

The foundational approach

(1) Three big ideas: social consumption, public policy aims, care-ful practice

The foundational approach rests on three big ideas which break with established ways of thinking, and challenge taken for granted assumptions about economy, society and politics.

- **The well-being of citizens - now and for future generations - depends less on individual consumption and more on their social consumption of essential goods and services in the foundational economy.** The foundational economy includes the material infrastructure of pipes and cables which connect households and providential services like health and care which all citizens rely on. These systems are the infrastructure of safe and civilised life. But they are neither created nor renewed automatically as individual incomes increase.
- **The distinctive, primary role of public policy should therefore be to secure the supply of basic goods and services for all citizens in a socially responsible way (not boosting private consumption to deliver economic growth).** The *socially responsible* qualifier implies two things: first, decent wages and conditions for the large numbers engaged as key workers in providing foundational goods and services; and, second, foundational provision for the current generation of citizens should not aggravate the nature and climate emergency through its planetary burden.
- **Access to good quality basic services is a political matter of citizen entitlement. But we also have to deliver foundational renewal in a polity where our reach exceeds grasp: political agency is splintered, economic interests obstruct change and we often do not start by knowing what to do.** So, the foundational approach is about the *how* and the care-ful practice of policy, with a transition to radical transformation through learning by doing and putting together political alliances for change. This breaks with the top down, technocratic politics of ‘vote for us and we will make the economy work for you’ and recognises the limits of the new municipalisms in Europe to easily deliver meaningful changes.

(2) The singular economy vs multiple economies and the foundational¹

Mainstream thinking conceives of ‘the economy’ as a singular entity where everything is commensurable because it can be added up according to market value in a national income accounting frame to give a total of Gross Domestic Product (or more technically, Gross Value Added, a related output measure). Achievement is then measured in terms of the level of GDP/ GVA, with the policy as growth of GDP/ GVA and efficiency gains in per capita GDP/GVA. Thus, right across the EU, regions and cities are ranked as successful or failed places according to whether they have high or low per capita GVA.

Foundational thinking starts from a concept of multiple economies divided into zones which are defined on the demand side by the irreducible heterogeneity of consumption expenditures and on the supply side by characteristic provider business models, sources of revenue, organisational forms and relation to public policy. The foundational zone is then the sphere of social consumption through different kinds of collective system provision and regulation. As

¹ Reading: [Manifesto for the Foundational Economy](#), (2013) section 1 pp.4-8.

RH Tawney put it (for an earlier generation of male, manual bread winners), this is about 'what a man cannot buy by working overtime'. And our ideal is not ever more collective provision but a responsible balance between individual and social consumption, recognising the importance of regulation to protect citizen interests.

The importance of collective organisation or provision has been hugely underlined by the Covid-19 pandemic. It is possible for a high income earner as an individual consumer to buy a test kit for Covid-19 and get an individual result as to whether she has the virus. But with pandemics, there is the collective problem that nobody is safe until everybody is safe. And collective safety depends on a laboratory testing system which has the capacity to do large amounts of testing and quickly return the results to those locally responsible for track and trace, with powers of quarantine or lockdown. Social organisation of collective provision determines whether a country or region has or can quickly put together a system of distributed laboratory capacity.

Covid-19 has also demonstrated that essential foundational provision has too often been taken for granted and undervalued up to the point where interruption of service is threatened or occurs with dire consequences. With food supply and other systems, 'any society is only three meals away from chaos'. The systems providing foundational goods and services are broadly those whose employees qualify as 'key workers' in the national lists produced after the outbreak of Covid-19. And the publication of such lists has highlighted that many key workers delivering essential services – such as in care homes or supermarkets - are badly paid. But nothing will change unless and until we put together a broader account of what's in the foundational economy, how and why it matters to current and future generations, how it has been run down and hollowed out and how we can start out on the road to foundational renewal.

(3) What's in the foundational economy? The material and the providential²

What's in the foundational economy? Our list of foundational activities is defined pragmatically by including the goods and services which provide daily essentials whose absence or interruption causes immediate crisis for all households. On this basis, we have systems of provision which provide *material services* through pipes and cables connecting our houses, as systems of networks and branches distribute water, electricity, gas, telecoms, banking services and food; and also the *providential services* of primary and secondary education, health and care, as well as income maintenance.

This list of activities is culturally framed and tells us less about universal human needs and more about social context and available technologies. If the basic need is for shelter, citizens require piped water and sanitation in or near the home and high-income societies expect thermostatically controlled indoor temperature through central heating and air conditioning. At the same time, the list does describe the conditions of human flourishing in specific times and places (what is considered essential for citizens now would often be elite luxuries in earlier times).

Insofar as mainstream policy makers or experts recognise zones of the economy, they generally discuss the competitive and tradeable zone of the economy rather than the foundational. Their focus is descriptive and prescriptive because, in the case of industrial or

² *Reading:* [Foundational Economy](#) (2018) chapter 2; [Manifesto](#) (2013) section1 pp 4-8; [Activity classification](#) guide.

regional policy, policy makers are much concerned with building high tech industries of the future and attracting inward investment by mobile capital. But wheels, wings, bio tech and digital are a small part of the economy and we are concerned with what's in another, larger and (until recently) neglected, zone of the economy (exhibit 1).

Using standard measures, the value of foundational output and the volume and diversity of foundational employment is much larger than in high tech and tradeable services. In all European countries, the foundational economy directly employs around 40% of the workforce, and more in de-industrialized regions. 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%.

Around the foundational economy of daily necessities is an outer sphere of the *overlooked economy*. This includes mundane 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. In many societies housing is both social resource and private asset.

Exhibit 1: A zonal schema of the economy



Exhibit 2: Characteristics 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; civil society organisation	When the state retreats, try volunteers
Foundational Economy	Daily essentials via infrastructure systems of networks and branches	<i>Material</i> e.g. food, and utility supply; <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 PLCs = new business model
Overlooked Economy	Occasional purchases of mundane, cultural necessities	Takeaway food, haircuts, 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

The heterogeneity of consumption expenditure is not the only differentiator of zones. As exhibit 2 shows, the zones are also distinguished on the supply side by characteristic provider business models, funding and organisational forms. 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.

(4) Old and new challenges: FE 1.0, FE 2.0 and their interconnection³

The foundational economy is always with us - in 1880 or 2020 - and the recurrent problem is that industrial capitalism runs ahead of our political capacity to manage and organise for the well-being of current and future generations. But the available foundational technologies shift as do the challenges, which are both the same and different in late 19th and mid 20th century cities like Manchester. So, it is important to both to distinguish FE 1.0, FE 2.0 and understand their intrication.

The difference of FE 1.0 and FE 2.0 is most easily understood in terms of technologies and challenges.

FE 1.0 is the ensemble of 1880-1950 innovations addressing the public health problem in the towns and cities of urban industrial society when cities were 'killing machines' which threatened the well-being of current generations. This requires clean water, sanitation, buildings regulation and social housing, public health systems and income maintenance through social insurance. These systems then added 20 years to life expectancy in large European cities; and, as Covid-19 reminds us, they are equally necessary today to keep us safe and civilised.

FE 1.0 climaxes with 30 glorious years of foundational construction after WW2, with national plans for the public infrastructure which supported electrification, automobility and large-scale construction of social housing. We have subsequently pursued private affluence while living off those structures, hence the problem of imbalance and the hollowing out of the foundational which we address later.

FE 2.0 is the ensemble of upcoming innovations (especially distributed low carbon electricity generation, battery vehicles etc) going forward from 2020 to address the nature and climate emergency which threatens the wellbeing of future generations. The techno optimists believe that unproven new technologies will deliver cheap hydrogen and synthetic aviation gas at scale so we can carry on much as we are. More likely, we will have to make painful large changes in soft culture and hard social formatting e.g. away from meat and from the car as universal tool for accessing work, leisure and retail.

If the challenges change over time, FE 1.0 and FE 2.0 are not successive historical periods but intricated social problems which have to be solved simultaneously. As Covid-19 reminds us, we cannot take public health for granted and we must safeguard the old objective of public health as we move towards the new objective of greater sustainability. Equally important, the

³ *Reading:* Serious About Green (forthcoming, autumn 2020); The Challenge of Foundational Renewal (2020).

nature and climate emergency is a problem which results from our earlier solutions. Decarbonising the old foundational essentials of food, housing and energy is crucial because their supply accounts for half of our carbon emissions in high income European countries.

More optimistically, FE 1.0 is a key part of the solution to FE 2.0 because it allows us to partly sidestep degrowth whose puritanism has limited electoral appeal. The aim should be not so much degrowth as a change in the composition of consumption towards collectively provided low carbon foundational services from adult care to libraries; which as we shall see in section 9 of these notes fits with the values citizens attach to social infrastructure.

(5) The abdication of the state (a) privatisation, outsourcing and post administrative incapacity⁴

A capable administrative state is crucial because local and national regulation or provision is prerequisite in much foundational service provision. Of course, direct state provision can be insensitive to citizen needs; and state ownership and operation is not necessary to service provision when, for example, the financial payments system and grocery distribution are always in private hands. But the problem of 2020 is not about inept state provision but about state abdication, as nation states resile from their foundational responsibilities directly through retreat by privatisation and outsourcing and indirectly by atrophy of administrative capability.

Since the 1980s, following the lead of the UK, there has been large scale privatisation of utility services like water and electricity; this was followed by the outsourcing of state provided services like waste collection and processing to private contractors. If the trend has more recently been back towards municipal and regional provision, that is because privatisation and outsourcing brought in financialised private providers with extractive 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. Meanwhile, 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).

If all this is manifest, there are subtler problems about the incapacity of a post administrative state in the organisation and direction of activities which have not been privatised or outsourced. In the case of the English NHS, endless, churning reorganisation undermined the distributed laboratory testing capacity which was required in the Covid-19 pandemic; the underlying problem was that public health did not fit into the transactional relation between

⁴ Reading: [Where Does the Money Go](#), (2016) on residential care; [What a Waste](#) (2015) chapters 1 and 2; [When Systems Fail](#) (2020) pp.47-54; [Social Licensing for the Common Good](#) (2019).

community service purchasers and hospital service providers which was promoted in successive NHS reforms between 1991 and 2012.

More generally, the problem of transactionalism and point value in the foundational economy is aggravated by the spread of autonomous not-for-profit organisations providing foundational services. Not just hospitals, but schools, universities, social housing providers etc are generally also subject to state regulation which is as ineffectual as regulation of utilities. Not-for-profits can work their business models and downgrade social obligations just like the extractive shareholder value driven PLCs that dominate retail banking or grocery supply.

There is merit in restoring public ownership of utilities and taking back control of services like waste disposal. But such policies are expensive and require management expertise. In most cases, the low cost practical first step would be social licensing of PLCs and autonomous not-for-profit organisations. Under these foundational proposals, regional and national politicians imposed relevant social obligations - on wages, treatment of suppliers, environmental clean-up - on foundational service suppliers.

(6) The dysfunctional state: national economic management and the misdirection of fiscal and monetary policy⁵

In foundational thinking, the aim is a balance between market income-based private consumption and infrastructure-based collective consumption, recognising the huge importance of the latter. Economic management through fiscal and monetary policy in a national income accounting frame aims for growth and jobs, that is, to boost market incomes through economic growth whose benefits are to be distributed through jobs. On this basis, more (per capita) output is good; and the composition of that output does not much matter. This has actively unbalanced the economic zones and aggravated our foundational problems.

In its original (public) Keynesian sense, anti-cyclical management of the level of economic activity is a sensible objective; so is regional levelling through foundational spend according to national standards and pay scales. Fiscal and monetary policy should certainly be used in down turns because unemployment and bankruptcies are damaging; equally New Labour's foundational spend on health and education helped ex industrial areas. But such action has economic and political limits, which Covid-19 will dramatise. If you do not believe in Modern Monetary Theory, almost all national governments are limited by tax revenues and their ability to sell bonds. And this kind of economic management incidentally embeds a top-down setting of priorities because policy is something done by technical and political elites to and for ordinary citizens who must suffer the unintended consequences of ill-considered policy.

These consequences are important because economic management policy has been increasingly mixed up with privatised Keynesianism. this works through house price appreciation, which is pro-cyclical and feeds wealth inequalities. Since the 1980s, economic management in the UK has turned into stop-start buying growth of gross domestic product (GDP) with debt fuelled consumption via housing equity withdrawal. And since the financial crisis of 2008, In Northern Europe and the United States we have added the de facto objective

⁵ *Reading: [City State Against National Settlement](#) (2011); Calafati et al. 'Diversity in leading and laggard regions: living standards, residual income and regional policy', forthcoming in *Cambridge Journal of Regions, Economy and Society*.*

of keeping asset prices up through monetary policies of low interest rates and quantitative easing.

The consequence is an acceleration of wealth inequalities. The minority of households who own appreciating house property in metropolitan cities and regions benefit greatly. Between 2008 and 2018, high and rising property prices in London and the South East generated an unearned and untaxed capital gain of £20,000 a year for the average London property owner, while home owners in much of the deindustrialised North and West made negligible gains. Renters made no gains and private renters in London lost out as market rents ratcheted up with house prices.

Against a background of secular decline in growth rates since the 1970s, national economic management has increasingly emphasised not growth but job creation. This is entirely logical in a mainstream policy frame where welfare is primarily distributed through market income from wages and employment. The accelerated structural changes in retail and hospitality after Covid-19 will encourage ever more emphasis on job creation in the next few years.

Before or after the pandemic, the problem is that 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 that have been 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. 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.

The capacity of the state to buffer low incomes (either with universal basic income or service provision) is limited 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.

The 30 glorious years of foundational construction in Europe after WW2 were built on the foundation of an extension of the tax base through pay-as-you-earn income tax and social insurance which raised government's share of national income by 10% or more. A foundational response to Covid-19 almost certainly requires a reinvention of taxation which frees up the expenditure side of state action.

(7) The dysfunctional state: higher productivity and efficiency instead of social value and sufficiency⁶

The national income accounting framework generates further confusion when mainstream policy makers fixate on higher productivity as a policy objective. In mainstream thinking, growth of GDP and GVA is in the long run underpinned by efficiency increases in output per unit of input, hence the desirability of high GVA per capita activities and of increases in per capita GVA in low value-added activities. Foundational thinking is different here because it starts from the social value of essential activities and emphasises sufficiency not efficiency.

In mainstream thinking, the economy is a machine whose output generating performance is held back by low productivity sectors which are a problem because low productivity leads to low wages. This syllogism does not help us to understand the foundational economy. Foundational activities are not consistently low productivity like care or retail: the two largest sectors (health and education) are middling productivity, while the utilities have very high productivity. And higher productivity does not solve the low wage problem in an economy like the UK where labour's bargaining power is weak and productivity increases are not passed through to labour in the form of higher wages.

By way of contrast, foundational thinking recognises the radical heterogeneity of foundational services: capital intensive electricity generation and distribution is very different from the personal service of care. But the two activities are bracketed together in the foundational category because they are both essential and have social value in our high-income society. As for the low pay of care workers, that is not caused by some technical deficiency of process organisation or management capability; the problem here is a society which does not value the skills of uncredentialed care workers and a polity which limits state funding of care.

From a broader point of view, the general issue in foundational activities is not increasing efficiency but setting the boundaries of sufficiency. In mainstream thinking, efficiency is about increases in output without limit, provided they are achieved without *pari passu* increases in input. In foundational thinking, sufficiency involves a notion of minimum and maximum inputs because there is a minimum input requirement of finance and physical resource necessary to deliver adequate basic services and a maximum of input consumption and output generation set by the burden on the planet.

In descriptive diagrammatic terms, this ideal looks something like Kate Raworth's 'doughnut'. Put simply, our current foundational problem is that we do not have the financial resource or political commitment to deliver adequate basic services for all; while some of the services that states do provide (like transport and housing) lead to more climate change and less biodiversity. But this description of double failure is not enough: the serious political question then is how the wicked problem of sufficiency is to be addressed. And here foundational thinking is distinctive because it contributes innovative thinking about new measures, new forms of social inquiry and the political approaches through which we can transition to transformation.

⁶ *Reading:* Froud et al. '(How) does productivity matter in the foundational economy?', forthcoming in *Local Economy*.

(8) Measuring foundational liveability: residual income⁷

The multiple confusions of mainstream thinking are powerful because they are grounded in metrics like GVA per capita which continue to set the objectives of policy despite the apparent difficulty that objectives like raising productivity are unattainable. It is therefore important that foundational thinking should propose alternative measures where the key variables are manageable. Hence, a foundational liveability measure which shows whether and how individual households can meet the cost of inescapable foundational basics with some margin for discretionary spend.

Foundational liveability is measured by (a) adding up the inescapable cost of household essentials like housing, transport and utilities where short term budget economies are impossible and then (b) subtracting these essentials from post-tax disposable income to produce a measure of residual income which (c) shows the households margin available for discretionary spend. This measure addresses the foundational objective of balance between different kinds of consumption.

Foundational liveability measures expenditure and income at the household level. Individual (per capita) income measures are misleading when most individuals live in multi person households with income sharing. And, in all high income societies over the past 70 years, there has been a major shift from a dominant male bread winner model to the two earner household which has a higher level of joint income and joint expenditure on services like child care and travel to work. As household size varies it is of course sensible to finally consider per person household income.

This may seem abstract and technical, but the residual income metric is practically important because it radically changes how we think about differences within and between regions. These differences have two causes. First, housing costs take very variable slices out of the post-tax income of different tenure groups when housing tenures vary: social renters, private renters, mortgage payers and outright owner occupiers have very different housing costs. Second, (without political intervention) 'successful' regions and cities generally have more expensive housing which skims the higher incomes earned in such places.

Consider for example the contrast between outright homeowners in Wales and private renters in London, two groups that separately account for 25% of the households in their region. The higher initial household gross and disposable incomes of private renters in London and South East England translate into lower per person residual incomes than those of outright owners in the North and West. For example, the median London private renting household starts with a gross income nearly twice as high as the Welsh outright owner (£52k vs £32k) but the London private renting household ends up with a per person residual income and discretionary spend which is about 60% of that of the Welsh outright owning household (£7k vs £12k).

In the per capita GVA frame, there is a binary division between high and low GVA, successful and failed places. Mainstream policy makers respond by trying to make the market work better with transport infrastructure projects and training the workforce in laggard places and regions; though, on experience so far, neither measure closes the GVA gap or secures political gratitude. In a foundational frame, places and regions are a mosaic of diversity where

⁷ Reading: [Foundational liveability. Rethinking territorial inequalities](#) (2019); Calafati et al. 'Diversity in leading and laggard regions: living standards, residual income and regional policy', forthcoming in *Cambridge Journal of Regions, Economy and Society*.

household type and housing tenure are drivers of liveability differences within and between places; and the appropriate response is to address housing costs in every place.

More generally, the liveability calculation shows how per capita GVA can produce misleading comparisons between regions: outright owners can live comfortably in a low GVA region; private renters can have lives of struggle in a high GVA region. Within regions and places, adjacent households with different tenures can have very different lived experiences. Policy needs to recognise and address these material differences not an imaginary average.

(9) Foundational inquiry: what matters to citizens and how ordinary places work⁸

Foundational metrics which highlight multiple division and diversity have clear political implications. Within the GVA/ GDP frame (as in those kinds of municipalism which credit the 'community' with an unitary identity), expert measures and managerial preferences drive policy which is done to and for citizens, who are expected to be grateful for self-evident general improvements. Within the foundational frame (which recognises diversity and division) it is prudent to inquire about citizen preferences and identify shared priorities so that policy can be done with citizens.

The problem then is that behavioural experiments show how the framing of choice leads subjects into inconsistency. Subjects also struggle to rank preferences from a list; and we are not entirely convinced by the results of the max diff technique for extracting preferences. Choice and ranking problems are particularly acute with regard to the foundational. If you can comfortably access foundational goods and services, you will often take them for granted. But if you cannot, or if it is an everyday struggle, then it can seem that nothing is more important.

Hence the foundational approach has been concerned to pioneer a new kind of empirical inquiry, as in our 2019 report based on survey and field work in Morrision, a Welsh district town on the edge of Swansea. This inquiry into how an ordinary place works uncovered a contrast between the majority's foundational comfort and the deprivation of a minority who suffered food and fuel poverty. It highlighted the complexity of public transport issues in a car formatted society where 85% of respondents usually had access to a car and 40% never use the bus. And the inquiry also produced unexpected results about what matters to citizens regardless of income, age or gender. Morrision citizens attach great importance to social infrastructure, like the public park, youth clubs and the high street which offered free or cheap facilities for social interaction.

More research is needed but the implication from Morrision is that social infrastructure should be prioritised in any plans for foundational renewal. Beyond that, we have complex issues about which foundational goods and services are citizen rights, which services should be free, full cost priced or subsidised, what are the appropriate business models of for profit and not for profit providers and how should the central and local state tax and spend as we move towards a society where all have access to the foundational goods and services they need to flourish.

⁸ *Reading:* [How an ordinary place works: understanding Morrision](#) (2019); and Cwmni Bro Ffestiniog 'What matters: a North Wales community in the early stages of Covid-19 lockdown' (2020)

On these complex issues, representative democracy with polling and focus groups increasingly confuses social choice because it creates an echo chamber of stereotypes and prejudices. Hence, the importance of new deliberative fora, as in the 2018 Swansea citizens' jury on social care. Here citizens can make informed judgements about appropriate service provision and pricing after listening to experts, administrators and users.

Given the large numbers employed in foundational activities, the impact on citizen well-being through foundational employment is as important as the impact through foundational service provision. The direct supply side interest is in higher wages, better working conditions, training opportunities and career pathways; and in union organisation to pursue these objectives in sectors like care and retail where wages are low and labour has limited bargaining power. Here again we return to the need for tax reform to create the social fund which could pay for higher wages in activities like care, and pay for more staff in activities like the UK NHS where costs have been managed by restricting staff numbers.

(10) The care-ful practice of policy (a) transition through prefigurative experiment⁹

Foundational change is a matter of what and how. And the foundational approach is distinctive because in key policy areas like social care reform or micro firm support we do not know what to do and certainly do not have a one best way solution; in this respect we are different from consultants selling the same fix to everybody or romantics with their visions of a future that works. We also recognise the limited capability of the post administrative state; it is easy, for example, to announce a 'green new deal' or similar, but much more difficult to plan and execute a cost effective programme of housing decarbonisation on housing stock of different types and vintages.

Our aim is transformative, that is, we want to make a substantial difference for many households; that is what the 1880-1950 FE 1.0 systems delivered and what we must now do through renewing FE 1.0 as we address the challenges of FE 2.0. But a sensible starting point would be small scale, prefigurative experiments which make the foundational visible, debatable and actionable at local and regional 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 foundational renewal in complex economies with long chains and in polities with multiple levels of government. 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.

Localism can easily become a trap, as we see from experiments in local purchasing by public sector anchors, This very easily degenerates into the postcode localism of counting invoices (including those from local branches of national chains) and creating client firms incapable of

⁹ Reading: [Where Does the Money Go](#), (2016) on residential care; [Coming Back? Capability and precarity in UK textiles and apparel](#) (2018).

building a broad customer base. The aim of stopping leakage from a small geographic area can displace the proper strategic objective of building capability in grounded firms, which requires supply chain analysis and aggregation of demand by many public sector purchasers.

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. But experiments will not lead towards transformation without some broader analysis of the conditions of transformation.

(11) The care-ful practice of policy (b) foundational alliances and the levers of change

Where does foundational change come from politically? If we look back at the 1880-1950 period, leadership and elite belief systems did shape outcomes. But much of the political impetus comes from the recognition of social problems turned into majority electoral demands, which are hard to resist because available regulatory and financial levers allow the delivery of meaningful reforms. Historically, the organised working class through social democratic party and trade unions was a key actor in shifting what is thinkable and doable. The foundational approach is about replicating these conditions of transformation in the 2020s through building new political alliances and analysing the levers of change.

Political fragmentation is the new reality and coalitions are the new norm. In some European countries the social democratic party has ceased to exist; in others its vote is divided between the old party and a new insurgent left; and in many countries the centre left vote is split between red and green parties. In the UK, a first past the post electoral system keeps the Labour Party in existence with different groups fighting for control. If coalitions are everywhere the way to government office and power, occasional elections and consultation exercises are not enough. Those in office should be facilitating and building capacity across civil society, working closely with organisations ranging from housing associations to faith and neighbourhood groups, to develop new frameworks of participation.

In the first instance, the initiative for change 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.

The problem with alliances for change is finding the agenda when there are so many differences about ends and means. Hence, the importance of analysing the regulatory and financial levers of change in specific places (cities, regions and nations) so that energies can be directed towards transformation.

Thus, with the new municipalism in various European countries, the regulatory resources are very variable. Housing is an attractive first order priority in Hamburg and Berlin where rent control and conditions attached to planning permissions can lever change; but not in Manchester or London which suffer from a national housing benefit system which pays the landlord's mortgage and national government has just abolished social infrastructure conditions around planning permissions. Or again, municipal trading can be an important

financial resource when the city has a limited tax base; but only if the city has a portfolio of monopolies and the possibility of cross subsidising from a cash generative activity like an airport or a fibre broadband network.

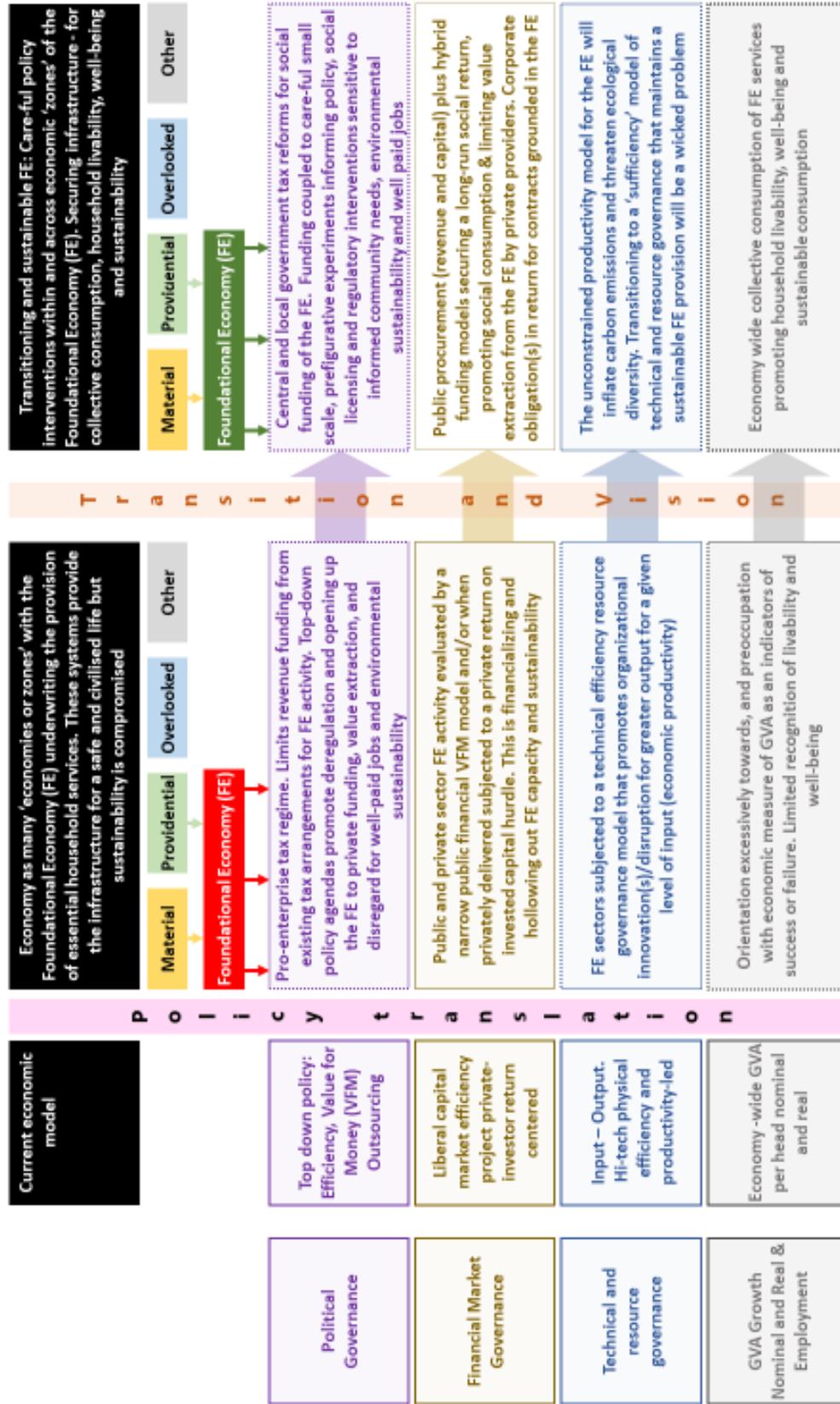
(12) The care-ful practice of policy (c) the hearts and minds of the political classes¹⁰

We have throughout these notes challenged the view that government is a benign and competent assemblage of politicians and experts who can make the economy work like a machine. Like everything else, government is heterogeneous, and one party or department can contain several competing agendas; even before considering the complications of departmental power struggle and multi-level government. But the party or department is always a gate keeper and the manager of an Overton window on what's thinkable and doable; and, from a foundational point of view, policy makers are too often burdened with assumptions which limit their top down view of what could and should be done.

The foundational approach is that what we want an enabling political centre which sponsors change, not a controlling political centre which imposes a template. As for how to get this change, the foundational approach is that this is not a matter of making the argument or adding empirics but of winning hearts and minds by creating experiences which challenge the assumptions of policy makers. There needs to be some demonstration of futility and dysfunction and the provision of a concrete alternative.

In sum, get policy makers 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 the official mind set around Welsh economic policy.

¹⁰ Reading: [What Wales Could Be](#) (2015); [What Wales Can Do. Asset Based Policies and the Foundational Economy](#) (2017).



(13) Principles of the care-ful foundational approach

The foundational approach is not a method or model 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 and output (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 do not start with models or templates and we learn from specifics; hence the need for an enabling centre which sponsors change and helps share learning.
- *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.
- *Analysis is necessary to take us beyond stereotyping* as, for example, with ideas that the private sector is wealth creating (or value extracting), the public sector is value consuming, or that the third sector is always virtuous. In this case analysis would examine business models, revenue constraints and capability which determine specific outcomes.

These principles of the foundational approach 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 in terms of assets/strengths rather than focusing on deficits such as low incomes, poor health and low educational attainment. 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 that the foundational approach is also about leveraging in resources and agency from outside and sees that frameworks created in the upper levels of government are often crucial for local action.

It should also by now be clear that the term 'foundational economy' is a misnomer because this is not about the economy or economics as most economists understand those objects. Foundational economy is about building a new kind of *social citizenship* which TH Marshall classically defined as 'the right to live the life of a civilized being according to the standards prevailing in the society'. In terms of economics, it comes closest to the heterodox welfare economics of Amartya Sen because foundational economy is about the collective preconditions which allow individuals to 'live the lives they have reason to value'.

JE, JF, CH SJ, LC, KW 16 Aug 2020