

Introducing the foundational economy

The two big ideas: social consumption and public policy through local actions

Foundational thinking rests on two big ideas which break with established ways of thinking, and challenge taken for granted assumptions, about economy, society and politics.

- (1) **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 social infrastructure and delivery systems of networks and branches which are neither created nor renewed automatically, even as incomes increase.
- (2) **The distinctive, primary role of public policy should therefore be to secure the supply of basic services for all citizens (not a quantum of economic growth and jobs)**. 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. When government is unresponsive, the impetus for change will have to come from engaging citizens locally and regionally in actions which have the virtue that they break with the top down politics of "vote for us and we will make the economy work for you"

What's in the foundational? Providential, material and overlooked

When policy makers or experts talk about the economy, they almost always talk about just part of the economy. They are concerned with the part that is competitive and tradeable. And in their industrial or regional policy, they will be very much concerned with building high tech industries of the future and attracting inward investment by mobile capital. So its wheels, wings, bio tech and digital. We are concerned with what's in the rest of the economy.

The *foundational economy* includes the goods and services which are the social and material infrastructure of civilized life because they provide daily essentials for all households. These include *material services* through pipes and cables, networks and branches distributing water, electricity, gas, telecoms, banking services and food; and the *providential services* of primary and secondary education, health and care for children and adults as well as income maintenance.

Foundational goods and services are purchased out of household income or provided free at point of use out of tax revenues. The state often figures as direct provider or

as funder; with public limited companies and outsourcing conglomerates increasingly delivering foundational services. The requirement for local distribution

makes foundational activity immobile and much is sheltered from competition by the need for infrastructure investment, planning permission or government contracts.

Around the foundational economy of daily necessities is an outer sphere of the overlooked economy. This includes cultural necessities like sofas, haircuts and holidays where purchase is occasional and can be postponed. What gets into the foundational is also a matter of political contest and changes over time: in some societies, the state provides social housing and in others housing is defined as a private asset.

Conceptually this involves breaking with ideas about “the economy” as a singular economy where everything can be added up according to market value so that GDP and GVA are privileged metrics and achievement is measured in terms of per capita GDP and GVA. Instead, as in exhibit one below, we have a concept of multiple economies, with zones defined by the irreducible heterogeneity of consumption expenditures so that household residual income (after taxes, housing and transport) is a more relevant measure of foundational liveability in high income societies.

Exhibit 1: A zonal schema of the economy



The heterogeneity of consumption expenditure is not the only differentiator of zones. As exhibit 2 shows, the zones are also distinguished by characteristic provider business models, sources of revenue, organisational forms and relation to public policy. It is on this basis that we can argue about how and why foundational provision matters.

Exhibit 2: A schema of zonal economies

	Form of consumption	Examples	Provider business model	Source of revenue	Organisational mobility and mortality	Post 1980s public policy
Core Economy	Non-economic because "we must love one another and die"	Parenting, voluntary action etc.	Gifting: no charging or recovery of cost	Goodwill	Re-invented forms e.g. divorce and marriage in our generation	When the state retreats, try volunteers
Foundational Economy	Daily essentials via infrastructure of networks and branches	<i>Material</i> e.g. food, and utilities; <i>Providential</i> , health and care, social housing	WAS low risk, low return, long time horizon for public and private providers	Tax revenue for free at point of use or subsidised; or regulated private purchase	Low mobility and mortality as networks and branches 'ground' firms, stable demand	Privatisation, outsourcing and shareholder value = new business model
Overlooked Economy	Occasional purchases of mundane, cultural necessities	Takeaway food, sofas	Financialized corporates vs SME and micro pro lifestyle and getting by	Discretionary from market income	High mortality in small firms and structural shifts e.g. streaming not DVD	Below the policy radar if firms too small to take outside capital
Tradeable, competitive Economy	(aspirational) private purchase	Cars, electronics, new kitchens and bathrooms, private housing	IS high risk, high return, short time horizon	Market income from wages (state subsidy for R & D, training etc.)	High mobility as footloose under free trade; cyclical demand	Business friendly, structural reform

Why does foundational provision matter?

To begin with, the value of foundational output and the volume and diversity of foundational employment is much larger than in high tech and tradeable services which have been the main preoccupation of government and EU policy.

In all European countries, the foundational economy directly employs around 40% of the workforce. In 2017, foundational activities in total employed 44% of the UK workforce, 41% of the German workforce and 37% of the Italian workforce; and, within those totals, material activities account for a steady 17-18 %. On a regional basis, the percent is higher in de-industrialized regions because foundational employment is population related and continues after the collapse of tradeable goods employment.

The impact on well-being through employment is as important as the impact through foundational service provision. Supply side wages, working conditions, training opportunities and career pathways in foundational sectors have a major impact on many households; and are always a matter of political choice because foundational activities are generally sheltered. The effects are diffused right across every region through networks and branches because utilities, schools and supermarkets have to be close to the households they serve, while rich and poor communities all need foundational services.

On the service provision side, over a life course, every citizen is an user and the quantity and quality of foundational supply is crucial to well-being and human flourishing; at least since the late 19th century when clean water and sewerage added 20 years to life expectancy in large European cities. Whatever your goals and values you will need services like education or care at some stage in your life while utility services and food are essential every day. If you can comfortably access all these goods and services, you might take them for granted. But if you can't or if it is an everyday struggle then it can seem that nothing is more important.

Universal service provision is also mixed up with politics and citizen rights. In West European countries, an old age pension or medical treatment free at point of use are both post 1945 social rights. And the experience of the past thirty years shows that citizen entitlement to foundational services does not grow automatically from one period to the next. Many entitlements have been restricted so that UK citizens no longer, for example, have a legal aid system or a local library.

What government is doing wrong (a) aiming for quantum of growth and jobs

Policy makers in high-income countries have unbalanced the relation between market income based private consumption and social infrastructure based collective consumption. They have done this by promoting a narrow concept of economic policy centred on boosting market incomes through economic growth (whose benefits are to be distributed through jobs). They boast about the more (per capita) output the better,

and imply that the composition of that output doesn't much matter. This incidentally embeds a top-down setting of priorities because policy is something done by technical and political elites to and for ordinary citizens.

Since World War II, government has aimed to "manage the economy" by fiscal or monetary policy. In its original Keynesian anti cyclical sense, managing the level of economic activity is a sensible objective. Fiscal and monetary policy should be used to avoid downturns and cyclical overheating because, for example, unemployment and bankruptcies are damaging.

But recent management policy has gone further in ill considered ways. Economic management in the UK this has turned into buying growth of gross domestic product (GDP) with debt fuelled consumption via housing equity withdrawal; and, since the financial crisis, in Northern Europe and the United States we have added the de facto objective of keeping asset prices up through monetary policies of low interest rates and quantitative easing.

The other policy objective is jobs growth because (in the mainstream economic policy frame) welfare is primarily distributed through market income from wages and employment. But good jobs and high wages are hard to find so that many individuals in the workforce in all European countries have not shared in the income gains of recent decades. Labour market deregulation can reduce the high levels of employment characteristic of France; but deregulation in the UK and elsewhere has done so by proliferating low quality jobs which indirectly increase demands for state support.

The result is private affluence (for some) and foundational poverty (for many). For the majority in Western Europe, even with two incomes in the household, the problem is a squeeze on residual income (after taxes, housing and transport): the breadth of support for the gilets jaunes protests in France indicates the extent of this problem. In London, where UK market incomes are highest, ordinary citizens are unable to afford housing. For those on state welfare or with one low paid job, the household problem is about accessing basics like food and a warm house in winter.

Policy makers develop separate policies for the economy and for social deprivation which misses the role of foundational failures in causing deprivation. Government policy tries ineffectually to close regional gaps in market income (GVA per capita) through transport infrastructure projects and training the workforce; though neither has any demonstrable economic benefits for laggard regions or secures political gratitude.

The dysfunction is compounded since the 1980s by pro- enterprise government policies which lower general tax rates on income and increasingly release corporate citizens from their obligation to pay tax. These concessions are hugely costly ways of indiscriminately bribing firms to do what they would mostly have done in any case; and completely duck the issue of taxes on wealth which is increasingly important as a source of income in a financialised rentier capitalism.

What government is doing wrong (b) privatisation and outsourcing

Since the 1980s there has also been a presupposition in favour of competition and markets through “structural reform” which in the UK and elsewhere not only aims to make labour markets more flexible but has also introduced large scale privatisation and outsourcing. Any review of these reforms should start by noting that there never was a golden age in the 1960s and 1970s. Direct state provision can be insensitive to citizen needs; and state ownership is not necessary to service provision when, for example, in North Italy third sector organisations are widely used to deliver welfare services.

The problem is that, since the 1980s, privatisation and outsourcing has brought in financialised private providers with business models ill-suited to foundational sectors. 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, privatization 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 with investment rationing, tax avoidance, asset stripping and loading enterprises with debt. Train franchising companies take profits without investment or risk; water companies in England distribute profits while borrowing to invest. Meanwhile corporate power can be used to boost revenue by confusion pricing like the special offers in supermarkets or multiple tariffs in utility supply. While costs can be reduced by hitting on stakeholders who account for a major part of costs (like labour in adult care or suppliers in supermarkets).

Aggressive cost cutting at the expense of labour spreads low wage and precarious work. Across the foundational economy there are already large numbers of people in low paid, insecure work with bad terms and conditions who cannot secure the foundational goods and services they need. Likewise, overworked, badly paid, undertrained and unsupported employees are less likely to provide good quality foundational goods and services to others.

Local actions and radical agendas:

So how do we begin to refocus policy? It helps if policy elites put foundational language into their policy documents, as they have done in Welsh Government. But it is easier to name foundational and overlooked sectors like care and tourism, than to determine what to do with them. Hence the importance of starting local and regional experiments which would make the foundational visible, debatable and actionable at community

level; and which can gain momentum and scale if supported at national and supranational level.

These would be disruptive, politically 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.

While local action is our starting point, localism cannot be the principle of economic action in complex economies with long chains and regional specialisation. In the Welsh case, buying local won’t solve the problems of Welsh hill farmers who need the big supermarket chains to offer an UK wide market for their lamb; and beyond that are heavily dependent on (mainly EU) export markets which take more than 60 % of British lamb.

Local purchasing can be used for strategic objectives like building capability in grounded firms and developing community facilities for retail choice. But it very easily degenerates into the postcode localism of counting invoices and creating client firms incapable of building a broad customer base. Stopping leakage from a small geographic area is not a sensible economic objective. While adequate providential provision in areas like health and care requires the funding that can only come from a regional and national political reinvention of taxation.

But when these points have been made, localism is politically essential. After all we can only find out about foundational service priorities and pinch points by dialogue with communities. And foundational language can empower the local activists who are our natural radical constituency. For example, the foundational agenda opens new possibilities of connecting the green ideals of low carbon and responsibility to future generations with the priorities of ordinary citizens who in many European countries are reluctant to vote green.

Foundational alliances for social citizenship

We ask policy makers, businesses and citizens to commit to building a foundational economy which meets everybody’s human needs. This is about building a new kind of *social citizenship* which T H Marshall classically defined as “the right to live the life of a civilized being according to the standards prevailing in the society”. For us, this practically means ensuring a broad range of foundational entitlements and recognising that citizen income (from wages, welfare or basic oncome) does not in itself guarantee provision.

In order to deliver responsibly on foundational entitlement, we must find ways to organise the foundational economy which prevent the extraction of unjustified profit and the exploitation of the workforce in order to cut costs. This requires broad political debate about which foundational goods and services are citizen rights, the appropriate business models of for profit and not for profit providers and how the central and local

state should tax and spend as we move towards a society where all have access to the foundational goods and services they need to flourish

There will be difficult decisions which have to be made in a participatory way involving all sections of society who will be affected and taking into account the needs and rights of future generations. This requires us to move away from occasional elections and top down economic policymaking which rests on the view that government is a benign and competent assemblage of politicians and experts who can make the economy work like a machine. Instead government and local authorities should be facilitating and building capacity across civil society, working closely with organisations ranging from housing associations to faith groups, to develop a new framework of citizen led and bottom-up initiative.

In the first instance, the initiative will often come from foundational alliances of civic organisations (where government is not always or usually in the leading role). This will bring all kinds of political problems because (a) civil society organisations cannot escape from their material interests e.g. in securing funding streams (b) activists and trade associations often have ideological agendas about preferred forms of organisation e.g. about the role of co-ops vs small for profits and (c) the outside world wants models of achievement which often leads to the overselling of minor place-based experiments. Hence, the importance of a template of action principles which everybody involved can sign up to.

Principles of asset based economic development

We do not have a method or model both because one generic model could never engage local specifics. But we do have some basic principles of foundational action which provide a kind of framing checklist against which we could judge the quality of the many different actions that foundational alliances will want to start:

- *The aim is 'citizen lives worth living'* which means better lives for households in terms of increased agency and capability, supported by goods and services from a reorganised foundational economy; this is not about making jobs and growth of marketable income (GVA) the superordinate goals.
- *The lever is to 'recognise what's there, enable what's there and build on what's there'*, where this approach is to revalue and develop the grounded assets already in place; this is not a fantasy of focusing on attracting mobile resources like inward investment.
- *The approach is 'learning by doing'* because in areas like micro firm support or care reform we need experiment because we start by not knowing what to do and must draw on distributed social intelligence about specifics; this is not about a controlling centre which imposes a template, but an enabling centre which sponsors change.
- *The working assumption is 'social value comes from politically mobilising different actors to work together'* because effective action comes after coalitions of disparate forces have been mobilised; this means we must go beyond

stereotyping the private sector as wealth creating or the public sector as value consuming or the third sector as virtuous (and do so by analysing the business models and revenue constraints which determine outcomes).

These principles of asset based economic development are very different from top down economic policy. They obviously overlap with ideas about asset based community development because we have shared objectives about well-being and autonomy through building on what's there. Community organisation should build on the assets/strengths of a community rather than focusing on deficits such as low incomes, poor health and low educational attainment. It should begin with an attempt to understand what people value and are motivated by: and be followed by a process of building confidence around individual and community strengths and agency to create change. Relatedly, the co-production movement advocates professionals and citizens working as equal partners to commission, design, deliver and evaluate public services drawing on the distributed knowledge and energy of citizens and communities. And we would add leveraging in resources and agency from outside.

The first preliminary step before deciding and implementing specific interventions will be foundational survey of what matters to citizens and businesses. Such surveys will highlight citizen priorities which policy makers have not recognised; and the complexity of foundational access issues in unequal societies. A first pilot survey outside Swansea has highlighted citizen demands for social infrastructure (parks, libraries, community and leisure centres) and the complexity of issues like public transport when 85% of respondents usually have access to a car and 40 % never use the bus.

Policy maker hearts and minds

At the same time as local actions get under way, we must start to change the assumptions of policy makers which limit their top down view of what could and should be done. This is not a matter of winning the argument or adding empirics but of creating experiences which challenge the assumptions of policy makers. Here, for example, is Vanguard Consulting's design for change:

1. Gain clarity on the policies, regulations, etc. that are negatively impacting on the foundational economy. For example, local public sector organisations not buying strategically; Business Wales run courses that small businesses cannot take the time out to attend, etc.;
2. Understand the assumptions behind existing policies that are in the heads of the leaders in the relevant organisation, as in the left-hand column below;
3. Get the leaders curious about exploring an alternative approach through structured therapeutic conversations about what matters to them;
4. Design a tailored experience in the community to enable the leaders to see the negative impact of their current practice on communities;
5. Provide them with a concrete alternative to their current assumptions – the right-hand column below. At this stage, research data can be shared;

6. Help them engage/lead experiments in a community to test out the concrete alternative;
7. Help them design a systemic change to their organisation to habitually use the principles on the right-hand side below.

In sum, get policy elites to understand that the foundational economy is not the answer to their old problem because it poses new questions and changes the framing of policy options. The table below illustrates the scale and scope of the necessary change in mind set

Current economic policy assumptions	Foundational economy re-framing
Aim for growth of GDP output; in laggard regions try to close the GVA output gap with the centre. Bigger output is better.	Raise the quantity and quality of foundational provision; start by surveying quantity and quality of foundational provision
Brag about number of jobs and set policy to get citizens off social security and into jobs; hope for better jobs	Use foundational sectors to raise job quality and reduce churning through precarious low paid employment
Attract mobile private capital, large companies and high tech start-ups in industries of the future because these self evidently bring benefits	Build grounded firms with local connection often in mundane activities: address the SME issue of succession and firm continuity
Business support is primarily about ensuring funding is available on the right attractive terms; especially for fast growing firms (ignore small firms which can't pay outside capital and manager's salary)	Build small firm capability and opportunity. addressing the problem of supply chain insecurity on volume, price and payment.
The role of government is to concentrate public capital spend on projects large enough to get a minister onto the regional TV news	Local experiments (backed with a bit of public money) allow fast learning
Invest in transport infrastructure and work force training although no hard evidence these will reduce inter regional and intra- regional inequality	Add social infrastructure because that is economically neglected and a basis for political loyalty.
Procure through large contracts on least cost + with penalties for non-performance eg in construction or care	Procure for social value recognizing big contracts exclude small firms, penalty clauses exclude social enterprises, least cost is often levered on low wages

Nag public sector anchor institutions on social obligations but accept that supermarkets have no social obligation beyond trucking groceries in and money out	Get serious with anchor institutions as a first step towards reminding supermarkets and retail banks of their social obligations to a region which provides them with profitable turnover
Count postcodes on invoices as a measure of localizing achievement and Keynesian leakage stopping	Use local procurement for specific strategic purposes e.g. building capable firms which can pull in non-local orders, maintaining community retail
Private property developers and city region planners decide what gets built and what services are provided; citizens are consulted on final detail after most decisions have been taken.	Start by finding what citizens and businesses want because only communities know what matters to them; move incrementally, engage specifics and adjust as you go.
Tackling social deprivation is something different from economic policy; other people have personal deficiencies	Think about assets which are always social and collective
Leadership means getting people who do not live in a community together in a meeting to improve a community.	We all need to listen to direct experience, especially of those whose voices have not been heard

JE, JF, SJ, KW 28 Dec 2018