

Capacitating Services and the Bottom-Up Approach to Social Investment

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Introduction

There is a new emphasis in social welfare policy – so emphatic as to amount to a shift in paradigm – on prevention of harm rather than the palliation of its effects. A crucial component of this new social investment paradigm is the provision of capacitating social services – from education and training through activation to child and elder care – aimed at the early identification of problems and at equipping an ever more diverse citizenry to surmount the increasingly uncertain – and thus less insurable in a strict actuarial sense – risks they face in the labor market and the life course. To respond effectively to these non-actuarial risks, such capacitating services must also be tailored or customized to the needs of individuals and groups, typically by bringing together specific and continuously adjusted bundles of assistance from different policy domains (e.g. educational, psychological, and family services in the case of learning disabilities, or mental health, substance abuse, housing, child care, and training services in the case of unemployment).

Investments are of course justified by their returns, and returns are calculated by weighing the cost of expenditures now against gains in the future. In the case of social investment, this would naturally require a careful assessment of costs and benefits. But a spreadsheet analysis would be insufficient because social investment is an investment in a public good, and therefore to be decided democratically, and because the returns might be expected to accrue to voters and politicians of the future rather than the demos of the present. It could prove difficult to mobilize sufficient political support for the paradigm shift even when experts agree on the advantages of doing so.

Seen this way, debate about social investment is, or should be, modelled on discussion of climate change. Here too there was a paradigm shift from the earth as an inexhaustible resource

to the earth as a fragile living system. Here too effort has been focused on an ex ante, top-down assessment (by the UN FCCC) of the costs of the global harm (as a proxy for benefits foregone). In the absence of precise knowledge of the costs of climate change mitigation, debate has focused on the allocation of costs between rich and poor countries and between the richer generations of the future and the poorer generations of the present (with the gap between the two measured by highly controversial estimates of the discount rate).¹

But this comparison should give pause. The debate about climate change has been stalemated for two decades. Uncertainty about the costs of lowering emissions exacerbates the bargaining problem of their allocation. The bargaining problems heighten uncertainty as key parties must fear the reactions of counterparts who cannot meet their commitments. When it is unknown which commitments can be fulfilled and others' response if some are not, it is no surprise that bargaining among parties with sharply different interests is cautious to the point of paralysis.

If this is the future of social investment, only the most dogged optimist can claim that it has one. In this chapter, we argue that conceiving of the paradigm change in social welfare as a comprehensive and concerted investment is misguided. It obscures more feasible piecemeal approaches which, with an important proviso, are closer to the reform strategies that the principal actors are already or can be expected to be pursuing. In this approach, costs are not established ex ante and centrally, but rather are clarified through parallel practical efforts actually to provide capacitating services in particular domains. Reform coalitions are similarly not formed ex ante, through comprehensive bargaining, but rather developed on the fly, as initial successes demonstrate cost feasibility and generate in the short and medium term beneficiary clienteles. The crucial proviso is that the decentralized efforts to move in the direction of social investment are carefully monitored, so that dead-ends are rapidly identified, corrigible programs are rapidly improved, and successes, where general, are generalized. Current debate in climate change urges a similar reorientation and points to examples where this approach has succeeded.

Willy nilly, this is actually the trajectory of reform of social welfare systems in many places. It is proving impossible to design and establish by legislation or administrative rule

¹ For this discussion, see Sabel and Victor (2015).

comprehensive systems for providing capacitating services. In part, this is because it is difficult to specify the roles and responsibilities of members of integrated service teams ex ante in detail without limiting the very autonomy that the actors at various levels in the reformed systems will need to respond to novel and changing circumstances. These difficulties are exacerbated by the existing fragmentation of administrative responsibilities: vertically between national states, provinces or regions, and municipalities on the one hand; and horizontally between service providers from different policy domains on the other. Uncertainties about the division of labor in an ideal system are thus compounded by disputes over jurisdiction in the current one. But while this fragmentation frustrates efforts at unified and comprehensive solutions, it virtually guarantees that there will be many spaces for experimentation with different approaches to the provision of capacitating services. And this proliferation of alternatives – provided again that the structures for pooled evaluation of experience are put in place – can be an invaluable asset not a liability. In sum, the natural way of thinking about the transition to social investment is counterintuitively unlikely to succeed, and that what looks like a messy fallback position – a concession to political and administrative reality – could actually be the starting point for a more promising strategy.

Similar arguments apply to the creation of the institutional complementarities on which the success of social investment depends. To ease successful transitions or “flows” from one life phase and situation to another depends on increasing the “stock” of adaptive skills, but actors will only be able to learn what is needed to increase adaptability if they are “buffered” through social assurance and the provision of support services from the shocks and stresses that threaten to overwhelm them. It might seem that the success of capacitating institutions will therefore depend on the prior existence or simultaneous co-creation of complementary buffering institutions, thereby exacerbating the burden of the ex ante investment coordination problem. Though we focus in what follows on demonstrating the feasibility of piecemeal solutions to the problems of design, cost, and coalition politics of capacitating services, we point as well to some preliminary evidence that the problem of institutional complementarities can be addressed piecemeal as well.

The Inter-temporal Problem in Social Investment

The introduction of capacitating services in many settings is likely to require politically painful shifts of resources from old to new programs and/or tax increases, each of which impose concentrated costs on particular social groups. Hence the need for what Alan Jacobs (2011) calls a “politics of the long term”.

Jacobs is right, we think, to insist that these kinds of transformative reforms cannot be based on precise calculations of cost and benefits or detailed specifications of causal mechanisms, as in traditional business investments. The long-term consequences of transformative reforms are too uncertain, the causal chains involved too complex to permit “anything approaching comprehensively rational calculation” of their expected utility. Hence policy makers typically rely on ideational frames and mental models – “simplified mappings of key causal relationships” in a given sphere – to fill informational gaps and assess the long-term outcomes of proposed reforms (Jacobs 2011: 53, 57). Once policy makers are convinced of the advantages of transformative reforms, Jacobs argues, they must then try to overcome potential opposition either through “hyper insulation” of the reformers from veto players and electoral competition – a cabal of the far-sighted and publicly minded – or through inclusive negotiations with a wide range of societal interests – a grand coalition (Jacobs 2011: 58-69).

In the next section, we want to underscore, in agreement with Jacobs, that knowledge of costs and benefits and causal mechanisms in areas like social investment and the provision of capacitating services is much more likely to be the result of the reform process than its precondition. But we want to argue in addition that the emergence of transformative coalitions in support of such investments is also more likely to occur piecemeal, as reform proceeds, rather than through the *ex ante* concertation of experts or an encompassing initial bargain.

The Limits of Ex Ante Calculation and Coalition Building for Comprehensive Reform

Consider first the limits to the possibility of *ex ante* calculation of the costs and benefits of comprehensive reform. We have a number of powerful indications that capacitating services are effective and affordable, and we have some knowledge of how such adaptive learning

organizations operate, but we simply lack – and cannot be expected to soon obtain – credibly detailed knowledge of aggregate costs and benefits, let alone their exact distribution in time and among social groups.

A critical case in point is the Finnish education system, widely admired because of the country's exceptional performance in the OECD PISA tests of 15-year olds' proficiency in reading, mathematics, problem-solving, and scientific knowledge (Sahlberg 2011). One of the keys to this success is the provision of special education services to some 30 percent of Finnish students, a much higher proportion of the school population than in other OECD countries (Sabel et al. 2011; Sabel 2012). More than two-thirds of these students receive short-term special needs instruction in standard classroom settings, often several times during their school career, with the aim of addressing particular learning problems and continuing with the normal course of study. A second crucial mechanism is a collegium within each school which at least annually reviews the treatments provided to each student. Finland's very high ranking in the league tables of international performance on the PISA tests is largely due to the outperformance of the lowest quintile of Finnish students, and it is of course these students who are the principal beneficiaries of the special education program. This Finnish system is, moreover, plainly affordable in that Finland's costs per pupil are about one-third less than in the US or Denmark, whose PISA results, especially for the lowest quintile, are substantially inferior.

The Finnish school system can therefore be read as a general vindication of the attractiveness and feasibility of social investment. It is, moreover, representative of a broader class of experimentalist institutions that use "learning by monitoring" rapidly to address novel situations: by setting framework goals, authorizing front-line units or workers to pursue those goals by the means most appropriate to their context, and then monitoring the results so as to eliminate failures early and generalize successes when they show promise of being broadly applicable (Sabel 2006).

But it is a long way from this kind of general understanding of the organization of capacitating service provision, and its improvement through ongoing review of its own performance, to anything like knowledge of the precise causal mechanisms – exactly which sequence of treatments are effective in which cases or what is the right balance of disciplinary

knowledge and further training in particular cognitive problems for effective special education teachers – that lead from the unreformed condition to future gains. Note that the Finns themselves, despite their direct experience of success in special education, have had difficulty in transferring the model of customized capacitating services to the closely related field of labor market activation.

The Finnish example and the use to which it has been put in international discussion suggest that it is more prudent – against the backdrop of a general understanding of the problem of providing capacitating services and promising approaches to doing so – to invest in the capacity to learn from and improve one’s own efforts rather than accumulating more and more inevitably incomplete knowledge of what works.

As the reference to the climate change debate has already suggested, the difficulties in establishing precise costs and benefits make it all but impossible to address the problem of establishing coalitions for inter-temporally extended bargains through either of the modes that Jacobs suggests. A shift to capacitating services will, in addition to complementarities between buffers, stocks, and flows, require reform of schools, vocational training, public health, child welfare, social assistance, elder care, and the police – core institutions of not just the traditional welfare state but the modern state generally. Is it possible to marshal evidence to persuade voters to support a one-off, comprehensive – and given its scope irrevocable – program of change? Or at the other extreme, is it possible to imagine a small group of experts insulated somehow from public opinion and inside veto players deciding rationally on such a momentous shift?

But as with the clarification of costs and benefits, here too there is a piecemeal alternative. It seems mistaken to assume that in the case of a shift in social welfare paradigms the costs are all near-term, while the benefits accrue only in a remote future. In the case of successful job training programs, measurable benefits are evident within months or a very few years after the start of the program, even if a full assessment takes longer. In the case of successful public school reform, there are tangible short-term benefits in improved test scores, decreases in drop-out rates, and stabilization of the school environment, which in turn facilitates further reform. As we know from the history of many innovations in service provision, such as

the US Post Office, or to take an organizationally more complex example, the Farm Extension Service, incipient programs often build their own clienteles, generating coalitions of current beneficiaries and those who seek to enjoy similar kinds of benefits (Carpenter 2001). Returning for a moment to the climate change comparison, the introduction of capacitating services is more like mitigating the harm of black soot – which has immediate and local benefits as well as very long-term general ones – than like mitigating the emissions of greenhouse gases where the effects are overwhelmingly long-term and general.

In sum, it is neither possible nor necessary to assemble *ex ante* the kind of information needed to make a compelling case for the paradigm shift in social services, nor all the more is it possible to build a coalition or cabal armed with such information that can be the political engine of reform. The messy solution of learning rapidly from experience is in fact the rational one, with the persistent proviso that initiatives are actually organized to learn from what they themselves and others do.

The Bottom-Up Approach in Action: A German Example

A study of the German Federal labor-market activation programme “Perspective 50plus” by Matthias Knuth (2014) and colleagues (Knuth et al. 2014) provides a compelling example of how given the failure of centralized hierarchical control, decentralized experiments can lead to the creation of capacitating services that are both more effective and less costly than standard treatments. The key, Knuth and his colleagues argue, was a governance architecture that allowed rapid pooling of local experience at both the regional and national levels.

The backdrop to the Perspective 50plus programme was the Hartz IV Reforms, which abolished traditional unemployment assistance (the follow-on benefit available upon exhaustion of unemployment insurance entitlements) by combining it with social assistance as a new, universal, tax-funded, means-tested and flat-rate minimum income benefit. But as social assistance systems had been the responsibility of the municipalities, the new benefit created jurisdictional conflicts, and contrary to the government’s intentions, the result was fragmentation, not unification, of Germany’s public employment services. Following a ruling by the German Constitutional Court, a complex compromise was reached: in three-quarters of the country’s

territorial units, joint jobcentre facilities to administer minimum income benefits were established by the municipalities and the regional branch of the Federal Employment Agency (Bundesagentur für Arbeit), with “unified management and integrated processes but separate staff and responsibilities”; while in the other quarter of the country, these benefits are administered by the municipalities alone, even though most of the financial resources come from the federal budget (Knuth 2014: 243-4).

Established amidst this confusion in 2005 for a ten-year limited period, the Perspective 50plus program took for granted the impossibility of establishing hierarchical control. The program’s immediate goal, linked to the federal government’s “work longer” agenda, was to bring older recipients of minimum income benefits back into (stable) employment. Because the Federal Ministry of Labour and Social Affairs has no legal powers over the municipalities, participation of the new joint jobcenters in the program was voluntary, offering the latter an opportunity to develop specific strategies adapted to their labor market situation. Jobcenters could freely combine different instruments and spend the financial resources allocated to them as they considered appropriate. They had to commit to quantified outcome targets, measured in terms of rates of participants taking up jobs and remaining in employment for at least six months, with soft but consequential sanctions in case of underperformance. An important element of the program was that local jobcenters had to partner with each other to form so-called employment pacts coordinated by regional units, which came to play a key role in monitoring the pacts’ performance against the quantitative targets and promoting mutual learning between local jobcenters. A central Programme Management Agency, run by an independent non-profit organization, was responsible for reviewing and auditing proposals, advising both jobcentres and the ministry, organizing regional and national knowledge transfer conferences, facilitating peer exchanges, maintaining an inventory of good practices, and developing a monitoring and reporting database capable of tracking the experience of individual participants. Although the pilot program started out with only 93 out of 438 jobcenters, it soon gained nationwide coverage with 421 jobcenters and 34% of the target group of elderly long-term unemployed involved by the end of 2012 (Knuth 2014: 246).

The results of the Perspective 50plus program provide clear evidence that decentralized experimentation with the provision of capacitating services accompanied by coordinated

arrangements for monitoring and rapid learning from local experience can produce superior employment outcomes at lower costs than standardized profiling and activation practices. At the core of the program were tailored solutions for the individual needs of the older unemployed, often combining counselling, training and provision of health services with unconventional solutions for transport and other problems. Many jobcenters established dedicated 50Plus teams of case workers, sometimes also including personnel from external service providers. Additional staff was recruited to keep caseloads of case workers lower than in standard operations. Such customized and integrated social services are typically considered an expensive solution, but the evaluation of the 50plus program yields a strongly positive assessment of its effectiveness and cost-efficiency. Although many members of the Perspective 50plus target group combined multiple labor market risks (low education, long-term unemployment, and health problems), its relative success compares positively with the standard placement approach for matched groups operated by jobcenters outside the program. The proportion of participants who took up employment increased from 26 per cent in 2008 to 35 per cent in 2012 while the spending per job placement was 11 per cent lower. Almost 70 per cent of those taking up a job, or 23 per cent of all program participants, remained in employment for at least six months, compared to only 19 per cent in standard active labor market programs for the same age and benefit group (Knuth 2014: 251-2).

Drawing on experiences from a range of such pilot programmes, including other projects directed towards young people and women returning to work as well as Perspective 50plus itself, the Bundesagentur für Arbeit introduced a new counselling concept in its services for recipients of unemployment benefits (starting in 2009) and basic social assistance (since 2012) (Bundesagentur für Arbeit 2015: 36). By offering a comprehensive further training programme for employment-oriented case management and guidelines for the development of integrated, often interdisciplinary teams that combine the skills necessary to address complex customer profiles in collaboration with a variety of external partners, the Bundesagentur für Arbeit aspires in its Agenda 2020 to diffuse positive lessons from such bottom-up experiments with capacitating services on a nation-wide basis (Bundesagentur für Arbeit 2014).

A Dutch prospect

Recent reforms of social welfare provision in the Netherlands, motivated in part by the persistent failure of a personal care voucher system, set the stage for similar and even more far reaching developments, while also suggesting the possibility of a bottom-up, piecemeal solution to the problem of establishing institutional complementarities. As of January 1, 2015, responsibility for youth care, elder care, and social support for persons with disabilities (understood broadly as an incapacity to participate unassisted in active social life) was devolved to the municipalities. The general thrust of the reforms is straightforward: to shift from curative to a preventive approach to services and from fragmented to integrated service provision, as well as to the extent possible to localize services in the sense of making them geographically proximate to users and to increase reliance on local social and professional networks. A focal point is the creation of “*wijk*” or neighborhood teams, organized around the official government goal of “one family, one plan, one case manager”. These teams are composed of social workers and specialists in related fields who act as the portal for a large share of the issues involving at-risk children and families, providing early intervention, references to other specialists when necessary, and continuing support when appropriate. Notably, teams include specialists on personal finance and housing to assist stressed individuals and families stabilize their situations so that they can both take advantage of therapeutic possibilities and make use of the appropriate educational and vocational programs. Put another way, the composition and activities of the *wijkteams* suppose that for the range of issues for which they are responsible the problem of complementarities can and probably must be addressed locally – through discretionary tailoring of various programs to the needs of particular cases – before they have to be addressed at the level of systematic reform.

But that’s where clarity ends. Core administrative problems remain unresolved: whether the members of the *wijkteams* should be municipal employees or employed by private contractors; what authority *wijkteams* have over the agencies that actually provide services in the more difficult cases where the team itself can’t resolve matters; and who will have access to what kind of information within this more networked system (van Arum and Schoorl 2015).

Already, however, cities like Rotterdam have created some 50 such *wijkteams* and are working energetically to restructure specialized services – for youth with deep psychosocial problems, for situations involving domestic violence or child abuse – so that these both support and are supported by the new *wijkteams* (Gemeente Rotterdam 2014). Developments there are a microcosm of developments in the Netherlands and advanced welfare states more generally: the stakes are so high that the parties are making serious efforts to learn rapidly enough from decentralized experiments under fragmented conditions to make them work.

Conclusion

But even assuming *arguendo* that there are bottom-up, incremental solutions to the problem of the costs and design of capacitating services and the assembly of the political coalitions and institutional complementarities to support social investment generally, there might be background conditions that limit the settings in which such solutions are in fact practicable. At a minimum, bottom-up solutions will only be feasible when national states permit some substantial measure of decentralized initiative and experimentation. This might limit bottom-up solutions to federal systems – such as Germany – or national systems with traditions of local or municipal autonomy, as in the Nordic countries. But there are two qualifications to even this very spare restriction. First, the Netherlands, which is as we have just seen one of if not the boldest practitioner of the bottom-up strategy, is standardly characterized as a centralized or unitary state, not a permissive one tolerant of decentralization. More fundamentally and generally, widespread political gridlock means that urgent programs are formulated as framework goals to which subnational units consent on condition that they be granted substantial autonomy in implementation. Such developments are especially marked in the US, where there is talk of a shift in the direction of executive federalism as reflected in legislation that openly authorizes state-level experimentation (Bulman-Pozen 2015). To the extent that this is so, continuing gridlock itself helps create conditions that favor bottom-up solutions, and bottom-up solutions help address the otherwise apparently intractable problems of a concerted shift to social investment.

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