THE FOUNDATIONAL ECONOMY

Building foundational Britain: from paradigm shift to new political practice?

Luca Calafati, Julie Froud, Sukhdev Johal and Karel Williams

We need a paradigm shift in economic thinking, rejecting the idea of a unified national economy and thinking in terms of different economic zones. Government should be less concerned with the tradeable, competitive economy, on which most government policy currently focuses, and should be centrally concerned with improving – and decarbonising – the foundational economy, which employs 45 per cent of the UK workforce providing goods and services essential to daily wellbeing.

What should we do about 'the economy'? This is a question we can no longer avoid – and not just because of Brexit. In British general elections for the past fifty years all the parties have made a generic economic offer: 'vote for us and we'll make the economy work better for you'. The objectives of growth and jobs stay the same, as the policy-fixes change with intellectual fashion and political context. Monetary policy, briefly centre stage in the 1980s, is now delegated to the Bank of England, whose currently loose monetary policy combines low interest rates and quantitative easing. The corollary – tight fiscal policy – has been hotly disputed by the left, which in recent years has protested against the invidious effects of post-2010 austerity. Where structural reform of labour markets has failed to transform the economy, centrists now recommend industrial policy, and regional policy continues in the form of city deals.

The results, in recent years, have been disappointing. Policy-makers restate their economic objective as inclusive growth, as they fear disgruntled electors left behind by 'uninclusive' growth. Keynesian economic management to prevent unemployment and business failure in recessions has mutated into buying growth by bringing consumption forward through debt, which has the effect of driving up asset prices. Growth excludes many because a deregulated labour market creates low quality jobs, and income inequalities are reinforced by wealth effects from rising house prices. Regional policies have completely failed to close the gap between the South East and the deindustrialised North and West on the standard gross value added (GVA) measure. Industrial policy promotes high tech which creates few jobs, and disinvestment offsets inward investment even before Brexit.

At the next election Labour and the Conservatives will argue that they can get different and better results on growth and jobs by pulling on the right economic policy levers. But, given the record of the two main parties, it would be safer to conclude that, in mainstream economic policy, reach exceeds grasp. Worse still, on recent British poll evidence, the growth and jobs objectives are meaningless to a substantial group in the electorate: only 39 per cent of those polled on the meaning of GDP can define it correctly, with 25 per cent ticking 'don't know'. Meanwhile 37 per cent of respondents think their jobs 'make no meaningful contribution to the world' and 71 per cent support the introduction of a four-day week.[1]

It is time for a paradigm shift in policy. We argue that should start by setting aside the idea of 'the economy' as a manageable entity and separate domain. The separation of the economy from other policy areas is a relatively recent invention, dating from the introduction of national income accounting, and we argue that what was thought in the 1940s needs to be unthought for the 2020s.[2] This article explains how foundational thinking has begun the work of paradigm shift by breaking with the concept of the singular economy and proposing a plural concept of economic zones.[3] The intellectual shift is to reunite the economic and social domains of policy around the objective of wellbeing. The article then takes up the question of whether and how this new intellectual agenda can be turned into political practice so that Britain can build and rebuild the foundational zone.

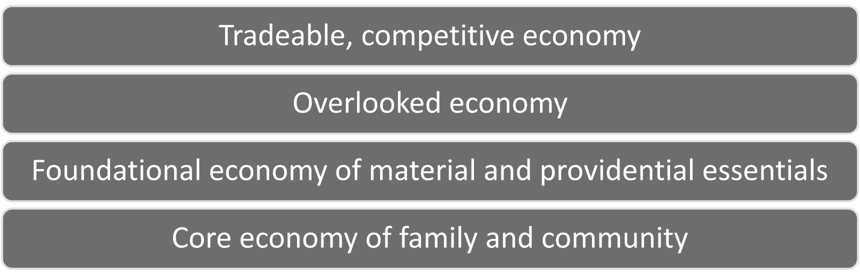
The zonal shift

The economy frequently figures in the media though stories reporting the latest quarterly GDP figures for the national economy. The national GDP aggregate (as with regional GVA) is constructed by adding up everything consumed or produced which has market value – or cost, in the case of the public sector. This additive method is contestable and we have challenged it by developing a zonal concept of the economy: this highlights how what we call the 'foundational zone' matters, and why it should be fundamental to government policy.

The additive method denies the apples and pears heterogeneity of consumption. This is important: wellbeing-critical outputs like health care are not like fast fashion; equally, some parts of consumption, like housing, transport and utility bills, are inescapable, regular, first charges on income. Insofar as policy recognises sectors, the emphasis in current government industrial policy is on tradeable and competitive activities like cars, aero, bio-tech, and the creative sector, after the loss of heavy extractive industries and light manufacturing.

In an earlier period, before national income accounting, the heterogeneity of consumption was a major consideration for liberal collectivist social thinkers, like Harold Macmillan in the 1930s, who distinguished between supply of necessities and luxuries.[4] As late as the 1980s, the historian Fernand Braudel distinguished non-market 'material life' as part of a three-level schema of the early modern European economy.[5] It is this zonal way of thinking which we are reviving, with the four-level schema below, where the levels represent different forms of consumption (private and collective) of outputs that make diverse contributions to well-being.

Exhibit 1. A zonal schema of the economy



The foundational zone includes (often collectively provided) housing, education, health and care, food, pipe and cable utilities, which are all daily essentials, such that any interruption of supply occasions immediate crisis. This zone fits in schematically above the core economy of gift and goodwill in family and community; and below the overlooked mundane economy of occasionally purchased cultural necessities like sofas, takeaways and holidays, where the next purchase is usually postponable.

The divisions between the zones are matters of political decision and social contest, as with the line between housing as social good or private asset, which has been redrawn in the UK by the sale of council houses and the rise of private renting. The foundational is only one (changing) zone, and we would not repeat the mistake of those who talk about the tradeable and competitive part as though it was the whole economy, or those who define the singular economy to exclude the core economy, which is crucial to the sustainability of everything else.

When these qualifications have been registered, the foundational zone matters in ways which should make it central to government policy.

- Foundational goods and services are wellbeing-critical for households, which depend daily on continuous consumption of foundational essentials. These essentials are of two kinds: first, providential services like health services and care or universal primary and secondary schooling, which are all badges of our civilisation; second, the infrastructure of pipes and cables connecting households to systems, which added twenty years to urban life expectancy after 1880 and now make everyday life possible and safe.
- The foundational zone is large if we consider standard supply-side measures of size and performance.[6] The foundational economy distributes welfare through wages to nearly half the UK workforce: in 2016 the material and providential together accounted for 43 per cent of employment and 47 per cent of employee compensation. Because these services are distributed according to population, and demand is non-cyclical, the foundational is the resilient, stabilising half of the economy: despite austerity cuts, the foundational share of UK output using the GVA measure increased 2007-16 from 44-45 per cent.
- Building the foundational economy can also open a transition pathway to mitigate climate change and secure the wellbeing of future generations. Intergovernmental accords and appeals for degrowth through consumer restraint have both been ineffective. But we have not tried changing the composition of consumption, for example through a relative increase in quality health, education and care services, and social infrastructure like parks and libraries. These collective goods all offer output that citizens want,

with little carbon penalty. At the same time, the high carbon foundational sectors (housing, transport and food) account for more than 50 per cent of UK consumption-related emissions and are key areas for decarbonisation through government regulation.

On the basis of this evidence and argument, the 'growth and jobs' objective should be demoted, and the primary policy objective of government in the domestic policy arena should be to secure the wellbeing of current and future generations by ensuring adequate foundational provision; because all households should have access to high quality and low cost foundational goods and services, whose provision is a way of distributing welfare through wages and can be a way of mitigating climate change. The complication is that the attainability of these general objectives depends on material context, and on the embedding of these objectives in a government policy machine which will be predictably hostile.

The material shift

Mainstream economic policy is inherently liberal individualist: the object is not wellbeing but economic welfare which (tacitly) is assumed to depend primarily on individual income from jobs, which sustains private consumption on the market. This completely abstracts it from the material context of consumption, except insofar as public policy enforces horizontal competition between suppliers in the interests of individual consumers. This position fails to recognise the importance of collective consumption, which in the foundational zone requires (private or state funded) social investment in networks and branches: an individual can buy a smartphone but not a 4G network with comprehensive coverage.

Even serious radical thinkers like Amartya Sen are blurry about the material context of achieved functioning. Sen does not focus on the collective aspects of every individual's freedom to 'choose the lives they have reason to value'.[7] By way of contrast, foundational thinking puts material context – and the collectively determined – centre-stage in two ways. First, on the demand side, citizens live in places (not in a zone of the economy) where their wellbeing depends on achieving foundational liveability, sociability and political agency, as different forms of provision fit together. Second, on the supply side, foundational providers – whether public organisations or private firms – have service-delivery models or business models of cost recovery which are often ill-suited to foundational activities. As we shall see, these material considerations make it more complicated and difficult to deliver on foundational objectives.

Exhibit 2. The drivers of wellbeing

- Income: wages & salaries, pensions, welfare
- Grounded infrastructure: housing, utilities, care, education
- Mobility infrastructure: private & public transport systems
- Social infrastructure: park, community centres, activities

The wellbeing of citizens in specific spaces depends not only on income, but also on grounded infrastructure, mobility infrastructure and social infrastructure. Private disposable income tells only part of the story of wellbeing, because all these other infrastructures generally require social investment (public or private), and because housing expenditure eats variably into disposable income according to tenure and regional property prices: for example, London households spend £10k per capita more each year than the Welsh, but £7k of that goes on more expensive housing.[8]

Against this background, we need to know more about how places work and what matters to people, if the aim is to avoid inept, top-down policy prescription. Our survey in Morriston, outside Swansea, highlights the complexity of local issues and priorities. For example, car dependence complicates pricing and service issues about public transport: 86 per cent of Swansea respondents own or usually have access to a car; while 40 per cent never use the bus, which remains an important foundational service (for a minority).[9] Social infrastructure is a high priority of citizens in all demographics, but not for any government agency: thus, Swansea citizens complain ineffectually about the neglected local park, the condition of the local high street or the absence of youth clubs.

On the supply side, the material complication is that much foundational service provision has been undermined by privatisation and outsourcing. The problem here is not private ownership per se but the imported business model. Foundational activity generally requires lumpy long-term investment (rather than continuous stream investment), for modest, low-risk returns over the long run. The foundational economy was built by state and corporates who, like nineteenth-century UK railway companies, accepted a return on capital of 5 per cent or less. Public companies and fund investors now require a return of at least 10 per cent over horizons of no more than 5-7 years. As we have documented, in residential care, privatised chains target an 11-12 per cent return, which raises the weekly price per bed by £100 over what would be charged by a provider content with 5 per cent.[10]

The more general problem is that financialised firms are not grounded and tied to a region by ownership, skills and supply chain. The financial-market requirement for the conversion of 5 per cent activities to 10 per cent activities requires devices like the use of levered power against other stakeholders or financial engineering to bring forward income or defer liabilities. This works against stakeholders, including service users, who face confusion pricing with multiple tariffs, exploitation of non-switchers, and withdrawal of cross-subsidies, because individuals are now served according to their value as customers.

If the zonal shift clarifies matters by separating what GDP lumps together, the material shift highlights complexities and obstacles which indicate the need for a new concept of social citizenship that would apply to individual and corporate citizens. For individuals, we need a new, more concrete, specification of their right 'to live the life of a civilised being according to the standards prevailing in society'.[11] And, for financialised corporates operating through networks and branches in the foundational economy, we need some specification of social duties, including the obligation to pay tax. Such firms are not as footloose and mobile as they are sometimes made out to be, because they are tied by their networks and branches, but these proposals nevertheless raise large questions about political practicality.

A new political practice?

Paradigm shifts are hard to achieve; intellectual and political communities have a built-in tendency to defend orthodoxies; civil servants and politicians often resist radical policy shifts. In the UK, a dis-embedded economic policy elite in the Treasury has used the central power of financial control to subordinate ministries with sectoral expertise and to define devolution as responsibilisation with limited budgets. From the Whitehall point of view, the project of building the foundational economy represents the demand for a new and disorienting political practice that could deliver large scale change but only under conditions which would turn the policy-makers' taken-for-granted world upside down.

The foundational economy can only be (re)built through a new political practice in provision, policy-making and measurement.

- The old practice in foundational *provision* was top-down, engineer-designed and state-led. This was the pattern from gas and water socialism in the

1870s to free hospitals and council housing building in the 1950s. The new practice will need citizen engagement and deliberation. This is the case, for example, in designing adult care for the 2020s, where one key issue is whether – and how – adult care should continue to focus on bio-medical rather than social needs. Of course, government agencies have democratic legitimacy and tax revenue, but controlling government is not always imaginative, benign nor competent. So we need enabling government to engage citizens and enlist social actors in foundational alliances for change and mixed ecologies of provision.

- The old practice in *policy-making* relied on a repertoire of generic fixes, so that policy-makers usually knew what to do before they started, and often did much the same thing everywhere. Thus, regional policy-makers reached for their GVA targets via investment in skills training and transport infrastructure to improve competitiveness. The new practice would include learning from an experimental approach which engaged local specifics and tackled 'wicked problems' – like how to build grounded SMEs through relational procurement and continuity funding. It would also require planning for dissemination, because good practice often does not travel, and the lessons of failure are usually hidden or misunderstood.
- The old practice in *measurement* relied on per capita GDP and GVA as the basis for crediting places with a unitary identity as failed or successful. This does not recognise the heterogeneity of consumption and the diversity of household experience, or engage with wellbeing issues. The new practice needs a suite of new metrics which define what 'good' looks like in the foundational economy. We have made a start by proposing residual household income as a first measure of foundational liveability: this works by subtracting essentials like housing and transport from disposable income, and shows how these costs and deductions are as important as income level.[12] In Morriston, with GVA per capita at 70 per cent of average UK levels, first-time buyers can buy a terraced house for £85k, when Londoners are on average paying £430k for their first property.

If the new practice is to be scaled up, the preconditions of large-scale change are beyond the current imagination of central and regional policy-makers, so that they would be fiercely contested. There are two key preconditions for large-scale change.

- The first precondition is radical reform of the taxation system. Material utilities usually have a stream of revenue from paying customers, but, as with rail, the money received from them is often inadequate to cover operating costs and the requirements of investment. The providential services will continue to require tax revenue funding. What is needed is a reinvention of taxation like that which sustained the post-1945 settlement, through pay as you earn (PAYE) income tax and extension of social insurance. Adult care needs to be put on an insurance basis, and gains from property need to be taxed, when the average London property owner has made a capital gain of £20,000 a year each year from 2008-18.

- The other key precondition is some explicit system of social licensing whereby government negotiates with large financialised companies operating in the foundational economy to specify explicit social obligations – like living wages, fair treatment of suppliers and support for community activities. Privatised utilities and outsourcing contractors depend on state regulatory privileges and tax revenues, and the mistake here has been to require no more than minimum customer service obligations from the private operator. For-profit foundational firms drawing revenue from private households have been bizarrely considered to be outside the public sphere, so that supermarkets, for example, are under no obligation to do more than truck the groceries in and the money out.

While these large changes are not immediately in the realm of the possible, the good news is that we already have disruption by local and regional practitioners who are building and planning the foundational, even within the old constraints.

- Local experimenters are active in all the nations of the UK, and in Wales their efforts are now being reinforced by enlightened regional government. Hence new ways of working and delivering benefits to service users and communities can be observed. Monmouth and Bethesda pioneer new forms of care, Blaenau Gwent develops relational procurement, Ffestiniog counters rural atrophy, Swansea High Street pioneers social regeneration. The Welsh government is now supporting this effort, with a funding pot of £1.5 million in the first instance.
- Regional strategists and local development specialists have taken a leading role in Barcelona. Pla Estratègic Metropolità de Barcelona – which Oriol Estela writes on in this issue – is focusing city region development not on growth and jobs but on water, air, energy, housing and food, and at the same time putting a new emphasis on planning as facilitation – not report writing. In the municipality, Barcelona Activa is reworking what local economic development means.

Elsewhere, there are starting points which would, at low cost, deliver something of what matters to citizens – for example, much less emphasis on improvements in transport infrastructure that are designed with economic growth in mind, and more emphasis on social infrastructure to improve foundational liveability. Despite constraints, we have opportunities.

All the authors are members of the Foundational Economy Collective (foundationaleconomy.com).

Luca Calafati is a doctoral student at the University of Milan and activist member of the Squatting Europe Collective.
Julie Froud is a Professor at the Alliance Manchester Business School, University of Manchester
Sukhdev Johal is a Professor at Queen Mary, University of London
Karel Williams is a Professor at the Alliance Manchester Business School, University of Manchester.

Further reading

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Notes

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3. The argument is developed in a recent book by the Foundational Economy Collective: *Foundational Economy*, Manchester University Press, Manchester 2018. Ongoing developments can be tracked on the foundationaleconomy.com website.
4. H. Macmillan, *The Middle Way*, Macmillan, London 1931.
5. F. Braudel, *The Structures of Everyday Life* (Volume 1 of *Civilization and Capitalism*), Harper and Rowe, New York 1981.
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12. J. Froud et al, *Foundational Liveability: Rethinking Territorial Inequality*, Working Paper 5, Foundational Economy Collective, 2018: https://foundationaleconomycom.files.wordpress.com/2018/12/foundational-livability-wp-no-5-fe-collective.pdf.