dwindled shortly after. As written by Dr. Mark W. Lipsey,

> At the end of pre-k, pre-k participants in the consented subsample performed better than control children on a battery of achievement tests, with non-native English speakers and children scoring lowest at base-line showing the greatest gains. During the kindergarten year and thereafter, the control children caught up with the pre-k participants on those tests and generally surpassed them (Lipsey et. al, 2009).

The lack of scientific consensus on the important assumptions the SIB make suggests that the results of the SIB were skewed. However, the fact that Goldman Sachs was able to produce such an astounding return and success, which resulted from faulty assumptions, implies that the logic, scientific rigor and research that a SIB relies on has important implications. A SIB's rate of return is dependent on the criteria used to measure improvements in addressing social dilemmas. The Goldman Sachs case study is discussed in this chapter to not only give insight into the SIB process but also acknowledge that SIBs have problems inherent in the set up for the following reason: quantifying social issues is complicated to do with precision.

Case Study: London's Social Impact Bonds to Lessen Homelessness

In 2016, The Department for Communities and Local Governance in London commissioned a SIB to help decrease the size of the chronic homeless population. It was largely handled by St. Mungo's, a charity dedicated to helping the homeless, and Triodos Bank, a bank that works on social initiatives. The SIB targeted "a named, fixed cohort of 830 entrenched rough sleepers in London" (Mason et. al.,2017). Rough sleepers are defined as the chronic homeless who regularly go without a stable place to sleep.

The format of the SIB was problematic because the structure of the program was done in such a manner that the help provided was not immediate nor was the care personal. This SIB funded a navigator system, meaning each homeless person was assigned a social worker (Navigator) who helped him or her through an outcome-based, robust program that was structured through research. St. Mungo's and the SIB developers envisioned that for each homeless person, there would be personalization and specialization in the help he or she got from the Navigator. According to Dr. Cooper in her article entitled "Social Impact Bonds: The Securitization of the Homeless," at the center of this relationship, were "budgets and performance metrics" (Cooper et. al., 2016). The Navigators' accounting of the relationship is akin to management software, but the key is that the "results are linked to very vulnerable people" (Cooper et. al., 2016). The relationship was quantified based on the progress being made, which in turn incentivized Navigators to treat the job being performed as a way to gather data, rather than focus on the person they were trying to help. The SIB developers hoped that this relationship would be personalized and tailor-made to the client, but in reality, the execution was from an analytical, entrepreneurial spirit. In University of Warwick economist Dr. Marco Andreu's analysis of the London SIB, he interviewed a manager of the navigator team, and this is what she had to say about the model,

> Our team meetings had a very clear agenda and … it was just focused, it was quite business-like in a sense… our team meetings very much focused on targets. So we would have our forecasting sheet in front of us to show us how many clients we needed to get into accommodation in each month to achieve our quarters (Andreu, 2018).

While doing charity with a data-driven approach can be helpful, structuring the immediate outreach with intentions to quantify the help can lead the relationship between the Navigator and the client to be impersonal. The program had a lot of potential; however, social work requires focus on the humane aspects of particular situations because of their clients' vulnerability. Measuring the help given raises difficult implications; while utilizing technology to quantify results can be beneficial to non-profits, at what point should the non-profits separate the more subjective side (such as social workers' relationships with their clients) and the more quantifiable side (the more objective facts, like demographic variables)? This is a hard question because utilizing data can revolutionize the way charities work but being cautious is also important to stewarding progress well.

In addition, according to St. Mungo's, "the Navigator system was impossible to operationalize" (Cooper et. al., 2016). Cooper affirms that the Navigator system was difficult to manage in terms of responsiveness. The facilities where the homeless received help were too far for the Navigators to travel with immediacy and ease. Essentially, because of rent costs and financial restrictions, the living accommodations the program provided the homeless were far from St. Mungo's, often requiring the social workers to travel 60-90 minutes to reach their clients. If one of the program clients had a difficult time, getting immediate help was hard because of travel constraints. This distance produced a delayed response, which in some cases proved to be an obstacle to the program (Cooper et. al., 2016).In summary, although the program was targeted to help the homeless, due to certain constraints in the program, the help provided was lacking in responsiveness and thoroughness.

The main problem with the SIB was that the criteria represented the securitization of a vulnerable populace and that the data used for setting the criteria were also based on the Combined Homelessness and Information Network (CHAIN), which is a database that monitors the real-life choices and outcomes of the homeless populations (Cooper et. al., 2016). The nature of the database leads to the question of how to implement the technology well. According to St. Mungo's' official page, CHAIN is "multi-agency network" used to gather intelligence about trends within the rough sleeping population and "to identify emerging trends" (Taylor, 2018). The idea of this database has potential to be very helpful and has a very thorough body of data because several agencies collect this data to track social programs because it "produced a well-defined target population that could not be manipulated by the service provider" (Cooper et. al., 2016). The CHAIN database was meant to help provide the rationality and objectiveness needed by social programs. It is a thorough body of data like these because the CHAIN database works with comprehensive, current data. The database models "the pathways of different cohorts over time" (Cooper et. al., 2016). Although analyzing real life outcomes for marginalized populations can help provide insight, quantifying the decisions of real-life people implies that there can be a mathematical analysis of a person's choices, and that, essentially, reduces a person's life to a single statistic. Peoples' lives, especially those of socially disenfranchised populations, cannot be fully understood through quantification because a single number simplifies the entrenched complexities that societies operate under. The intentions behind CHAIN, however, does not appear to be immediately malicious. Instead, St. Mungo's tried to collect data on the homeless so that they could better gain insight as to how to help each individual. The problem is that the methods and data collected had much to be desired. The data collected addressed parts of these vulnerable individual's lives, such as their history of chronic homelessness, their arrests and addictions, but as Dr. Andreu affirms, their data collection methods failed to capture the community effects of this situation. As he writes, "Despite its problem-solving appeal," the database directed "attention to the 'victims' who had fallen through the cracks of existing homelessness services but who were not "lost" yet – and away from structural violence and communal issues" (Andreu, 2018). Although having problem-solving potential, the CHAIN database did not account for the communal effects of homelessness because being unsheltered is not just an individual tragedy, but rather, also is a failing of our housing system.

The SIB developers used the data to help structure this bond to find insights into how to help chronic homelessness. However, the system for the London Homeless SIB approached a complex social issue with "reductionist, arbitrary methods" (Cooper et. al., 2016). In order to create the SIB criteria for the desired outcomes, as we discussed before, the negotiations between the government, St. Mungo's, and the various investment intermediaries produced a set of potential scenarios in which each result would generate a different return for the investor. Using the CHAIN database and other data, the SIB established "feasibility goals" to help with the homeless populace: reduce chronic homelessness, increase rate of stable living accommodations, increase employment rate, and build networks of support for the clientele (Mason et. al., 2017).While these goals are laudable, measuring the distribution of returns based on the outcomes and the associated payouts illustrate this chapter's point: that quantifying fickle social issues can lead to arbitrary measurements. According to Dr. Cooper, "the technologies of accounting were central to each approach, enabling a form of production efficiency calculation, except the products in this case are human beings" (Cooper et. al., 2016). In addition, the calculations were said to be arbitrary and created for "the purpose of which seems primarily to be to create an economic/profitable number to put in the SIB" (Cooper et. al., 2016). Dr. Cooper says that this design "effaces their humanity, replacing it with extreme rationality and quantification" (Cooper et. al., 2016). Although developing a SIB for improving the lives of the homeless is admirable, the methodologies used in constructing the SIB have raised concerns on the treatment of the societal complexities that the chronic homeless function under.

The payouts of the program are illustrated by the following table:

Costs per individual cohort member across proposed outcome areas.

Costs	Cost estimate used in model	Based on	Cost estimates not used in model	Average NPV of costs over five years
Rough sleeping	£1664	• Outreach services	• Housing benefit uptake	£2985
Accommodation	£3818	• Temporary accommodation • Tenancy breakdowns	• Changes in housing benefit	£6849
Criminal justice	£10,693	• Reconviction costs • Police time	• Probation costs • Long-term imprisonment	£19,182
Employment	£2600	• Job seeker's allowance • Employment support allowance	• Exchequer benefit from employment	£4664
Health	£1890	• Unplanned hospital usage • Psychiatric hospital usage	• Specific alcohol and drug treatment programmes	£3390
Average per person	£20,000			£37,000
Total for cohort	£13.5m			£24.2m

Source: Department for Communities and Local Government (2014) and Social Finance (2012b, p. 30)

As demonstrated by this table, the SIB cost structure was based on the real-life results of the homeless, meaning the committee assigned monetary values to the actual outcomes of an extremely vulnerable group of people. As Dr. Cooper writes, "the important point in terms of SIBs is that they are an economic incursion into the non-economic" (Cooper et. al., 2016). Essentially, quantifying an entire social issue into actual monetary values is reductionist and simplifies a complex issue that is often too complicated to reduce to a single value. However, there is tension between streamlining a SIB prudently and quantifying a social issue. While in SIBs, quantifying social issues are endemic to this security; the difference between a well-constructed SIB and a badly executed one is how this issue and tension is reconciled. A badly executed SIB will try to quantify an entire social issue to prioritize the profit motive and hedge the risk. A properly constructed SIB uses ethical sources of data and constructs the payout metric in such a way that the complexities of the situation are still held intact and that there is still room for the humanity of the situation. The difference between the two is subtle, but it is important to delineate between the two. As such, discussing both the methodologies and the philosophical implications of a badly executed SIB is important to design a well-constructed one. While estimating costs of liabilities and outcomes can be helpful for other business sectors such as insurance and corporations, using this data for the real-life outcomes of vulnerable populations implies that a person's life choices can be monetized. This assumption leaves out the subjective and intangible complexities that each person deals with.

According to Dr. Andreu, the London SIB's payout scheme prioritized the profit motive. The way the bond was structured made it so that service providers had more ‘skin in the game’ due to the fact that “the scheme transferred about a third of the financial risk to service providers, *away* from the commissioner and the investors” (Andreu, 2018). In an ideal SIB, the risk is transferred *away* from the service providers and to the investors because the investor incurs the risk of funding the initiative. However, that did not happen here, which suggests a prioritization of the profit motive.

The culmination of this discussion can be found in the results. According to Mr. Mason, the project failed to meet its targets, and results trailed off in the third year. Many involved in the project, both stakeholders and providers, realized the core issue of addressing a social concern like this: many of the displaced led lives so “well entrenched” and had highly dense “street networks” that there were “high barriers to engagement” (Mason et. al., 2017). The program had a hard time breaking the deeply ingrained systems that the homeless suffer from. In other words, the problem of chronic homelessness was complex, hard to address, and denser than previously expected. The undertaking to quantify the deeply entrenched societal causes of homelessness is daunting as they defy measurement. The best way to approach this issue is with a humane heart, and not from a purely analytical standpoint. By utilizing quantitative data without addressing the humane aspects, the SIB developers underestimated the complexities that the homeless suffer from and thus, compromised the program’s original intention, which was to help decrease the homeless population. In order to help a vulnerable population, such as the homeless, the program needs to understand the entrenched systems which impede improvement. Although the program reduced homelessness by 53 percent, these gains, according to Dr. Cooper, were short-lived (Cooper et. al., 2016).

While the SIB was founded in the hope of helping the homeless, the reductionist methods led to many dilemmas. For one, approaching this issue from a purely quantitative approach, through the use of CHAIN and the structure of the SIB, implies that the agents of this situation saw that this issue was a purely financial or even technical one. This approach fails to include the full vocabulary needed to address this situation. As Dr. Andreu writes, "I argue that the capacity of the project to help the homeless on the grounds of a shared humanity (that is, beyond the artificial, particularistic boundaries between "us" and "them") was limited, the scheme deprived the needs and situations of the homeless of a vocabulary of justice and social change" (Andreu, 2018).

In addition to the problematic quantification and securitization of homelessness, the organizations involved also had ethical issues in the past. According to Diane Taylor, St. Mungo's, the biggest charity to offer outreach to the homeless, has verified that its social workers shared the sleeping locations of the homeless with the Home Office (Immigration Services) which led to the deportation of many. According to the article, North East London Migrant Action group, an authority on this issue and an important activist group, said "The role of homelessness charities should be to uphold the rights of vulnerable people. St Mungo's has forfeited the trust of asylum seekers and other migrants who sleep rough by working with the Home Office who have people deported from the UK" (Taylor, 2018). However, the important implication of this unfortunate ethical issue is that this exact policy was enacted in the London Homeless SIB. St. Mungo's, according to key research, has been accused of receiving money in exchange for the removal of the homeless (Warner, 2013). As Diane Taylor writes:

> Since at least the second world war, British charity has been understood as an inclusive and democratic phenomenon. It makes people rattle tins in supermarkets

> or roll up their sleeves to serve food in homeless shelters. It is an element of our social democracy that should be protected, not threatened by social impact bonds linked to distinct targets (Taylor, 2018).

Constructing SIBs through a narrow lens can lead many aspects of a social initiative to slip through the cracks. At its essence, charity work should be done through compassion and empathy. While the SIB developers had good intentions, quantifying certain aspects of the social initiative can compromise the help provided.

The point of these two case studies is to show how SIBs work, and more importantly, introduce and spark a conversation around these issues. In the Goldman Sachs case, the Utah social impact bond led to arbitrary, flawed results because of the vague and murky way the payout criteria were structured. The payout framework was based on faulty principles and logic that ultimately skewed the results. In the London's Homeless SIB, the payout structure was also problematic due to the evidence that the measurements of success were based on calculations that removed the complexities of the noneconomic, societal structures that the SIB tried to address; in other words, the measurements removed the entrenched, complex nature of the issue at hand.

Discussions of Social Impact Bonds Supporters

Many advocates for SIBs, like Dr. Florentine Mair argue they are malleable and "[promote] learning from ongoing performance measurement" (Mair, 2017). This argument relies on the case that SIBs are evidence-based and rely on calculations and statistics. Increasingly, charity is leaning more towards quantification and reliable measurements to gauge how successful a social program is. According to Dr. David. M. Glossman, a member of the Board of Trustees at Helen Keller International, "lacking a measurement capability also makes it difficult to generate support for financing its charitable activities" (Glossman, 2012). He argues that in order to motivate donors to provide capital, there must be a measure of "impact" of the charity's work. With this growing need for statistical measurements, SIBs are attractive due to their stringent requirements.

Another claim that many proponents have is that SIBs are flexible and can be tailored to the problem being address. The payout structures differ greatly. While the Goldman Sachs SIB was based on the number of students mainstreamed, the London SIB was based on outcomes such as gaining employment or stable housing, with monetary values associated with each possible outcome. Both constructions vary greatly. And to many, this fact is a huge strength and advantage for these financial instruments. SIBs offer a wide range of models for the respective non-profit and investor to take advantage of in creating a new SIB. Nevertheless, this flexibility can be misleading: despite the fact that the structure can vary widely.

Why is having private finance as a means of charity worrisome?

Bringing private finance and charity together through SIBs is concerning for several reasons. According to Dr. Warner, SIBs have not accomplished what these securities have tried to do; for one, the way that the causes are structured are divorced from the people the charities are trying to help. The lack of input from frontline runners, such as social workers or former homeless persons, suggests that the SIBs, constructed with the expertise of academics and financiers, have a degree of separation from the actual issue that St. Mungo's was trying to address. As Dr. Warner writes, "SIBs give no voice to the consumer. In SIBs, primary voice is given to the external evaluator and the private investor in a process shielded from direct citizen input" (Warner, 2013). This quotation has important implications: Dr. Warner, in this excerpt, implies that the development of SIBs is not democratic and does not take into consideration the complexities of this social issue. Instead, SIBs give rise to "an industry of intermediaries and deal makers and brokers and accountants and lawyers and they'll be making a lot of money" (Rosenman, 2019).The problem that many academics have with SIBs is that the process inherently employs reductionist methodologies to streamline real social problems, a non-economic phenomenon, into a viable, marketable security.

A Brief Overview of Social Impact Bonds through the Lens of Thomas Aquinas

The essence of Thomas Aquinas' market philosophy is that a fair market transaction involves two participants who exchange something in equal value and that the price is fair and considers the social, moral, and biological context of each participant. This exchange maximizes justice as it is rendering what each person is due. Some SIBs do not uphold this virtue because the exchange of money is abstracted from the actual participants: the charity and the people the charity is trying to help. Thomas Aquinas values the just price, negotiated with the consideration of the humanity of those involved in economic transactions. Unfortunately, some SIBs do not address the humanity of the issue because SIBs abstract this exchange by quantifying and streamlining entrenched, complex problems into a single monetary value. The difference between the compensation and just exchange according to a person's social, physical, spiritual and economic needs and streamlining a social issue into a security is that the latter deals with far more complex variables than just one market exchange. Likewise, a broad reading of Aquinas' Just Price seems to support the idea that in order for a person to be properly compensated, in terms of their various needs, then their economic livelihood must be assessed and quantified in order to do so. The problem with this logic is that the Just Price is a broad framework, that is conceptual rather than mathematical; and the reductionist methods being used deals with real data. Connecting the two does not comport. Reductionist methodologies go against the Just Price theory of Thomas Aquinas and the very principle of a fair exchange.

Another problem that SIBs present is the fundamental paradox they uphold against Aquinas' virtue of charity. According to Aquinas, the soul of charity is to love, meaning charity is motivated by the love of one's neighbor. However, SIBs, while done with a charitable motive, introduce a profit motive, which negates the altruistic notion of love. To Aquinas, neighborly love is ordered to highest good because the spirit of love is to wish someone well, altruistically and selflessly (ST II-II.26) To love is an act of charity for this reason. However, SIBs offer a paradox: while they introduce a profit motive, SIBs are done principally to give funds to a charitable initiative. However, as discussed before, SIBs in practice are financial securities, structured to give payoffs to private investors, and frequently, can injure the cause.

Important Things to Consider for SIBs

While this chapter has been negative towards SIBs, I want to meditate on a couple of things relevant to my future arguments. First, SIBs are usually created with good intentions, with the desire to create a social impact through the combining of private finance with the public good. As such, when SIBs are done well (in terms of the delicate balance between private finance and the public good is maintained) , unregulated self-interest is not prevalent due to the fact that the profit motive is secondary to the charitable mission.

CHAPTER THREE

Assessing Social Impact Bonds Through Aquinas

The social impact bond (SIB) contributes to an overall discussion of the ethics of utilizing private finance in public charity. The integration between the two has gained prominence in recent years due to budget constraints and the increasing need to fill in budget gaps. Ultimately, non-profits use private finance to enhance their operations. One implication of this is that by melding private finance with charity work, self-interest is introduced. The ethics of charity work, economics and self-interest are central in the discussion on this topic. Therefore, we must look at this subject through both a business-minded perspective and from a philosophical perspective. As discussed earlier, Thomas Aquinas offers a salient framework for the central, underlying topics that SIBs and other innovations present. His body of work addresses several areas of concern: business economics, ethics of charity, the right form of self-interest, and commentary on abstraction of returns. In other words, Thomistic thought provides an excellent analytical lens to examine these issues from a philosophical perspective. Although SIBs are largely conventional in structure, their nature is in bringing charity and self-interest together. However, if SIBs are done with the right type of interest, prudence, neighborly care, and foresight, they can be successful.

The Thomistic ethics of charity offers insight into what doing charity work means to the heart and to the spirit of the act. To Aquinas, charity is a work from the heart, of absolute sacrificial love. Doing charity work properly requires such altruistic love that "it is evident that the act of charity surpasses the nature of the power of the will" (ST II-II. 23.2). Just relying on natural inclinations would not be enough because the spirit of the act would not be completely oriented in the right way. Instead, doing charity rightly requires an intensive work of the heart and a pure love for one's neighbor. However, this type of neighborly love extends beyond that of natural love; this type of neighborly love, when ordered to honor God first and foremost, results in a type of love that is greater than ourselves. The virtue of charity is so self-sacrificial that it surpasses our natural inclinations, meaning charity is an act that requires forethought, extreme generosity and a love for our fellow neighbor that goes against humanity's natural inclinations of self-interest.

Charity is vital to Aquinas because "charity is included in the definition of every virtue, not as being essentially every virtue, but because every virtue depends on it in a way (ST II-II, 23.4c). Charity is both central to every other virtue and is a supreme virtue because charity involves the ultimate object, which is the love of the divine, and that type of love inspires the purest form of happiness. Charity is the foundation of other virtues because it orients our heart to God by promoting neighborly love at its essence. Love alone does not do this. Charity is characterized by both neighborly love and sacrificial actions. Charity is a powerful virtue because it encourages sacrificial service, which of course is the foundation of generosity.

Charity is a transcendent virtue that regulates other virtues and vices. Charity can confer the right type of contemplation, directing speculative sciences into the right direction of action. The more these actions are performed, the stronger the right type of habits form and are strengthened. Charity offers a regulative function in the formation of other virtues. Doing charity strengthens character because to do a good deed, "it is requisite not only that his reason be well disposed by means of a habit of intellectual virtue; but also, that his appetite be well disposed by means of a habit of moral virtue" (ST I-11, 57.1). The act of charity can encourage more acts of charity. As each good deed requires the good habits from moral virtue and teaching forms intellectual virtue, the reiteration of these deeds can help form the right habits, which is the foundation of the formation of one's character. As Aquinas writes, "but each act of charity disposes to an increase of charity, in so far as one act of charity makes man more ready to act again according to charity, and this readiness increasing, man breaks out into an act of more fervent love, and strives to advance in charity, and then his charity increases actually" (ST II-II, 24.6)..

The importance of this discussion is that Thomas Aquinas offers a compelling characterization that enriches the ethical analysis of the intersection of private finance with the public good. This intersection can uphold or devalue the notion of charity. Utilizing private finance, when done with the intentions of enforcing charity with true altruism and right type of self-love, can buttress the definition of charity. However, private finance can lead to temptation to elevate self-interest over the common interest and can compromise the notion of charity. When discussing about charity in the next few sections, we will be utilizing its definition, as a virtue, rather than the giving of money. As Aquinas defines it, charity is the wishing well of others, and loving others with the ultimate object being God.

Strategically, SIBs were formed to help strengthen charity. SIBs tried to address charity by supplementing the budget shortfalls of traditional, non-profit work with funds from private finance. The vision in its founding was that SIBs provided a mutually beneficial system: investors could invest with their conscience and charities can get the funds they need for certain social initiatives. In other words, SIBs tried to find a compromise between the two. As the prolific commentator on business ethics Dr. Michael Meyer writes, “The core message of the private financial sector reform narrative is that SIBs will enable private financial investors to align the pursuit of financial benefits with the pursuit of social benefits, thus offsetting the anti-social aspects of financial capitalism” (Meyer, 2017). In other words, SIBs were hailed as the right compromise between the two: private financiers could earn an effective return and non-profits can gain access to funds that were previously unavailable.

In addition to providing funds, SIBs can be used to provide outcome-based results and to allow charities to be more analytical and metric driven to produce tangible results. This approach enhances charities because often, charities need to provide metrics and compelling statistics in order to attract donations and win more grants. With better statistics and impact measurements, non-profits can enhance the resources they can get and thus, gain better empirical measurement that helps them earn more on their investments. This is attractive to many charities because public financing is increasingly difficult to obtain. SIBs can help charities gain better impact measurement because they are quantitative and outcome oriented in nature. Charities have begun to design their social initiatives with performance metrics in mind because the ability to attract donor revenue is enhanced by the ability to quantify the progress of a program. Objective facts, statistics, and measurements help charities gain traction in acquiring revenue because donors can see clearly that their money is being used well since impact measurement increases accountability. Thus, SIBs are attractive because these securities build in this accountability and objectiveness which are appealing to donors.

While this narrative is compelling and tempting, SIBs can lead to several problems. The quantification of social issues can devolve to reductionist methods which oversimplify the situation and rely on a normative understanding of it. While this can happen to traditional donations and grants, the profit motive present in SIBs encourages the quantification and reductionism of social issues to provide a solid return. Traditional donations do not have that same incentivization. Isolating numeric information from the larger qualitative aspects of the situation can be damaging because "the power of facts is highly dependent on context, and research evidence remains but one kind of power to mobilize in support for certain social policies" (Meyers, 2017). Secondly, as SIBs are collaborative in nature, this partnership can lead to difficulties in carrying out the vision of the non-profit, which happens due to the complications of integrating profit motive. This profit motive can incentivize behavior that might be detrimental to the situation, and this impetus to get a return is one of the causes for the quantification of social issues. The introduction of the profit motive encourages interorganizational compromises and dilution of the core mission because the schism between financiers and advocates is widened when the need to provide a return dominates the construction of the SIB. This deeper, more entrenched issue is a core concern with SIBs, as described in Chapter 2. Charity, which Thomas Aquinas upholds as selfless and loving, can be tarnished by profit motive, reductionist methodology, and unregulated self-interest.

The introduction of the profit motive can be misconstrued as inherently bad because when our terminology is unrefined, the profit motive and unregulated self-interest seem to be synonymous. The profit motive can be introduced without self-interest, while self-interest is inherent to the profit motive when greed is introduced. The need to make a profit comes from the compromise of charity with private finance, which is driven by a non-profit's need of funds. While this compromise can be concerning, when done well, private investors and non-profits can establish a mutual beneficial partnership. Aquinas defines charity as giving our surpluses away, while maintaining our own biological, social, and spiritual functions. If charities do not have enough funds, then they do not have the working capital necessary to fund social initiatives. However, when private financiers provide funds, they are enabling charities to gain the surplus necessary to do charity work. Private financiers can help enable charities to continue their work. With this new funding, charities are required to help provide a benefit in return, which is what the SIB facilitates. When done well, the profit motive can help enable non-profits to continue their work.

When executed badly, the profit motive can adulterate the work non-profits are doing because the introduction of unregulated self-interest leads to certain unseemly compromises. In addition, unregulated self-interest can also introduced when reductionist methods are used, because social issues are trivialized in favor of turning a profit, as shown so vividly by the London SIB. The point of the London SIB discussion is to show that unregulated self-interest contributed to the overall failure of the SIB. The need to make a return on a social initiative motivates the SIB designer to create a rigid system of social metrics to base a return on, and this can lead to unintended, harmful effects, in which "such rigid adherence to program evaluation models also creates incentives for creaming and for ignoring downstream effects or impacts on related interventions"

(Meyers, 2017). Rigid adherence to quantitative measures can hurt a social initiative, as we saw in the London Homeless SIB and the Goldman Sachs Utah SIB. Charities fundraising done with metrics in mind can be done with prudence and with wisdom because charities can employ these calculations to enhance their insight into both social problems and financial results.

The conversation around charity and private finance necessitates a thorough look into self-interest and prudence. Self-interest can be positive in many ways. Thomas Aquinas links self-interest with self-love. Consequently, both angel and man naturally seek their own good and perfection. This is to love self" (ST I-I, 60.3). This self-love and regulated self-interest can promote harmony because with the procurement of one's needs and goods, that person can practice virtues more effectively. Virtues and regulated self-interest go hand-in-hand because without a person's propensity to provide for himself, that person would not have the means to practice the virtues; practicing virtues involves sustaining one's biological and spiritual needs. Thomas Aquinas emphasizes the fact that a person cannot be charitable without self-preservation because one must be able to provide for himself before giving to others. As Dr. Stephen Pope writes, "A life well lived, the good life, from a Thomistic perspective involves both healthy neighbor love and self" (Pope, 1991).

Because self-love is essential to one's practice of virtues, one can argue that self-love and self-interest can be present while maintaining the ethic of charity. However, it is important to denote that the type of self-interest should be contextualized within the larger social situation. Self-preservation must also be a focus of charities themselves in order to sustain their charitable functions. Charities cannot operate without enough funds to cover costs of running social initiatives and operational expenses. However, regulated self-interest is different from the type of self-interest present in some SIBs. They were an innovation that had a compelling vision behind them: private finance filling in budget gaps through outcome-based solutions are a tempting solution to many of the funding shortfalls which plague non-profits today. If this vision were fulfilled, then the self-interest would be prevalent and thus, the ethic of charity would still be maintained. However, the introduction of a badly executed profit motive is problematic because it prompts conflict of interests and stringent payout schemes that can harm the target community. The badly executed profit motive is usually introduced from the private financier's side, not the charity's side. The non-profit, when seeking out arrangements such as the SIB, usually experienced budget shortfalls. With the promise of private investor capital, non-profits are attracted to SIBs because of their need to fill in those budget deficits. The type of self-interest prevalent in the badly-executed profit motive is not regulated, but instead, unregulated. Stephen Pope calls this type of self-interest fake self-love because while self-love enriches our practice of virtues, fake self-love "is a disorder that deforms, corrupts, and brings misery to the self and the other" (Pope, 1991). This type of self-interest is prevalent in the SIB movement and can be considered unregulated and untutored because the original altruistic charity is sullied by the profit motive inherent in the SIB construction.

In addition, the types of choices we make have a moral character because they are based on our concept of good and day-to-day priorities. Self-interest can either be ruled by prudence or by avarice. Prudence allows us to choose what is right and fitting to the occasion, while avarice does the exact opposite. The choosing of what type of SIB payout scheme has a moral character because as Dr. Mary Hirschfeld writes, “Indeed, that we choose our ends is what confers an essentially moral characteristic on all acts that are properly human. We choose the light in which we view a given good, and we are accountable” (Hirschfeld, 2015). The moral character of the SIB developer is mirrored in the construction of his SIB payout scheme. SIB developers sometimes construct a bond with a stringent payout scheme, in order to promote a more secure payout for investors. This choice has moral implications because SIB developers, by making this decision, affirm the point that they are prioritizing the badly executed profit motive. Of course, this stringent payout scheme can be done so with care and caution, but from what we have seen in the Goldman Sachs Utah Bond and the London SIB, these payout schemes can often be detrimental to the original charitable mission.

Self-interest is generally defined as being focused on yourself or putting yourself at an advantage in a life situation. A rationalized or self-regulated self-interest could have a positive influence on a person’s life and the economy. Regulated self-interest and prudence can help guide these values/decisions. Regulated self-interest can refine a person’s choices by guiding them to act with self-love and preservation, and thus motivate the person to make wise decisions. Unregulated self-interest can motivate a person to make decisions based on untutored passions and thus involves decision making that leads to choosing excesses or deficiencies. Living and choosing the “golden mean” is essential to the Thomistic and Aristotelian notion of virtue. Practicing virtues can refine our decision making because virtues assist in making good choices, which involves two aspects, “first, there is a matter of choosing the end, and second, there is the matter of choosing suitably with respect to that end” (Hirschfeld, 2018). Therefore, self-interest is linked to the virtues, meaning that the type of self-love or self-interest that motivates our decisions can either harm or maximize virtuous behavior. Our economic decisions, thus, also have moral implications because how we live out our economic lives reveals what our priorities are. Some SIB developers, by prioritizing reductionist and stringent payout criteria to the detriment of the social initiative, make a deliberate choice that reflects the type of self-interest they practice and the type of end they are pursuing.

The effect of unregulated self-interest is that it motivates the chasing of economic gains at the expense of one's practice of virtues, relationships, and quality of work. All of this can be seen in the introduction and integration of a badly executed profit motive. It can motivate the compromising of charity in order to gain a return, which can include wide-reaching effects, such as the effacement of entrenched problems, interorganizational conflict of interests, prioritization of gaining a profit, and unregulated self-interest. In contrast, charity is characterized by self-love and neighborly love that involves generosity of the heart, right ordering of the soul, and regulated passions. Self-interest may counteract and corrupt all the attributes of charity. While some SIBs do not suffer from this type of self-interest, some notable ones have, and the problem is big enough to be a valid concern.

The consequences of unregulated self-interest go farther than just the corruption of the essence of charity because it can also make the SIB being developed unjust in terms of pricing. When unregulated self-interest encourages the quantification and reductionism of social issues, this causes the SIB to be developed without a full understanding of the context of the situation. This does not uphold justice because justice considers the humanity of the situation since "justice by its name implies equality, it denotes essentially relation to another, for a thing is equal, not to itself, but to another" (Meng, 2015). Therefore, without a firm, grounded understanding of the situation, the SIB does not render what a person is due, in terms of charity, service, or pricing. The consequences of unregulated interest can render the SIB unjust because in order to render what a person is due, you must know that person's situation thoroughly.

How justice is rendered depends highly on context. In Thomistic economics, the just amount a person is due is called the just price. Just price is set by two just individuals who are engaging in a fair exchange. The just price addresses the humanity of the situation because the price, if just, ensures that both individuals get a fair price that preserves the biological, social and spiritual functions of both parties, while also offering equal benefits to both. The just price also includes risk; if the seller incurs higher costs or complications in the making of the market offering, then that seller is right in demanding a higher premium. The just price also considers third party effects from the market transaction. Aquinas believes that if the transaction has an unfavorable effect on the community, then there either must be higher compensation or a refusal to go through with the exchange (Koehn, 2012).

Although SIBs are issued for charitable and public initiatives, they are sometimes assessed on such a stringent, quantitative criterion that they fail to consider the human aspect of the services funded. The just price is directly connected to each person's needs. Both parties' needs should be considered and included in the pricing. However, in SIBs, this is sometimes not the case. While SIBs do consider expert input and qualitative data, the bulk of the decision making relies on quantitative data, which can sometimes be unconnected to the wants and needs of the people the SIB is trying to help. Analyzing data can help SIBs develop nuance in their construction. Data science can be an incredibly useful tool in non-profit work. The critical determination in the construction of these bonds created to benefit society is how much data science should be considered in making and designing a SIB.

Application of The Thomistic Framework: A Deeper Look into the Utah SIB and London SIB

As discussed in Chapter 2, both the London and Utah SIBs failed to uphold the vision that many SIB advocates have. Proponents view SIBs as a compelling integration of both charity and finance because while investors get a return on the funds they provide, charities can fund social initiatives and services that would not be able to function without it. SIBs are meant to drive capital where the need is, while also providing benefits to the investors who provided said capital. While this vision is alluring, some SIBs, as demonstrated through the two case studies, have failed to fulfill this vision. When applying the Thomistic framework, the discussion of the ethical implications of the Utah and London SIBs is further refined because Aquinas provides a framework that is able to cohesively explain why combining private finance with charity is concerning and describes this point of view in relevant, impactful ways through the emphasis of the virtues and reformation of one's character. When applying this framework, both bonds fail to uphold the Thomistic paradigm and virtues, but for different reasons. The London SIB failed to uphold the Thomistic framework because the SIB and the non-profit both displayed unregulated self-interest and a badly executed profit motive. The Utah SIB failed because the developers did not formulate the bond with prudence, meaning that the Utah SIB was not equipped with the relevant, practical wisdom needed to address the social initiative.

The London SIB failed to uphold the Thomistic framework as it put profit before altruism by reducing the homeless to a set of statistics. Charity, according to Aquinas, is supposed to be done through an intensive work of the heart, which requires sacrificial love and service. Charity is done by prioritizing the needs of others over your own, granted that you are well provided for. The London SIB did not observe this tenet because the SIB developers prioritized the need for a return and profit above the needs of the social initiative. As discussed previously, the SIB developers transferred risk away from the investors and to the service providers, which suggests that they prioritized the investors' needs over that of the charity doing the work and receiving the funds, which is exactly the opposite of what a SIB usually does (Andreu, 2018). Likewise, they did this by quantifying the rough sleeper population through the use of CHAIN; this database allowed the SIB developers to calculate a dollar return that was attached to each life outcome of the rough sleepers because it tracked the probabilities and decisions of each rough sleeper. This was then used to mitigate risk. CHAIN was used in the hopes of providing objectivity and robust data; the intentions of using CHAIN was not entirely malicious and in fact, many believed this resource could help tremendously. The problem is that CHAIN was theoretically deficient due to the lack of accounting for communal effects. An alternative to CHAIN would be using frontline experts who know the entrenched issues of being chronically homeless and then could provide expertise to help capture the role of community involvement in this issue. The use of CHAIN highlights the heavy reliance on quantitative data, but to confront such a heavy issue well requires a collaborative interdisciplinary team that can both address the financial, social and economic needs of this project. However, the SIB developers did not do that, and instead, relied on this data to help provide expertise as to how investors should be compensated. Similarly, the payout scheme was made to hedge risk away from investors, and on to the service providers, which shows that the payout scheme itself was also flawed and favored the investor. This quantification represents the SIB developers' prioritization of unregulated self-interest because their choices and the ends they pursued have adverse moral implications.

The model of the program was hard to operationalize and was not effective, due to the data-driven model that the SIB developers tried to push (Andreu, 2018). The program suffered from delayed timing. In social programs such as addressing entrenched homelessness, optimally, social workers' responsiveness to its clientele should be timely and expedient. The structure of the program was hard to operationalize because while the headquarters for the social workers were in one end of London, the temporary housing for the rough sleepers were in a very different area. And because of this, response times were slow and delayed. This is due to that St. Mungo's and the SIB developers wanted to save the extra funds and use them elsewhere. However, by neglecting this part of the program, social workers were not able to reach their clientele expediently. Likewise, the social workers were incentivized to treat each client with metrics in mind. They were encouraged to collect data and analyze each interaction so that the social workers can collate necessary information. However, there is a fine line between helping clients and enumerating them. Recording demographic information and objective information is a different matter than gleaning data from the more subjective side of the social worker-client relationship. While utilizing data technology in charity work can be revolutionary, the use of this technology in this aspect of the service can be invasive because offering social services involves addressing the client's situation holistically. Data technology and impact measurement can offer special insights into the overall situation; however, the technology can be mishandled when it becomes the driving force of a real interaction. Data analysis is supposed to be a method of analysis, not a method of change and implementation of a service. Likewise, a code of data ethics is important; and the first consideration is to remember that how one collects, alters and appropriates the data has real human consequences and can lead to human flourishing or a failing of the system. The need to quantify even the social worker and client relationship reveals the deeper issue for the London SIB treating the rough sleepers as a commodity. Each part of the program was designed to measure and monitor each interaction between the rough sleepers and the employees involved because with this information, the SIB developers could generate impact measurement and progress parameters. This practice alone is not that problematic because charities have a genuine need to have these data, The London SIB appropriated the data to hedge risk from investors on to the service providers.

The London SIB failed to uphold the virtue of prudence because through these choices made, the program suffered and ultimately failed. Prudence involves having the wisdom to be able to choose the appropriate means to pursue appropriate ends, which should promote virtue. The London SIB chose to pursue ensuring a profit by quantifying well-entrenched social issues into numeric data that can provide a return, instituting cost-cutting measures that hurt the program, and incentivizing workers to help the financiers quantify the vulnerable populace by collecting data at various touchpoints. As written by Dr. Christine Cooper,

> Cost estimates were thus critical to the development and existence of the SIB. The ability to reduce the uncertainty of an entire cohort of individuals to a single

> average net present value produces one of the conditions necessary for the SIB to function…Akin to the creation of performance metrics phase of the SIB, the vfm accounting calculation seems to play a key but spuriously arbitrary role since the numbers are constructed from dubious assumptions; however spurious though, these numbers mean that the homeless person is imperceptibly effaced and replaced by homelessness as a cost. Importantly, the re-constitution of the homeless happens by means of these seemingly innocent accounting routines (Cooper et. al., 20.16).

All these factors had a measurable impact which polluted the original intent of the SIB to help the chronic homeless population to gain stable housing. The problem is that these choices were made without prudence. Prudence guides one to choose rightly ordered ends with the appropriate means. However, this program did not do this. They chose the wrong ends and the wrong means to pursue those ends.

The Utah SIB also failed to uphold the Thomistic framework because the SIB developers did not utilize prudence in the construction of the bond. The SIB developers used flawed data that led to dubious results. The program reported an astonishing 99 percent rate of mainstreaming academically challenged children into regular kindergartens. Incoming research, as touted by the Tennessee Volunteer Pre-K program lead to the conclusion that just have pre-school attendance won't necessarily help marginal students from avoiding special education. It is important to note that pre-school can have positive social effects, but there is no conclusive evidence that pre-school alone can produce such astounding results. Educational policy experts commented to Natalia Poppers, a *New York Times* contributor, saying the program had significantly overstated the effect that the investment had achieved in helping young children avoid special education (Popper, 2017) Dr. Allison Tse also noted that the identification methods used by the Utah SIB were also flawed, because they used a test rarely employed by educational experts (Tse, 2018)The Utah SIB reported a success rate five to ten times higher than similarly funded programs elsewhere. These impeccable results came from the flawed notion that by placing academically challenged children into specialized preschools, this would immediately enable them to go on to catch up with their peers. This alone, the program assumed, would better the lives of the children. However, the strong correlation between the two is not supported by current scientific research. By using flawed assumptions that were not backed by the wisdom of education policy researchers, the SIB overstated its results, and thus, seemed to perform miraculously, but without the data to support it.

Because the SIB developers did not utilize the latest relevant research, the program suffered as a result, which can be traced to Thomistic prudence not being present. Prudence encourages one to pursue the appropriate ends with the best means. While the Utah SIB did pursue the right ends, which was to help academically challenged children lead normal lives, the SIB failed to pick the appropriate means, which involves utilizing the appropriate knowledge and practical wisdom available. Practicing prudence means to have a deep thorough understanding of the situation and know how to implement this knowledge in an effective manner. The Utah SIB demonstrated none of this. The people involved had the best intentions. They did not quantify the social situation with reductionist methods, nor did they have a badly executed profit motive.

CHAPTER FOUR

Reforming Social Impact Bonds as Inspired by the Thomistic Framework

SIBs can be designed in a manner to reflect virtues of Thomistic justice for their clientele while providing an equitable financial return for investors. The security has great potential to help drive capital where needed and can actually help enable charities maximize their potential. Under Aquinas, charities need to have a surplus of capital in order to give to others because Aquinas understood that one cannot give charitably without being able to provide for one's own needs. Social impact bonds can help charities do this. For example, the Cuyahoga Pay-for-Success and the Denver Homeless SIBs are presented below which offer real help to their clients by using reasonable metrics and support systems. The Denver Homeless SIB utilized a well-crafted performance metric which was fair to both their clients and investors. The Cuyahoga bond was funded from philanthropic sources, which removed the unsavory profit motives which have plagued other SIBs.

How SIBs Can Be Reformed, as Justified by the Thomistic Framework

Even in the absence of unregulated self-interest, if there is no foundational wisdom that guides SIB developers, then the SIB still will not be constructed well. The key to constructing a well-developed SIB that upholds charity is the emphasis of prudence, which is defined as practical wisdom that manages our intellect by giving us the proper sense of how to respond to different situations. Prudence guides us in the choices we make and ends to pursue. Proper self-love and self-interest help motivate decisions, but it is prudence that guides us to ultimately make the right choices. Some SIBs have been formulated in such a way that prudence and practical wisdom were maximized; however, a large enough percentage of SIBs do not fall within this category because they suffered from unregulated self-interest. Prudence guides our intellect and our moral decisions because as Dr. Celano writes, "Prudence, itself an intellectual virtue, is needed for all moral virtues because it determines the proper means to desired ends and issues appropriate commands" (Celano, 2012). Prudence is essential to making good decisions because it helps guide us to pursue the optimal ends with the most practical wisdom. If constructed with prudence, SIBs would be better able to fulfil their vision.

However, in order to do this, SIBs must adapt. While strict economic approximations for certain risk factors are important to SIBs as an outcome-based security, there must be some leeway built into the payout scheme to consider the more humane aspects of the situation. Economic approximations and statistical solutions are not enough to maximize prudence; this is because practicing prudence involves the full understanding of what ends we are trying to follow and economic approximations do not fully encapsulate this since as Hirschfeld notes, "economic models cannot account for the social embeddedness of practical reason, the way we learn from others things that cannot be learned from books of instruction. In short, the complexity of the world defies easy capture by mathematical models" (Hirschfeld, 2018). The reasoning behind this involves three salient points that we must discuss. First, economic approximations do not capture the process of evaluating what ends we should pursue, with the full holistic context of the situation. Second, these estimates do not capture the factors that are not quantifiable: personal preferences that are not fully known, areas of risk that are unknown, and social factors that are embedded in qualitative reasoning. Third, economic models cannot fully codify the virtues needed to practice prudence or practical wisdom because those models cannot adequately account for the value of freedom, or self-mastery, as a good. (Hirschfeld, 2018). In order to practice the virtues such as prudence or practical wisdom, moral development of one's character is crucial. Mathematical models simply cannot capture this part of the virtues because perfectly quantifying the development of one's character, in accordance to the right alignment of the heart, is not possible. Mathematical models cannot fully predict or measure the full breadth of social complexities and embedded systems that SIBs are trying to address. In order to maximize prudence, SIBs must adapt by either converting to a simplified payout system that is flexible and can accommodate the qualitative or having a metric that can measure improvement without reductionism. Another means to remove profit motive from a SIB would be to fund it from philanthropic sources.

Cuyahoga SIB: An Illustration of How SIBs Can Be Done without A Profit Motive

SIBs have been able to maximize prudence in the past. For example, the Cuyahoga County SIB was successful in that the SIB was able to uphold the Thomistic virtues of prudence and compassion. However, as a SIB, it did not produce the results that it had hoped to do, as such we will discuss both the efficacy of the *intentions* of the program. There are some criticisms to this SIB that will be discussed later on. It was entirely funded by philanthropists. The bond was aimed to reduce time spent in foster care for children of homeless mothers. The government partnered with Frontline, an innovative charity that has devoted 26 years to providing comprehensive services to mentally ill homeless people, with the goal of transitioning the homeless to permanent housing. Frontline is innovative because “unlike many social service nonprofits, they continuously assess their interventions, rigorously collecting data” (Chase, 2019). These factors allowed Frontline to have continuous adjustment of their delivery models, which made them ideally suited for the SIB. The difference between Frontline and St. Mungo’s in collecting data on its clientele is that Frontline did this without the quantification of an impersonal database like CHAIN.

Frontline’s data revealed that moving homeless mothers to stable housing increased their chances of gaining custody of their children from foster care. This is important because statistically, children of homeless mothers spent considerably more time in foster care than other children do. In order to shorten this time, Frontline chose to shorten the children’s time in foster care, which presented an opportunity to save money for the state.

The payout structure for this bond is simple yet elegant. The term “elegant solution” is used in its technical sense where “the maximum desired effect is achieved with the smallest, or simplest effort ” (whatistechtarget, 2005). As Dr. Lisa A. Chase wrote, “if Front Line reduces by 25 percent the number of days that children of homeless mothers spend in foster care, the Cuyahoga County government will return investors the entire savings in the form of success payments of $4 million, plus a nominal interest payment” (Chase, 2019). This payout structure is based on one metric: the number of days spent in foster care. This is elegant because the measurement of the number of days is objective and leaves little room for complication. This method is elegant but not reductionist because the SIB developers did not seek to quantify the entire situation to develop the payout scheme but still captured the overall essence of the situation. The bond did not try to capture the entire situation within a single payout structure; instead, with one measurement, Cuyahoga county constructed a SIB that maximized payout while promoting a holistic understanding of the situation. This bond also is entirely funded by philanthropic dollars, meaning there is no profit motive except for the desire for cost savings. Most of the funding (1.575 million dollars) comes from The Reinvestment Fund, which is a community development financial institution. Another 325,000 dollars was from the Nonprofit Finance Fund and the remaining funding came from three different premier endowment funds: The George Gundi Foundation, the Cleveland Foundation, and the Sisters of Charity Foundation of Cleveland (www.thirdsectorcap.org/cuyahoga, 2015). The project is one of the first instances of a SIB entirely funded by public donations, where the funders are overwhelmingly focused on social impact rather than financial returns. The SIB represents a valuable chance of how charitable foundations can partner with non-profits and the government to bring the robust data outcome-based measurement. SIBs bring a level of outcome-based measurement and influx of cash to charities rarely seen elsewhere. While the Cuyahoga SIB does not have a profit-motive, it was included in this discussion to showcase how a SIB involves partnerships of diverse organizations to strive for a common goal.

This example illustrates the fact that SIBs can be effective while maintaining the essence of charity. As discussed earlier, SIBs have been in a precarious position because these securities are frequently subject to both charitable and profit-driven motives, which can lead to troubling, unintended consequences: interorganizational conflict, the reductionist methodologies in the payout scheme, and the lack of holistic understanding of the social initiative. However, as seen with the Cuyahoga bond, SIBs can be effective by promoting an elegant, yet simple payout structure and removing the potential conflict of interests by funding the entire project with donations.

They understood self-mastery and virtue as a good because Frontline's main objective in helping homeless mothers was to restore their lives by promoting the establishment of integrated support systems, by deepening their ties within communities, by offering substantial therapy to help refine their character and lastly, by aiding in the reunification of the family in a controlled, refined environment. Frontline is a charity that is dedicated to promoting self-mastery and the notion of the good life as a good because the charity knows the efficacy and importance of a healthy, functioning life. The non-profit understands the need in having self-mastery in order to have a healthy foundation for a family.

The Cuyahoga SIB also promoted the right type of self-interest as well. The SIB developers and Frontline demonstrated regulated self-interest and self-love because they promoted a healthy undertaking of the project by accepting funds from charitable sources. By doing this, the SIB developers demonstrated the right type of self-interest, which is the need to procure enough resources to take care of their financial needs. The SIB developers also did not focus on a profit motive by seeking funds from community development financial institutions, charitable foundations and endowment funds. By doing this, the SIB developers promoted righteous self-interest and a sleek, integrated support network made of likeminded institutions. They avoided the messy entanglement that results from the clash of charitable and for-profit motives. Instead, from neighborly love and righteous self-interest, the Cuyahoga Bond was able to be implemented with the right intentions.

Lastly, having established the fact that the Cuyahoga Bond was done with the right type of self-interest, it follows then that the Cuyahoga Bond maximized charity as well. Charity is done with the right intentions, righteous self-interest and neighborly love. We have demonstrated that the Cuyahoga bond was constructed with the right intentions, and self-interest. The last piece then is neighborly love. We can further this argument by explaining the level of detail it took to piece this project together. The SIB was launched with the understanding that the reunification of families with homeless mothers is harder because of the prevalence of mental health issues and substance abuse. However, Cuyahoga County recognized that they did not have the right expertise to fully address this cause, thus they incorporated Frontline. By using Frontline's data and expertise, Cuyahoga County and Frontline were able to construct a 12 to 15 months program that was aimed to help assist families to reunite. The type of therapy offered in this program is Critical Time Intervention (CTI), which is an "evidence-based homelessness transition therapy that helps vulnerable families that are experiencing homelessness to slowly reconnect to community support networks and settle successfully in newly attained housing" (thirdsectorcap.org/Cuyahoga, 2015). This type of therapy was developed from robust research, experience, and data modeling. Frontline's and Cuyahoga's treatment plan was incorporating this therapy that was developed from a robust process that demonstrated that CTI does help with the complicated nature of reunifying families. Cuyahoga County showed initiative by the fact that it enlisted help from Frontline, an innovative charity, and incorporated CTI in the process. This decision was made with foresight, care and thoughtfulness. The inclusion of the SIB process further adds to the argument that Cuyahoga County was prudent with this process. Faced with lack of funding, Cuyahoga County enlisted the Pay for Success model while maintaining the essence of charity by accepting donations only from charitable resources. This decision was intentional and shows foresight. The amount of care, detail and initiative that was involved in this project demonstrates the fact that the Cuyahoga Bond was constructed from a sense of neighborly care and concern. Thus, the Cuyahoga SIB promotes the essence of charity.

This case study illustrates the fact that SIBs can and have delivered on their vision: maintaining the ethic of charity while also filling in budget shortfalls through private finance methodologies. While SIBs can succumb to the variety of problems discussed, it is important to note that this does not have to be the case. SIBs are not inherently bad; instead, if done with the right care, vision and foresight, SIBs can offer a unique chance for non-profits to implement programs that could not get the necessary funding otherwise.

The Cuyahoga SIB was structured to reflect the beautiful code of ethics that fulfilled Thomas Aquinas' virtues of neighborly love, proper self-interest, compassion and charity. As of 2020, this SIB did not fulfill the expectations of many. The SIB sought to use admirable means to lessen the days that children spent in foster care. However, in the SIB's final evaluation, Dr. David Crampton of Case Western concluded the SIB was unable to reach the goal of reducing foster care stays. In fact, the children in the control group actually spent less time in foster care than those who were in the SIB program. On average, the control group spent 802 days in foster care, while the treatment group spent 871 days, a staggering 8.6 percent difference (Crampton et. al., 2020). The lack of compelling results does not undermine the fact that this SIB was able to be done in a very compassionate, charitable fashion.

This lackluster result was due to traditional foster care would settle for any viable means to end a child's tenure such as re-unification or adoption while the SIB would require re-unification alone. Additional staff was needed to implement this requirement to resolve housing issues for the unsheltered caretaker. Understandably, this more stringent success criteria lengthened the child's stay. However, the work being done was valuable. As written in the final evaluation, "In fact, 59% of children in treatment were initially reunified with their caregivers compared to 45% in the control group. This served, in fact, to lengthen some children's stays in care as reunification was pursued" (Crampton et. al., 2020).

There were some positive effects as well. African American children had higher reunification rates than the control group. This difference can be explained the effects of the treatment. CTI therapy involves empowering the client to have more self-sufficiency and a better life outlook. As the final evaluation reports,

> It is likely that African American caregivers were more responsive to the treatment due to being served within a context wherein they felt that the odds of getting their children back were low. This sense of hopefulness for caregivers is a powerful asset to maintaining progress on a case plan and stabilizing their home and personal situations. Finally, we must consider that the treatment, through its emphasis on advocacy and client empowerment, was also more successful in helping these caregivers overcome the effects of racial discrimination in the housing market, which could have further aided them in maintaining stability (Crampton et. al., 2020).

The sense of empowerment and hopefulness that CTI therapy brought was critical for the reunification process of African American children with their primary caretakers.

The Cuyahoga SIB did not enjoy overall success for its original mission. However, the SIB did valuable work because the it was developed to promote compassion and charity. Although not entirely successful, this SIB served as an example of how the Thomistic Framework may be fulfilled.

Denver Homeless SIB: An Illustration of a SIB Upholding the Thomistic Framework While Having a Profit Motive

As discussed previously, a profit motive does not inherently degrade the quality of a SIB. However, a SIB can be hurt when profit motive devolves into unregulated self-interest. This section will discuss the Denver Homeless SIB to illustrate how a SIB with a profit motive can be done while upholding the Thomistic Framework. The Denver Homeless SIB adheres to the Thomistic tradition because its developers prioritized integrity and compassion which preserved the dignity and humanity of the chronically homeless. The compassion that the SIB developers utilized is reflected in how the program is structured, the way the program excels in accommodating its clientele, how the data is handled, and how the payment structure is handled.

The SIB was created in response to the substantial increase in the chronically homeless population in the Denver area. The reasons behind this increase is that Denver's booming economy attracted an influx of new talent from outside the immediate community. The burgeoning population caused a housing shortage and rents skyrocketed. According to Dr. Mary Cunningham of the Urban Institute, "Housing prices in Denver are increasing at a rate exceeding the national average, and there is an estimated shortage of 32,000 units in the Denver area, leading to a market with limited supply" (Cunningham et. al., 2018). Unfortunately, the poorer residents were being forced onto the streets as the supply of affordable housing dwindled.

There have been several measures to address this pressing issue. For one, Denver mobilized resources to support programs, funds, and organizations that can help with meeting the needs and issues of the chronically homeless. With the increased resources being directed towards alleviating this issue, the city also wanted to create an alternate channel that established a long-term program to provide supportive housing and costs savings by utilizing outside capital. Thus, the Denver Homeless SIB was created. The city of Denver partnered with several advocate organizations and non-profits: the Colorado Coalition for the Homeless (Service Provider), the Corporation for Supportive Housing (Project Manager), the Mental Health Center for Denver (Service Provider), and the Urban Institute along with the University of Colorado, Denver.

The SIB's program financing and payout methods were simple, yet elegant. The front-end capital amounted to 8.6 million dollars and was be used to construct a 5-year program. It was estimated that in Denver that each chronically unhoused person spent 59 nights in jail; as an aggregate, the total population of the homeless spent over 2,000dire nights in jail, costing the city of Denver 7.3 million dollars per year (Cunningham et. al., 2018). The SIB developers wanted to measure the progress being done by each day the program participants, collectively, were stably housed and not in jail. The payout scheme was incentivized: for every day a program participant was stably housed, the city would pay the private investors 15 dollars. The SIB program was designed to reduce their jail stays by providing housing stability.

The payout scheme for the Denver Homeless Initiative reflects the integrity and foresight of the SIB developers by using a simple, objective method of measurement that was flexible enough to accommodate the well-entrenched complexities of chronic homelessness. In a high-profile SIB like the Denver Homeless Initiative, the developers usually employ highly quantitative measures to establish a payout scheme that sometimes result in a Machiavellian payout metric that is abstracted from the situation. In the London Homeless SIB, the developers used CHAIN, a database that tracked years of interactions between the homeless and St. Mungo's, to calculate the probability of each outcome and assign dollar amounts for them. This method reflected the quantification of a vulnerable populace in order to provide a return. However, the Denver Homeless SIB chose a different path by utilizing the days spent in stable housing as a metric which avoided the reductionism found in the St. Mungo's bond. Although having one metric may seem reductionist, the Denver SIB used a one that encourages both objectivity and flexibility to handle unusual client circumstances. It leaves room for consideration of the qualitative factors in the situation.

The Denver Homeless SIB showed prudence in how the developers managed and used their data responsibly. To ensure program resources were used effectively, the SIB developers chose their clientele from the chronic homeless who had been arrested eight or more times in a three-year period. The SIB sourced these data from the Denver PD. Importantly, the SIB restricted the data collection on their clients to 6 months after they entered the program. As stated by the Urban Institute, the charity in charge of the SIB, "for participants referred to the program in January 2016, we analyzed data through July 2016, and for participants referred to the program in March 2016, we analyzed data through September 2016. Everyone in our sample is observed for the same length of time" (Cunningham et. al., 2018). The purpose of this was to ensure that the quality of data was complete and current, and that the data being used was sourced responsibly. The first and foremost concern of the Urban Institute in this SIB was to preserve the humanity and dignity of the people in this organization. The non-profit showed prudence in that they recognized that data, an invaluable resource, should be handled with care and concern when dealing with such a vulnerable populace. Therefore, the SIB developers chose to utilize data to allocate resources to those who needed it most. They used prudence by choosing the means to fit the proper, rightly ordered ends.

In order to provide services, the SIB developers knew that gaining the trust of the chronically homeless was crucial. The service provider, the Colorado Coalition for the Homeless (CCH), prioritized this by leveraging community ties and emphasizing that each program participant has the power to design their own experience. They did this to build trust in a short time, as said by the CCH, “the way that you do that is through allowing someone to dictate their service provision as much as possible because there is a power dynamic, and we try to minimize that” (Cunningham et. al., 2018). The SIB hoped to entice the homeless from their long-standing, precarious living circumstances by giving them leeway in designing their treatment plans. And to many, leaving their support system proved to be onerous. The SIB developers recognized the well-entrenched nature of chronic homelessness and chose to address this by building rapport and community ties with loved ones, friends and family (as will be discussed below).

In addition, the SIB used the Housing First Approach, which meant that their priority was to get each person into permanent housing. The process to get each person into stable housing was long and involved. First, the program had to establish participants’ eligibility to enter a lease by assisting them in resolving legal issues and gathering requisite documentation. If eligibility could not be established, then the non-profit, Colorado Coalition for the Homeless, would be on the lease instead. The main goal of this was to provide stable housing for each program participant.

To further allow customization and flexibility, each program participant had several choices of housing, which CCH said was key to the program's success because:

> Like in any housing situation, there is a combination of circumstances that do not align well for some and do align well for others…whether it's having a secure entry, not a walk-up unit, or a neighborhood preference. [At times], we have had participants request a move because their neighbors [were] causing a huge problem for them…neighbors who were [noisy], or there was drug trafficking in the unit next door. We have had plenty of instances where just the neighborhood, the building itself was not conducive for them to thrive.… (Cunningham et. al., 2018).

CCH recognized that each program participant's needs were important and providing housing that addressed and satisfied their needs would encourage housing retention rates.

While housing is important, supportive care is also vital. The SIB provided several different services, such as an Assertive Community Treatment (ACT) team, behavioral health services, including psychiatric services, individual and group therapy, and substance use treatment, links to community resources (food resources, legal referrals and advocacy) and to integrated health services (medical, dental, vision, and pharmacy services) and transportation assistance and referrals (Cunningham et. al., 2018). Offering a wide array of services was important because each participant had specific needs and desires that the SIB sought to address. The main component of these support services was the use of the ACT model, which stresses on having smaller cohorts, multidisciplinary team approach, clinical services provided in the home, and unlimited time frame.

ACT was utilized to promote good mental health and community ties for each program participant by offering individualized therapeutic services. In addition, ACT offered group activities for the families and loved ones of the program participants to provide a shared bonding experience. ACT also achieved this by providing social activities for the program cohort collectively so that each person could find community (Cunningham et. al., 2018). CCH really emphasized building community ties as a means of therapy because CCH recognized that each program participant needed a support system in order to transition into stable housing. As said by the ACT team, “we are trying really hard to get them engaged in community support. We are trying to help them find their interests” (Cunningham et. al., 2018).

This SIB maximized the virtues of prudence because CCH used its practical wisdom to establish what means should be used for the appropriate, rightly ordered ends. They recognized the power imbalance that disrupted the trust and rapport between CCH and program participants and acknowledged the well-entrenched complexities of being chronically homeless. The Denver SIB chose specific means to address the end, which is to uplift the quality of life, community, and health for each program participant by providing a stable home, therapeutic services, and strengthened community ties. To do so, CCH stressed building support systems, customization, and empowerment of everyone to achieve the final end.

Similarly, this SIB maximized the definition of charity. Charity is done by a supreme love of one’s neighbor and requires a transformative work of the heart. The level of attention, care, and detail CCH and the SIB team provided shows that they really cared for this social initiative. Not only did they recognize the inherent complexities that each program participant faced, they also addressed it by incurring extra costs to provide a variety of services to allow further customizations, a *portfolio* of available housing to choose from, and support systems that strengthened each program participant’s social circle. The SIB developers were cognizant of the needs and realities that each person faced and used this knowledge to provide them a higher standard of care that is rarely seen. All of this testifies to the fact that this SIB was done out of neighborly love, out of the selfless need to help better the lives of each program participant.

It is important to realize that without the capital provided from private investors, this program would not have been possible. Yes, there was a profit motive, as the SIB has generated a return for private investors; however, the level of care and attention that CCH provided shows that the money was used well. Charities cannot function without adequate funding, and that is what private investors gave. The capital provided enabled the creation of the SIB and the program that helped hundreds of previously homeless people gain access to stable housing. In the end, this SIB represents an excellent example of how private finance can enable and encourage acts of charity and service. SIBs, when done well, can and have fulfilled the vision of being a compromise between private finance with the public good.

Both the London and Utah SIBs have demonstrated their original missions were tarnished by profit motive. However, the issues surrounding the profit motive do not come out of a vacuum, but rather from the misalignment of goals among the different agents in the situation. SIBs are contracts that deal with diverse groups of people with differing interests. While investors do want to produce social impact, this group also wants to get a return. The non-profits and public organizations simply want to get charity work done. Having the combination of private finance with the public good can introduce moral hazards and a clash of interests. The source of this conflict comes from differing ideals and improper team management. To address the problems with the profit motive, we must address the misalignment of interests which can get complicated.

According to Drs. Alfonso del Giudice and Milena Miglavacca of the Università Cattolica del Sacro Cuore, the SIB faces unique challenges because it is essentially a hybrid instrument that combines two diametrically opposed fields. However, with their analysis of successful SIBs, they found that there are a few key factors which can contribute to the overall cohesiveness of the teamwork between both charities and investors. For one, SIBs that involve local authorities had strong positive correlations with having a successful outcome which produces both a return and also the social impact that the charities wanted. The two researchers hypothesized that the greater accountability in having a governmental organization can help bring discipline and a stronger framework of behavior for all parties. As written in their article, "In effect, local authorities are well established in the social fabric and thus are better informed on both the social areas that need the most external intervention and the projects that are the most likely to be successful" (Del Giudice and Miglavacca, 2019). These researchers found that having multiple investors can help lead to greater accountability and better dispersion of power. Lastly, they also concluded that risk could be isolated from sponsoring agencies by use of a Special Purpose Vehicle (SPV). A SPV can serve as a third-party buffer for its parent organizations and shield them from risk. In addition, a SPV can promote program harmony and consensus which can lessen a badly executed profit motive.

Impact Investing: Practical Application

Although these ideals seem lofty, there are practical ways to uphold these principles using finance. In previous chapters, this thesis discussed SIBs as a means of being a positive economic agent. While SIBs have had several issues, the end hope is to argue that SIBs have potential, as both a security and as an agent of good. SIBs uphold a narrative that is both compelling and impactful for the larger area of finance. The narrative starts from the claim that public and non-profit organizations have important shortcomings in terms of service design, delivery, and accountability, and have been unable to fully utilize the organization's potential to address entrenched social issues. As of now, non-profits are not run as efficiently as businesses because they rely on grants and donations and have no need to turn a profit. Then charities face great pressure to use all their donated funds toward their core mission, rather than on bloated executive salaries and advertising. Fortunately, more non-profits are gaining awareness that utilizing finance methodologies can help boost donor revenue. SIBs are a brilliant compromise between private finance and the public good because they help investors drive their capital to non-profits in exchange for a return. The aim of SIBs is to incentivize managers and service providers through performance pay or outcomes payments which reflect the extent to which pre-agreed metrics of success are achieved. Thus, SIBs can create a mechanism to improve the methods in which charities measure their performance, and theoretically, SIBs introduce accountability between service providers and donors by setting clearer expectations of what funds will be used to achieve.

SIBs represent a larger conversation in the world of finance. SIBs are a form of impact investing. Impact investing can be defined as the investment approach that intentionally seeks to achieve positive financial return and generate measurable social impact. Impact investors aim to align their moral framework with their investment strategies. In practice, it means that rather than investing in fossil fuel firms, we can choose to finance renewable energy projects to address global warming Impact investing is choosing to align our economic decisions with our morals. The goal of this movement is to promote a more sustainable, compassionate economy from an investor's perspective.

Impact investments are a subcategory of the larger Environmental, Social, Governmental (ESG) movement. As of now, ESG investing strategies grew to more than 30 trillion dollars in 2018, with forecasted cash flows of 50 trillion dollars over the next 20 years (Stevens, 2019). In addition, more than 85 percent of S&P 500 firms now disclose ESG information, up from 20 percent in 2013. The prime driver of this substantial increase is that investors are now wanting to invest in socially conscious firms. This movement represents a large market shift in corporate governance. In previous years, the Friedman Doctrine was the core tenant of countless firms. However, the ESG movement is directly counteracting and dethroning that doctrine. The ESG movement promotes the concept of corporate citizenship, which refers to a firm's responsibility to contribute and invest positively in its surrounding communities. Impact investing is a subset of this movement and refers to the core need to produce a social impact with one's capital. Other subsets of the ESG movement is merely concerned with investing in socially responsible firms, funds, etc. However, impact investors want to see a tangible impact from their invested capital.

The core need of this movement is to address the fact that where we invest matters, that our economic decisions can and have impacted others. It is the recognition that one's economic decisions matter to the larger context of his or her surrounding communities. Impact investing is rooted in the knowledge that our economy is highly interconnected and that our own decisions, collectively as a movement, can produce a positive impact. The need to make a positive impact is inherent within this movement because investing where one's heart is important. As said by CNBC reporter Pippa Stevens, "While many would argue that much remains to be done in order to achieve long-term sustainability targets, we stress that the growing focus on them by investors and the wider public is starting to have a real impact" (Stevens, 2019). In other words, impact investors are so deeply committed to their morals that they are not willing to negotiate or compromise their ethical framework in order to get a higher return.

Many critics believe that impact investing must be less profitable than other forms, or that impact investing cannot uphold the market benchmark. The market return encapsulates the average return of a given sector or given geographic location. However, the market rate may include unsavory firms that may uphold unsavory practices such as unsustainable environmental practices, sweat shop labor, predatory lending or unregulated self-interest, and socially irresponsible decisions that may hurt smaller businesses/marginalized communities. A substantive number of firms indulge in socially unsustainable practices for the sake of becoming more profitable. Cutting costs and maximizing margins can sometimes include making decisions that hurt a lot of vulnerable people. And while they may appear more profitable and thus generate a high return, their practices are not conducive for the overall vision of making a positive impact. As author Morgan Simons writes, "Is this really what we want as our standard of comparison? Or should we start by thinking about what would be a reasonable return that would create long-term benefit for all" (Simons, 2017). Making a reasonable return should be the prime motivation, rather than just beating the market. A reasonable return means that the return provided should be enough to justify the investment, considering the social impact said investment promotes. Fortunately, on average, sustainable investing options are making reasonable returns, even when compared to conventional asset classes. As Pippa Stevens writes, "But the data tells a different story. 65% of sustainable funds rank in the top half of their respective Morningstar category through November, the firm said, and 48% of large-cap blend sustainable funds are beating the S&P 500 this year. By comparison, overall only 26% of large-cap blend funds are beating the market" (Stevens, CNBC). In essence, impact investing is both profitable, socially responsible, and practical.

CONCLUSION:

The Vision Behind Utilizing Aquinas to Evaluate SIBs

By establishing, applying and utilizing the framework to analyze SIBs, this thesis attempts to further refine the academic debate around SIBs by grounding my work using Aquinas. His work is relevant to today because he has built a body of work that addresses real ethical issues by applying a grounded framework that connects the real realities of economics and human behavior with theoretical concepts, such as the virtues of justice, charity, regulated self-interest and prudence. All these virtues can be applied to SIBs in analyzing the intentions, successes and failures of the movement. Thomas Aquinas promotes an economy of human flourishing because he promotes a kinder version of business acumen. The just price considered not only the appropriate price in terms of compensating cost, risk, and time, but it also considers market externalities, the right levels of exchange that promote each agent to have their needs sustained, and the promotion of justice as a virtue. Thomas Aquinas refines the discussion of self-interest by delineating between regulated and unregulated self-interest through a grounded framework. He gives us vocabulary to address the consumerism of the modern-day economy. Likewise, he has a kinder version of charity; he promotes our understanding of charity as kinder by emphasizing the fact that we must learn how to take care of ourselves before taking care of others. He also further refines our discussion of economics by developing the concept of prudence as a means of decision making. Most contemporary economists believe that people utilize marginal decision making and rational self-interest in making decisions. In contrast, Thomas Aquinas believes that people should make decisions with prudence because prudence not only regulates our self-interest, but also aligns decision making to the virtues, to a wholistic understanding of the self and of the situation. To summarize, Thomas Aquinas developed a body of work that adds to and refines our vocabulary in describing our own economic behavior; thus, this framework is relevant to business ethics and the ethics of SIBs.

The vision for this thesis was to discuss SIBs with a grounded, time tested and true philosophical framework that could illuminate our understandings of SIBs. However, it is desired to extend this analysis one step further and discuss ways that SIBs can be reformed because they have potential in being agents of change for the better. SIBs were created for the purpose of directing investor capital to underfunded social initiatives through a mutual, symbiotic relationship: charities get the funds needed and private investors gain a return on the provided capital. While having a profit motive to conduct charity may seem contradictory, it is important to remember that Aquinas emphasizes the fact that charity should be done with surpluses, with extra abundance, rather than giving parts of ourselves away at the detriment to our social, biological, and spiritual needs. If charities do not have the funds to construct programs that address social issues, then they will not be able to do charity work. Investors can alleviate this situation by providing charities with a surplus to do charity work. If the profit motive is subordinate to the social initiative, then the vision of the SIB will be upheld. The problems start when the profit motive becomes the end to the SIB, which leads to interorganizational conflicts, unregulated self-interest, and the dilution of the purpose of the SIB and success of the program.

However, prudence can help reform the SIB movement because prudence, when present, can help SIBs promote a holistic understanding of the situation, while including objectivity in the payout systems. The criterion is simple: SIBs should have a straightforward, yet objective payout scheme that allows room for flexibility. It allows for flexibility because the payout structure, when simplified, can dissuade the need to quantify well embedded social systems because increasingly complex payout schemes demand a higher level of economic modeling and math approximations to mitigate the risk and provide compensation for a given SIB. However, a simple, yet objective payout scheme does not demand such high levels of quantification and allows for flexibility by simplifying the process. The end goal of this analysis is to advocate for a reformed version of the SIB, based on the Thomistic framework.

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