1 Introduction: foundational matters

> To be truly radical is to make hope possible, rather than despair convincing. (Raymond Williams, *Resources of Hope*, 1989, p. 118)

This book aims to change established ways of thinking about economy, society and politics. It argues that the well-being of Europe's citizens depends less on individual consumption and more on their social consumption of essential goods and services – from water and retail banking, to schools and care homes – in what we call *the foundational economy*. Individual consumption depends on market income, while foundational consumption depends on infrastructure and delivery systems of networks and branches, which are neither created nor renewed automatically, even as incomes increase. The distinctive, primary role of public policy should therefore be to secure the supply of basic services for all citizens. If the aim is citizen well-being and flourishing for the many not the few, then European politics at regional, national and EU level needs to be refocused on foundational consumption and securing universal minimum access and quality.

Since the 1980s, the public policy debate has been about whether the state should continue to deliver many of these foundational services. This is an important debate because, as we will argue, privatisation and outsourcing of foundational services is damaging. But we have lost sight of the fundamental issue about the unique value of foundational consumption and how it is not guaranteed by high or rising individual incomes. This last point was very clearly understood by earlier generations of socialists and liberal collectivists. For R.H. Tawney in 1931, piped water and sanitation had transformed big cities and demonstrated society's 'collective provision for needs which no ordinary individual, even if he works overtime all his life, can provide himself' (pp. 134–5). J.K. Galbraith in 1958 restated the problem as one of 'social balance': individual incomes were increasing in the US, while schools and public transport decayed and air pollution increased, so that 'the discussion of this public poverty was matched by the stories of ever increasing private opulence' (p. 187).

What high-income countries have done for the past fifty years is feed this imbalance through promoting a narrow concept of economic policy which incidentally embeds a top-down setting of priorities. Public policy is something done by technical and political elites to and for ordinary citizens, often under the guise of governance arrangements that emphasise individual choice and responsibility. Since the Second World War, 'the economy' has been managed (by fiscal or monetary policy) for growth of Gross Domestic Product (GDP), with welfare primarily distributed through individual consumption based on wages. And since the late 1970s there has also been a presupposition in favour of competition and markets through structural reform which aims to make labour markets more flexible and introduces large-scale privatisation and outsourcing. In all of this, foundational services and the infrastructures that enable them to be provided are subordinate. It is assumed that income support must not interfere with work incentives, education should create workforce skills and health services are to be funded from taxes on incomes, even as tax rates are being cut and growth is increasingly hard to find.

Public policy since the 1980s has pursued the ideal of a market economy for the twenty-first century and, by the 2010s, has ended up recreating a predatory capitalism with income and wealth inequalities at nineteenth-century levels. What is more, stalled income growth across Europe threatens the political franchises of centrist parties of government. This economic outcome is dissected acutely by Thomas Piketty in his book *Capital in the Twenty-First Century*. But Piketty's diagnosis is much stronger than his prescription – redistribution through a global wealth tax – which he accepts is 'utopian'. We try to avoid utopianism by updating the old arguments about foundational services for new times in four chapters which present description, analysis and proposals for what is to be done. Against a depressing European background, our aim is to make hope possible.

Chapter 2 describes the foundational economy and presents a brief history which provides essential context for all subsequent argument. The foundational concept focuses attention on the goods and services which are the social and material infrastructure of civilised life because they provide daily essentials for all households. These include material services through pipes and cables, networks and branches distributing water, electricity, banking services and food; and the providential services of education, and health and social care, as well as income maintenance. These are welfare-critical activities for all households in the sense that limited access has a significant effect on the welfare of households and social economic opportunity for citizens. The foundational economy is also important as a source of employment: right across Europe, 40% of the workforce is in these 'sheltered' activities – meaning that they are generally not subject to the pressures of international competition. Physical access to and pricing of foundational services depend on public or private investment decisions about networks and branches, plus political choices about operating subsidies from tax revenue. Any individual can buy a computer, but high-speed internet access depends on the material infrastructure telecoms companies provide.

A brief history of the foundational economy since 1850 highlights two heroic periods of construction, followed, since

1970, by a very different phase of gradual degradation. In the first phase after 1850, municipalities led in providing gas, water and sanitation, which transformed life quality and added decades to life expectancy in Europe's great cities. In the second phase, after 1945, the central state, which had already taken the leading role in organising income maintenance through social insurance, now nationalised much of the patchwork provision of material services. But it turned out that what the central state had created, it could also take away. After the early 1980s, at a variable pace in different European countries, central state power has taken a destructive turn through privatisation, outsourcing and service cuts.

Chapters 3 and 4 of the book move from description to analysis – a necessary prelude to any discussion of policy responses. Chapter 3 presents a 'follow-the-money' analysis of how and why privatisation and outsourcing disappoint and damage, while Chapter 4 presents an argument about the rights and duties of citizenship.

If post-1980 privatisation and outsourcing have ended in disappointment, this relates partly to specific issues about irrelevant regulation in privatised utilities and crisis-prone conglomerates in outsourcing. Regulation of privatised utilities was dominated by economists focused on policing prices and investment and concerned to promote competition. At the same time, managers and fund investors were engineering cash extraction so that in the privatised UK water industry, for instance, the regulator allowed all the profits to be distributed as dividends, while investment was financed by adding debt. If we turn to outsourcing of public services in areas like health, justice or welfare administration, this is complicated by the involvement of large conglomerates, under financial market pressure for growth. In search of revenue growth, they move into new activity areas until their luck runs out, typically on contracts they do not understand.

More fundamentally, Chapter 3 argues, that there is a general problem about new entrants with high expectations of return and unsuitable business models. The foundational economy (public or private) had historically been low risk, steady return with a long time horizon, and expectations of a 5% return on capital. In our financialised form of capitalism, privatisation and outsourcing bring in stock market quoted corporates, private equity houses and fund investors with market-driven requirements for a return of more than 10%, and business models developed in high risk, high return, short time horizon activities. Returns can be levered up in the short term by financial engineering devices, investment rationing, tax avoidance, asset stripping and loading enterprises with debt. Meanwhile power is used to boost revenue by confusion pricing, and to reduce costs by hitting on stakeholders who account for a major part of costs (like labour in adult care or suppliers in supermarkets).

Chapter 4 turns to moral and political argument about the rights and duties of citizens. The third and fourth chapters are connected because, when corporations are juridical persons, they are citizens just as much as natural persons. Corporations as citizens have duties, but these are commonly abrogated by their predatory behaviour in the foundational economy. Our argument, then, is that the duties of corporate citizens should be made explicit through a process of political bargaining which brings the operations of privately owned companies into the public domain under a reformed constitution. And reforming the constitution is not a marginal matter: it involves rethinking in a fundamental way the relations between private enterprise and the state. Under a system of social licence, modelled on the agreements between mining companies and indigenous communities, all companies which draw revenue from the foundational economy would have to specify what they put back as social benefit into the relevant communities.

Chapter 4 also tackles the question of how to understand 'social citizenship' or the entitlements of natural persons. The experience since the 1980s refutes T.H. Marshall's progressive assumption that citizen entitlement to foundational services will grow from one period to the next. Equally, citizen entitlements within Europe vary by country or region and many in the adjacent Middle East or North Africa are excluded from the benefits we take for granted. It is therefore important to show that there is a core to citizenship which can be detached from territory. Put another way, the foundational project (of expanding human capabilities and establishing the conditions of flourishing) needs to take account of others, including unborn generations. But citizenship can then only become material within a new political practice – the theme of Chapter 5.

The starting point of Chapter 5 is that foundational thinking overlaps with recent discussion of universal basic provision of income, infrastructure and services, though these are still tied up with top-down concepts of policymaking and are not always clear about who should get what and why. In a first major clarification, Chapter 5 lays out four key shifts which would together change the paradigm of policymaking: obtain participation by asking citizens about their foundational priorities; extend social influence over business by licensing corporate business and encouraging small and medium-sized private and social enterprises; refinance the state by reinventing taxation to secure foundational revenue and capital investment; and, finally, create hybrid political alliances for change to drive public policy on the basis that government is not always benign or capable.

These conditions indicate a clear direction of travel and the good news is that radical change does not wait upon perfect alignment of political preconditions to deliver the four shifts. The chapter ends with a proposal for local and regional experiments which would make the foundational visible, debatable and actionable, and which can gain momentum and scale if supported at national and supranational level. These would be disruptive, mobilising experiments of the kind envisaged by Roberto Unger as radical social innovation, not 'what works' experiments, which allow established power to negotiate the world more intelligently. From such radical experiments can come learning and political mobilisation that begins to shift constraints.

Finally, it should be noted that this book about social consumption is itself a collective production. As noted in the Acknowledgements, the book was directly authored by a gang of five: the text was drafted and redrafted by Mick Moran and Karel Williams, who were closely advised and prompted on structural decisions, shaping of the argument and exhibits for each chapter by Julie Froud, Sukhdev Johal and Angelo Salento. Other members of the foundational collective contributed notes and drafts for chapters within book plans which were hammered out by the whole group in three seminar meetings in Turin, London and Lecce. The stock of ideas is collective and the creativity and scope of the book's argument owes everything to the group.

The collective includes academics of many different nationalities and regional identities, who all wanted to write a short book that would be of broad relevance to European citizens. Limits of space and available case material meant that we could not do justice to the diversity of Europe, let alone explore differences in other countries beyond. We also did not always succeed in finding the language to discuss complex issues in an accessible way. But we hope our audience will fill in some of the gaps and develop our argument so that this book can mark a new beginning in the story of the foundational economy.

The members of the Foundational Economy collective are: Davide Arcidiacono, Filippo Barbera, Andrew Bowman, John Buchanan, Sandro Busso, Joselle Dagnes, Joe Earle, Ewald Engelen, Peter Folkman, Julie Froud, Colin Haslam, Sukhdev Johal, Ian Rees Jones, Dario Minervini, Mick Moran, Fabio Mostaccio, Gabriella Pauli, Leonhard Plank, Angelo Salento, Ferdinando Spina, Nick Tsitsianis, Karel Williams.