



# 2020 Manifesto for the Foundational Economy

## The foundational economy collective<sup>1</sup>

What comes after the pandemic when the public health emergency is over?

Across Europe for the past thirty years we have had an ongoing crisis of social cohesion. Increasing income and wealth inequalities have done real economic harm, feeding political mistrust of elites, fragmenting political parties and creating electoral volatility.

Against this background the foundational economy collective has argued that policy makers must pay more attention to essential goods and services like housing, utility supply, health, education and care. This foundational economy of branches and networks provides the infrastructure of everyday life. It serves our essential daily household needs, and keeps us all safe and civilised. It is the part of the economy which cannot be shut down.

The pandemic demonstrates its vital importance. The list of essential workers in the current lockdown provides a common sense and practical definition of what counts as foundational. Ordinary service workers reliably perform essential social tasks with an uncomplaining sense of duty. Nurses in intensive care units and the ill paid assistants in care homes are front line heroes. Supermarket delivery drivers are recognised as critical workers.

But public gratitude is often short-lived and many employers cannot afford to act on sentiment. So, the big question is whether we return to business as usual after the crisis. The collapse of Lehman Brothers in 2008 led to a chorus of journalists announcing that financialised capitalism would be utterly changed. But a few years later very little had changed.

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<sup>1</sup> A longer version of this document is free to download from <https://foundationaleconomy.com/covid-19-report/>

We must use the crisis actively as a lever to make the case for foundational provision and the value of collective consumption. Not simply economic infrastructure renewal but broader programmes focused on social protections and provisions which are the infrastructure of well-being.

After the war in 1945, the Labour Government built a new social settlement with educational reform, free hospitalisation under the NHS, extended social insurance and large-scale construction of social housing including new towns. It was planned and publicised in war time as soon as the immediate threat of invasion was over. The Beveridge plan was published in 1942 and sold 100,000 copies within a month.

Part of the British war effort was working out an ambitious national plan to abolish want and poverty. In the midst of crisis, it gave hope and motivation to beleaguered citizens. In the middle of the Covid-19 crisis, it is important to think through what we mean by better foundational provision so that we do not return to the same old business models which have failed us socially and environmentally.

When the pandemic is over, we need to rebalance away from the tradeable and competitive economy towards the mainly sheltered foundational economy producing daily essential goods and services which underpin liveability and sustainability. And, equally, accept that the financialised business models of public companies and private equity funds are an extractive intrusion on foundational activities which should offer modest, steady returns on long term investment.

Government will play a leading role in crisis provisioning. Business will behave cooperatively. But the quality of life for most of us will then depend on civil society and the effectiveness of local community solidarity as we “look out for each other” in the often overlooked, everyday activities that fill our days.

We need a positive vision of a different set of priorities which embody these solidaristic values in material systems that underpin collective foundational provision. And we need to turn it into a programme of action.

The ten points below are an outline of the vision.

1. **Start with health and care.** Health is the activity where it is easiest to build an alliance for change. Health professionals can provide leadership. High tech medicine needs prudential investment in capacity so as to avoid scandals of unpreparedness. The NHS has closed half its acute hospital beds in the past 30 years. At the start of the crisis it had just over 4,000 adult critical care beds, 5,000 ventilators and limited path lab capacity which made it impossible to adopt a test and trace approach. At the same time, community-based health and care services and preventive medicine geared to well-being need to be expanded.

The crisis has led to the rediscovery of public health in the role of disease control. But public health needs to be given a much broader and high-profile preventive role in tackling poor diet, air quality and mental health issues. In the absence of these interventions obesity and type 2 diabetes threaten to over-burden every acute care system, while mental health is not being funded to treat patients in a holistic way with well-being objectives.

2. **Housing and energy are the other immediate priorities.** Government in association with regulated not-for-profits and tenant groups need to take responsibility for the availability of social housing which offers quality de-carbonised homes with security of tenure at rents geared to local wage levels. De-carbonisation involves green energy supply as much as insulation of new and existing homes with all forms of tenure.

Regional and industrial policy needs to be shifted away from unrealisable ambitions for creating high wage jobs towards more realistic aims to increase the stock of social housing at modest rents. The programmes would be for large scale construction of social housing. The UK needs to experiment with public and community energy provision, learning from the German *Energiewende* pioneering of community controlled green energy systems.

3. **Food needs reform.** A few supermarket chains have corporate power and a dominant retail position in the national market. But the supermarket business model is unsustainable and fragile. It is based on capturing supplier profits through the perpetual threat of switching, which is enabled by increasingly disintegrated, geographically-diffuse supply chains; while just-in-time ekes maximum value from retail floor space.

Localised, small-scale food systems are not a replacement for the modern food system as in the romantic deep green imaginary, but they are an important part of a properly diversified economy. It is therefore important to encourage experiments in sustainable food supply – like the Bristol Food Policy Council – and to control the supermarket chains which dominate distribution to consumers and oppress suppliers. Supermarkets are prime candidates for social licensing as proposed in the next point.

4. **Introduce social licensing.** All corporate providers of foundational services should have legal social and environmental obligations. Profit and not-for-profit foundational providers in effect have a territorial franchise through their networks and branches; *quid pro quo* in return, government should insist they offer something social in return, like ending tax abuse or insecure employment. All other large corporates should be brought into this regime as and when they want anything from government (e.g. bailouts, planning permission, government contract, training etc.)

Narrow economics-based regulation of competition and markets to protect the consumer has failed and is increasingly irrelevant in a platform economy. Organisations with financialised business models will work in a siloed way without regard for social consequences and ecological damage. For example, supermarkets take no responsibility for citizen diet and are only slowly reducing single use plastic packaging of fruit and vegetables.

The first in the queue for bail-outs in every crisis will be the firms and industries which have behaved irresponsibly to weaken their capacity to withstand downturns by excessive distribution in the good times. In the decade up to 2018, the FTSE 100 companies distributed roughly 4/5ths of their net income in the form of dividends and share buy backs.

5. **Reform taxes on income, expenditure and wealth.** The country needs to greatly increase the capacity of government to raise revenue. Without tax reform the burden of servicing the debt incurred in the Covid-19 crisis will squeeze current foundational service provision and crowd out necessary investment in housing and health.

The Covid-19 crisis measures requires government to run large current deficits which will be consolidated into stocks of national debt. UK debt levels could double or more to levels not seen since the aftermath of world war in the 1940s. Even with low interest rates and the benefit of steady inflation, it will be a major challenge to service, refinance and pay back this debt.

If tax is not reformed, so that a higher percentage of GDP can be raised in an equitable way, then the prospect is for 10-20 years of super austerity when the tax funded providential services like education, health and care will be starved of revenue as they were in the UK austerity years after the financial crisis. Revenue raising through tax reform is the first most fundamental precondition for defending and extending the foundational basics.

6. **Investment from pension funds and insurance companies should go directly into the provision of material infrastructure.** The foundational economy offers stable, long term, low return investment opportunities which could and should be financed by 5% coupons. There is nothing new or revolutionary about this because the capital that went into nineteenth century railways earned 5% or less.

But financialised capitalism brings public companies or fund investors like private equity with expectations of double digit, 10% plus returns on capital. Double-digit

business models are fundamentally unsuited to capital intensive foundational activities where high operating returns can only be obtained at the expense of other stakeholders including the workforce.

Capital should not be free and costless but the case for cutting out intermediaries is overwhelming. The separation of property and operating companies and the issue of 5% direct investment bonds for building new care homes or local energy networks would strike a proper balance between disciplining enterprises and incentivising the supply of capital by the state or private savers, according to the national settlement on retirement provision.

7. **Shorten fragile long supply chains in foundational commodities.** Foundational services generally have to be locally delivered, and there is scope for increasing local food production but most manufacturing finished products and their inputs are long-chain and should remain so. We cannot realistically go back to the 1950s when the UK supplied more than 90% of domestic demand for manufactures from British factories.

But it is ridiculous to be importing essential personal protective equipment for medics from China. Here it is sensible to have shorter chains with preferred suppliers whose output does not go to the highest bidder. On more sophisticated equipment, the solution for the 2020s has to be a small number of European suppliers agreeing to supply the European market without profiteering or home market preference.

Procurement should become less transactional and more relational. That is simply impossible if we take a small fraction of a Chinese factory's output. More broadly, we need to call time on economic fantasies of success through free trade and recognise we are Europeans living in an increasingly unstable and contested political world. Trading on price in global markets is a fantasy when the UK has a large trade deficit and no gun boats.

8. **Every city, town and rural area should develop a live/work transition plan.** The plan should not just be local but integrated into a national enabling framework. Politics is local and foundational provision is grounded in territories, hence the importance of plans which are developed with input from citizens using innovative ways of engaging them. Assemblies, citizens juries and such like will produce mixed messages but are essential supplements to representative democracy because we need to understand what matters to citizens. At the same time, climate change requires changes in how we live and work because housing, transport and food account for more than half of emissions.

We need local participation if we are to avoid provoking political reactions through clumsy prohibitions and deterrent pricing. The towns and cities where most of us live combine liveability with unsustainability. Through long supply chains, car-based transport and carbon heavy energy systems they are already consuming an amount of natural resources 3 to 4 times higher than the global sustainability threshold. The Barcelona strategic plan focused on air, water, energy, housing and food and with its emphasis on facilitation not top-down direction could be the beginning of a new kind of planning.

9. **Rebuild technical and administrative capacity at all levels of government.** In the post-democratic state elections and competition continues but decisions are taken by a politico-economic elite. In the post-administrative state government departments combine the managerialist rhetoric of strategies and mission statements with an inability to administer anything effectively and efficiently. The resolution of the 2008 crisis exposed the operations of post-democratic state. The operation of the Covid-19 crisis will expose the ineffectuality of our administrative state. This is a fundamental constraint on policy.

Labour's proposed Green New Deal included ambitious targets for decarbonising the existing housing stock without any coherent idea of how the work was to be planned, organised and executed. The problems are particularly acute in local

government because capital budget cuts and the privatisation and outsourcing of many activities, leaves local government in many jurisdictions without personnel and technical capacity. Without technical and administrative capacity, government cannot play a leading role in developing investment programmes and controlling foundational services, so that tax payers money will be wasted.

- 10. Accept some responsibility for the foundational systems in regions adjacent to Europe.** For example, the regions of the Middle East and North Africa need a Marshall Aid type programme for reconstructing their tradeable sectors. Realpolitik suggests constructive responsibility is the appropriate international response. Because economic underperformance and political instability in the Middle East and North Africa produces economic migrants and refugees. Taking responsibility for others will increase the expense of any foundational agenda but doing the right thing may well be politically and economically cheapest in the long run.

## Action

The ten points are all practical ones which could be taken up by politicians, interest groups and civil society activists. But they also raise serious intellectual issues for academics and others who want to analyse underlying issues. One issue is that our financialised foundational economy is being run without slack or excess capacity. This is done to facilitate value extraction in the case of the private/outsourced foundational economy. In the publicly-owned foundational economy it is done to try and mimic inappropriate corporate norms of 'efficiency'.

The human consequences for casualised workers and underserved users have been apparent for some time. But, as the pandemic crisis shows, efficiency without reserve capacity embeds systemic fragility and vulnerability in our foundational infrastructures, such that they cannot deal with the unexpected. The implication is not only that certain sections of the economy are not suited to marketable provision; but also, that we need

a new and different way of thinking about what effectiveness, efficiency or 'value for money' looks like.

Unorthodox economic policies are being generally applauded right now by left, centre and right: the UK's 80% wage replacement was "economically and morally the right thing to do" according to an FT op ed piece. But dissent will grow as the costs of lockdown increase.

When it comes to exit strategy, expect a "can't pay, won't pay" counter-offensive from the economic right. The argument will be that this pandemic is not a disorder of the markets or a failure of capitalism but a one-off health emergency, which has already cost quite enough so that it is time to reinstate sound finance, small government and the primacy of markets. They will promise the market and we will get more financialised capitalism and austerity.

We need to anticipate this reactionary response and step forward with progressive argument and organization. The argument is that democratic government only gains political consent through an implicit social contract whereby it guarantees some basic forms of protection for their citizenry. In the last few decades this protection has been eroding and the Covi-19 epidemic exposes the neglect, dysfunction and failings of the old order. As for organization we need a broad-based alliance for change united around a platform of demands and priorities. Wherever we are, we can get started now, in the middle of the pandemic crisis, on planning concrete improvements in the reliance systems that underpin our everyday life.

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