

# Foundational economy and foundational politics

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## Introduction

Any consensus on what is required by way of place-based policies is fragile and time limited. In broad historical perspective, what we have is a continuing debate about what we see in the economy, and positions taken in that debate connect with how we see the political and institutional challenges and possibilities. In every period there will be radicals pressing new problem definitions and conservatives defending existing concepts and measures.

The current generation of mainstream academic economists and technocrats are mainly in defensive mode. They are intellectually invested in generic regional recipes like better transport and training, and industrial strategies for building competitive industries of the future, with growth (of national gross domestic product (GDP) or regional gross value added (GVA)) and job creation as success indicators. Amongst the radical critics is a collective of European academics whose new book, Foundational

Economy (Foundational Economy Collective, 2018) argues for recognising the heterogeneity of economic activity and the importance of basic services for citizens in a new civic politics of place. As noted in this article, the position is partly about recovery and restatement of what was taken for granted by an earlier generation of English economists and social theorists like Keynes and Beveridge.

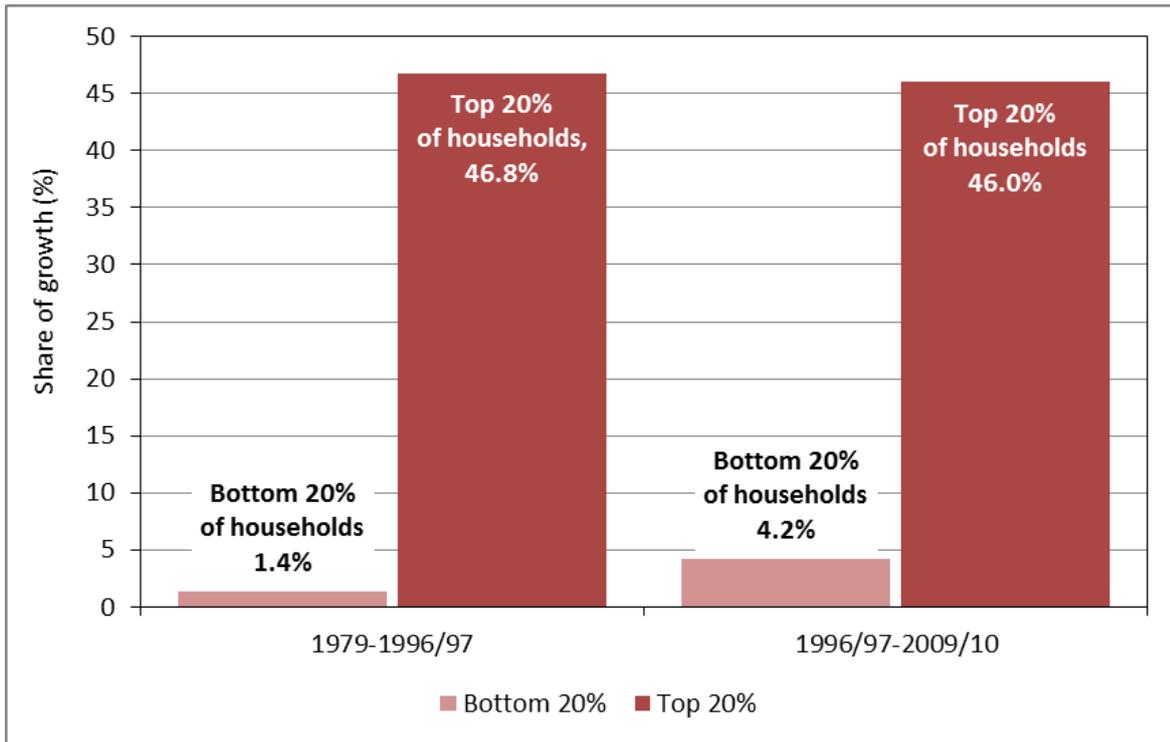
This paper which makes these points is organised into three sections. The first section explains what the foundational economy is and why it matters; the second section considers the problems of implementing foundational politics. The first two sections contain some illustrative Welsh material, while the third and final section considers how Welsh Government has begun to use foundational economy language in policy documents such as the 2017 Economic Action Plan, and whether this has the potential to bring real change in policy directions.

## What is the foundational economy and why does it matter?

For the past thirty years or more, economic policy has privileged individual consumption, partly through the preoccupation with (growth of) GDP which is of course more than 60% consumption in the UK case; the bias is reinforced by the focus on jobs and job creation as a way of distributing market income. The inherent limits of GDP as a measure of economic welfare are rehearsed in all the standard histories of the concept (Coyle, 2014; Fioramonti, 2013). These difficulties are compounded when increases in national GDP (or regional GVA) per capita are socially divisive, because they are unequally distributed between working households, As Figure 1 shows, over the past 50 years the top 20% of working households claim nearly half the nominal income growth, while the bottom 20% claim a negligible share.

This paper suggests a change of lens, and argues

Figure 1: UK non-retired household share of (nominal) income growth



Source: Office for National Statistics (ONS), London. Based on original income.

for a new focus on the social wellbeing of citizens, which in the developmental frame of Sen (1999), is a matter of capabilities which maintain or expand opportunity and freedom for individuals to make meaningful life choices. In our view wellbeing depends on collective consumption of essential goods and services. These are distributed to all households via networks and branches which are the infrastructure of everyday life. Providential services include health services and care, universal primary and secondary schooling; while a material infrastructure of pipes and cables connect every house. Altogether, these systems make everyday life possible, safe and civilised.

In the late 19th century, clean water and sewerage had added 25 years to life expectancy in large cities; and social insurance was the major socio-technic innovation of the first half of the twentieth century. In the period 1920-1950, the importance of foundational infrastructure was self-evident for economists, social theorists and social democratic politicians. Tawney (1931, pp. 134-5) praised piped water and sanitation as 'collective provision for needs which no ordinary individual, even if he works overtime all his life, can provide himself'. Aneurin Bevan (1952, p.73) valued 'social codes that have the collective wellbeing for their aim' and contrasted a civic health service for all citizens with

systems under which the 'small well to do classes' looked after their own needs'.

By the late 1950s, Galbraith (1958, p. 187) warned about a problem of 'social balance'. In the United States, individual incomes were rising while public transport decayed and air pollution increased so that 'the discussion of this public poverty was matched by the stories of ever increasing private opulence'. However, for the past fifty years the UK and other high income countries, have been feeding this imbalance. Foundational networks and branches require maintenance and new investment which is not provided automatically out of rising individual incomes. Problems about access to basic services can recur at

higher income levels; as in present day London where housing is unaffordable even for middle income groups.

If unmet needs remain, the scale of existing foundational provision generates a large volume of employment. This is distributed between and within regions according to population because the long term unemployed in the south Wales valleys and investment bankers in London all shower in the morning, shop at the supermarket and use public transport. Providential and material services are everywhere large-scale employers, especially in Wales where the tradeable goods sectors of coal, steel and assembly have collapsed. As Figure 2

shows, in Wales providential services account for 33% of employment and material infrastructure for another 15%, and these shares will vary across Wales. Most of this employment is sheltered with wages and conditions not determined by international competition; although supply chains, as with food and energy, often extend nationally and internationally.

The foundational provision of essentials is crucial to well-being on the demand side; and, large enough by any metric on the supply side. However, it is only part of a larger whole and one of the crucial intellectual questions is how we think of that larger economy. In mainstream economics, the larger whole

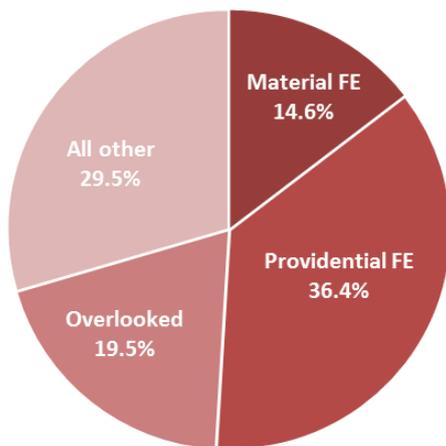
is a singular 'economy' whose elements can be added together as in calculations of GDP and are classically underpinned by one supposed law of value. In foundational thinking, the larger whole is re-conceptualised as a complex totality which, in Figure 3, is represented as a layering of strata where heterogeneous activities have characteristically different business models, sources of revenue and organisational forms. The different strata exist in relations of necessary interdependence and occasional interference.

Beneath, the foundational is the affective, non-transactional, informal sphere which the New Economics Foundation

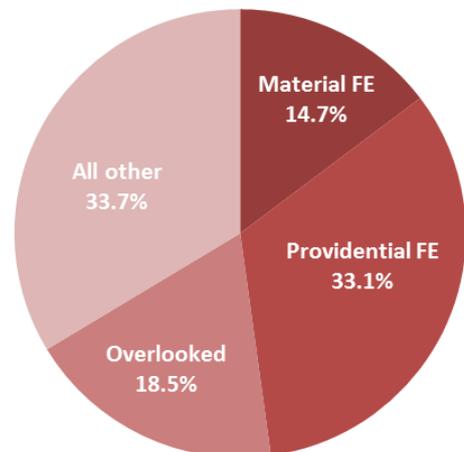
Figure 2: Foundational Economy employment, Wales and Swansea Bay City Region.

Material share of employment	Providential share of employment
<ul style="list-style-type: none"> <li>Wales 14.7% (191,725)</li> <li>Swansea Bay CR 14.6% (34,875)</li> </ul>	<ul style="list-style-type: none"> <li>Wales 33.1% (432,350)</li> <li>Swansea Bay CR 36.4% (86,985)</li> </ul>

Swansea Bay City Region  
Employment in the Foundational Economy



Wales  
Employment in the Foundational Economy



Source: UK Business Register and Employment Survey, ONS.

(2015, pp.19-20) calls the ‘core economy’ of child rearing, informal care and house work whereby ‘uncommodified human and social resources (are) embedded in the everyday life’. Above the foundational economy of daily necessities is an outer sphere of the overlooked economy which includes commodified, cultural necessities like sofas, haircuts and holidays where purchase is occasional and can be postponed. The competitive, tradeable part of the economy in Wales is then a residual which accounts for less than one third of employment and a much smaller proportion of useful effort if the many hours of unpaid domestic labour are included.

This conceptualisation has two implications:

- When policy makers talk about the economy, they almost always talk about just part of the economy because they are concerned with the part that is competitive and tradeable. Consequently, their industrial or regional policy will be narrowly focused on building high tech industries of the future and attracting inward investment. We are practically concerned with what is in the rest of the economy, which, as Figure 2 shows, accounts for at least two thirds of employment in Wales; and should be intellectually concerned not to repeat the old policy mistake of confusing the part for the whole.
- What gets into the foundational economy, and how, is always a matter of political contest

and changes over time. The 1951 Conservative party Manifesto announced “housing is the first of the social services”; while prime ministers Thatcher and Blair redefined housing as a private asset through council house sales. Foundational provision is inevitably mixed up with citizen duties like sending children to school and citizen rights such as free medical care. Citizen rights can expand or contract; as they have done recently in the UK when austerity cuts have effectively removed the citizen’s right to legal aid. So the policy question is not about the technically correct economic policy but about how to do foundational politics so citizens can access quality foundational

Figure 3: Interdependent economic activities as characterised by foundational economy principles.

	Form of consumption	Examples	Provider business model	Source of revenue	Organisational mobility and mortality	Post 1980s public policy
<b>Core economy</b>	Non-economic because “we must love one another and die”	Parenting, voluntary action etc.	Giftng: no charging or recovery of cost	Goodwill	Re-invented forms e.g. divorce and marriage in our generation	When the state retreats, try volunteers
<b>Foundational economy</b>	Daily essentials via infrastructure of networks and branches	Material e.g. food and utilities; Providential, health and care, education, social housing	WAS low risk, low return, long time horizon for public and private providers	Tax revenue for free at point of use or subsidized; or regulated private purchase	Low mobility and mortality as networks and branches ground firms, stable demand	Privatisation, outsourcing and shareholder value = a new business model
<b>Overlooked economy</b>	Occasional purchases of mundane, cultural necessities	Take away food, sofas, central heating, holidays	Financialised corporates vs SME and micro pro life style 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
<b>Tradeable, competitive economy</b>	(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 and D, training etc.)	High mobility as footloose under free trade; cyclical demand	Business friendly, structural reform

services provided by decently paid workers.

### **Foundational politics and how to do it**

The established paradigm of economic policy for national and regional policy starts from a narrow concept of how to make the economy work (so as to generate growth and jobs) through a generic recipe: any/every region can boost growth by adding 'economic infrastructure' (narrowly defined as transport improvements) plus training and skills which will together make the labour market work better. This can be backed nationally by industrial policy which, in the Department of Business, Energy and Industrial Strategy (2017) white paper, 'industrial strategy' is about supporting early stage innovation in industries of the future. For a laggard region like Wales, regional policy is all of the above plus an attempt to attract mobile investment to large projects.

In this frame, economic policy is top-down because economic policy is something done by political and technical elites to, and for, ordinary citizens. The model is that political elites should choose from a menu of policy options which is decided and costed by experts who know what to do. Thus, transport improvement and training usually involve negotiation with business interests and competition for limited funding but little engagement

with citizens, except where there are objectors who need to be conciliated or more usually talked out. Economic and social policy operate in different silos. The social problem of poverty and deprivation is to be tackled using different policies, as with the Welsh Government's Communities First programme, sponsored by a separate group of ministers and experts.

On this basis, the standard political offer is 'vote for us and we will make the economy work for you'. And the immediate problem is that national economic policy rests on a misunderstanding about growth drivers; and regional economic policy does not by its own criteria deliver relative improvement. Since the 1980s, the UK economy is not productively driven but consumption and debt led by a system of 'privatized Keynesianism' (Crouch, 2009); unsustainable growth of GDP is bought through housing equity withdrawal which allows rising house prices to leak into consumption.

As for regional policies in laggard regions like Wales, they cannot redress economic disadvantage as officially defined and the electorate shows no political gratitude. The Welsh Government used to have a target of closing the GVA gap with London and the South East but that has been dropped because Welsh GVA has been stuck at around 75% of the

successful regions for the past twenty years. Worse still, the electorate is politically indifferent or ungrateful. Ebbw Vale has been gifted an Enterprise Zone, a dual carriageway A465, a new Coleg Gwent and a refurbished town centre; yet in the 2016 Welsh Assembly election the turnout in Blaenau Gwent was 42% and in the EU referendum 62% voted leave.

The fundamental imperative then is that policy has to change because economic underperformance leaks into political disaffection with centrist offerings and threatens parties with established electoral franchises. The question of what to do next is then a huge and overwhelming question. In our view, the first sensible step would be to recognise the limits of the mainstream agenda of growth and jobs through competitiveness; and the second step would be to drop the pretence that policy can buy growth and relegate economic management to its original Keynesian task of the task of stabilising output and avoiding recessions. The third constructive step would be to accept that the distinctive, primary role of public policy going forward should be to secure the supply of basic services for all citizens.

This renewed commitment to services is all the more necessary because the post 1979 state policies of

privatisation and outsourcing plus private sector financialization have licensed predation on, and degradation of, many foundational sectors. In historical perspective, the foundational economy (public or privately owned) had historically been low risk, steady return with long time horizons and expectations of a 5% return on capital. Privatization in the 1980s, and outsourcing in the 1990s then brought in stock market quoted corporates, private equity houses and fund investors with market-driven requirements for a return of more than 10%, and financialised business models developed in high risk, high return, short time horizon activities.

As we have explained elsewhere (Bowman *et al.*, 2015), returns in foundational sectors can be levered up in the short term by financial devices like investment rationing, tax avoidance, asset stripping and loading enterprises with debt. While Dwr Cymru did not (like English water companies) distribute profits while borrowing to invest, Wales could not avoid the privatisation of British Telecom or rail franchising. Meanwhile, under pressure from financial markets, corporate power is routinely used by private operators to boost revenue by confusion pricing like the special offers in supermarkets or 'free' retail banking or multiple utility tariffs. 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) so that costs and consequences are passed down the line.

If these problems are the result of the intrusion of financialised business models and forms of calculation into foundational activities, it is less easy to see what is to be done. Renationalisation is expensive and economics-based regulators have failed to restrain predatory behaviours and require basic service. So, we have elsewhere argued (Bowman *et al.*, 2014, pp.134-9) the case for a political system of social licensing and explicit social obligations for corporate providers of foundational services. Beyond this, matters are complicated because we do not start by knowing what to do, though we can recommend four general principles:

1. Break down the line between economic and social policy which will require rethinking the objectives of policy. For example, while higher productivity is relevant to adult care, it cannot be the main objective of policy if care is about maintaining the social relations of older people as much as about meeting their medical needs.

2. Accept that policy means learning from experiments and social innovation which in the first instance will be local. For example, there is a need to experiment with policies to secure the future of grounded, family owned SME firms; and adapt training and business assistance models for micro firms which need something more like the 'pop up business school'.

3. Accept innovation will not abolish hard policy choices. Many sectors of the foundational economy are built on the exploitation of cheap labour; new policy objectives and instruments in sectors like tourism and care will not increase the funds available to pay wages unless consumers or taxpayers give more.

4. Recognise the need to break with the political model of top down policy with government as the leading actor. Adding participative and deliberative democracy is difficult but has to be done because we fear what will happen without engagement. Experiment will require coalitions of regional and local actors; with intermediary institutions often in the lead and government in an enabling role.

Again these proposals are partly rediscovery. From the 1920s to the 1950s, intermediary institutions (neither state nor market) played a major role in the blueprint plans for a better capitalism by liberals like Keynes and Beveridge. Keynes (1926) envisaged that expert quangos would allocate government funds on the post war model of the University Grants Committee; Beveridge (1948) expected friendly societies to provide income related benefits above the flat rate state minimum. None of this worked out in the 1950s as firm based occupational pensions replaced friendly societies and only the Arts Council escaped the demise of the quangos. One of the big questions arising is: can we make intermediary institutions work second time around?

For Wales these proposals would also represent a reinvention of the civic. The process of deindustrialisation worked along with secularization and the decline of mass parties to weaken the civic institutions and networks which made things work and provided ordinary people with opportunities for social connection and leadership.

In South Wales, after the collapse of the large unionised work place around one quarter of the private sector work force is unionised; and regular attenders of church and chapel account for no more than 10% of the population. Here is a huge opportunity for new institutions and engagement which would generate political energy.

### **The Welsh Government and the Foundational Economy**

The Welsh Government's economic policies have until very recently been completely mainstream and orthodox. And continue to be so. New initiatives like the Swansea City Deal are of course framed by Treasury orthodoxy. However Welsh ministers are more than capable of unforced errors when, for example, they have not brought a proper scepticism to the claimed benefits from the South East Wales metro. While broadly based, Welsh support for expensive electricity from the Swansea Bay Barrage is a troubling indicator of the continuing attraction of grand projects as the supposed basis for world leading new industries.

At the same time, there is in recent Welsh Government

economic policy documents a new realism about the Welsh economy as it is. The Welsh Government's (2017) *Economic Action Plan* recognises four 'foundation sectors' (care, tourism, food and retail) are the 'backbones of many local economies'. But there is confusion about policy objectives and levers as new sectors easily become the means to old objectives. Thus, the Valleys Task Force (2017) *Delivery Plan* promises 'the number of jobs in the foundational economy will be increased' without justifying the objective or explaining how this is to be achieved.

The Welsh Government has borrowed the new foundational language but it is not clear whether it can move from talking foundational economy in an often confused way to doing foundational economy in a new and radical way. And the fundamental issues at stake here are not about economic policy objectives and policy levers. The question is whether Welsh Government can take an active role in sponsoring a new municipal politics which is prerequisite if the foundational project is to gain form and substance.

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