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Debating the Foundational Economy

Julia Heslop, Kevin Morgan and John Tomaney

The idea of the Foundational Economy has the potential to radically disrupt dysfunctional old assumptions about economic development strategy. It is already being used to do so in places like Barcelona and Swansea, where it works with trends to remunicipalise public services, build local wealth through anchor institutions, and promote mutualism. The Foundational Economy offers a new way of conceptualising the very purpose of economic development, and how it can improve the lives of the many, not just the few.

Fixing the economy from the foundations

It is common knowledge that the relationship between growth, jobs, prosperity and wellbeing has broken down. But the search for a new paradigm of economic development that widely shares wealth and opportunity and safeguards ecosystems and communities is far from complete. A range of concepts and practical experiments compete for attention. This editorial explores a key contribution to the search for a new paradigm – the concept of the Foundational Economy (FE) – and introduces a set of articles on the topic. We situate the FE in relation to other emerging ideas and initiatives that share similar concerns.

The debate about economic alternatives has tended to be dominated by debates on industrial policy that privilege notions such as mission-oriented research and innovation policies – systemic public policies which draw on frontier knowledge to create value (‘big science deployed to meet big problems’), and which are contrasted with forms of development that facilitate value extraction and rentier capitalism.ⁱ These approaches to industrial policy provide a powerful challenge to neoliberal claims that markets are inherently good and governments invariably bad. They also offer the possibility of models of innovation that create forms of public value and, more fundamentally, pose the question: what kinds of economic activity add value to society and what structures best promote these economic activities? These new industrial policy approaches also represent an advance on existing models of economic development because they transcend the tired state-versus-market binary, highlighting the need for collaborative processes of co-creation.

But what is most problematic about the new industrial policy debate is that it leaves unanswered questions about the fate of the vast majority of people and places that do not figure in the world of mission-oriented innovation policy. It is in this space that the concept of the FE makes its contribution because, far from being socially and spatially exclusive, it has something to offer everyone everywhere, in the sense that it constitutes the infrastructure of everyday life.

The promise of the foundational economy

The FE refers to the basic requirements of civilised life for all citizens irrespective of their income and location. It includes *material infrastructure* – pipes and cables and utility distribution systems for water, electricity, retail banking, etc – and *providential services* – education, health, dignified eldercare and income maintenance.

Conventional ways of theorising and measuring the economy render the FE invisible and overlook its contribution to development. Orthodox thinking is fixated on the contribution of hi-tech, knowledge-based industries and property-led regeneration to increases in GDP. But growth in GDP is not translating into improvements in living standards for many households and provides only a narrow and desiccated index of progress. Understanding the FE is essential to thinking about alternative forms of economic development, because it is welfare-critical for those with limited access to private provision; it underpins household consumption; and it is a large employer in sectors like water, energy and eldercare, which typically are sheltered from international competition. Moreover, neglected mundane activities, such as going to the supermarket, provide everyday necessities and can be lynchpins of local economies. In current discussions about industrial strategy, with a few exceptions, the FE is rarely mentioned, but the supply of these services is critical to rising living standards and social wellbeing.

From the mid-nineteenth century, local government was centrally concerned with building the FE. ‘Gas and water socialism’ reached its apogee before the Second World War in places such as Hamburg, Vienna and the British coalfields, and in the municipal reforms of the Progressive Era in the US. After the war, the foundations of rising living standards were secured by the expansion of the welfare state, embodying the principle of social insurance. Typically, this extended the reach of central government, severing the FE from its local roots. Since 1980, this post-war settlement has been overturned through privatisation, outsourcing and, more recently, austerity. Shortfalls in social provision have been made up via the mechanism of privatised Keynesianism – through rising household debt or equity withdrawal from appreciating housing assets, the antithesis of a prudent and sustainable development strategy.ⁱⁱ In an era of privatised and financialised capitalism, the FE is attractive to investors because it offers lower risk and longer time horizons. Markets are largely captive. Private owners or contractors seek high returns through the exploitation of workers, suppliers or customers or through financial engineering rather than investment or innovation. We are left with rentier capitalism in which regulators watch prices and investment, but managers and investors manipulate cash extraction. All these phenomena are perfectly illustrated in the recent collapse of companies such as Carillion, Virgin East Coast rail and Interserve, whose failures necessitated state intervention. From the perspective of the FE, the task of public policy is to recognise the limits of competition, civilise capitalism and reassert the public obligations of business. At the local scale, this would represent a marked change from the regressive property-led regeneration approaches adopted by many cities, measured in terms of the output of glass and steel, or bidding wars in pursuit of elusive mobile investors, epitomised by the competition between US cities to attract Amazon’s HQ2. The rejection of Amazon’s investment by local actors in Queens, New York because of its noxious impacts on local services is a rare example of the politics of the FE trumping the politics of tech.

A world of experimentation

We can identify a range of movements aimed at fashioning alternatives to extractive economic models, including local wealth building, re-municipalisation, and re-mutualisation and sharing economies that provide local services, industries and community and household resources. The *local wealth building* model is promoted by the Centre for Local Economic Strategies in the UK and Democracy Collaborative in the United States; it focuses on ‘anchor institutions’ – such as housing organisations, universities, schools and hospitals – and their roles as important employers, purchasers of goods and services, and owners of property and assets that are unlikely to relocate from the local area, and at the ways these can be used to support small firms and build ‘local wealth’.ⁱⁱⁱ Among the tenets of this model are the insourcing of public goods and services; developing cooperatives and locally-owned or socially-focused enterprises in the public and private economy; directing the funds from local authority pensions away from global markets and towards local schemes and community-owned banks and credit unions; working within large anchor institutions and their human resource departments to pay the living wage and drive workforce recruitment from lower income areas, building secure progression routes for workers and ensuring union recognition; developing local supply chains; and ensuring that assets held by anchor organisations are owned, managed and developed with local public value in mind. The Preston Model is held up as an exemplar of this approach.^{iv} The challenge here is to consider how concerted local action fits into broader flows and networks of global capital.

A global trend to *re-municipalisation* offers another variant of current experimentation. Thomas Hanna has charted this phenomenon in the United States, while Andy Cumbers and Sören Becker analysed the *Rekommunalisierung* process in Germany, both of which involve the transfer of previously privatised services back into forms of local public ownership and control.^v In Germany, this is especially visible in the energy sector, where failures of private provision, together with pressure from citizens’ movements, has seen utilities taken back into public ownership in cities such as Berlin, Hamburg, Bremen and Stuttgart. A wave of re-municipalisation has also occurred in a series of smaller towns and rural communities characterised by conservative politics. The decentralised nature of the German polity means that a range of models have been adopted by state and local governments. The re-municipalisation movement certainly offers promise to those searching for alternative economic models, but public ownership does not in itself obviate regressive social outcomes, and hybrid forms of provision can offer equitable or sustainable forms of economic development.

While local wealth building and re-municipalisation typically focus on the actions of the local and regional state, another world of alternatives lies in the possibilities of *mutualism*.^{vi} Many of the services incorporated into the welfare state had their origins in self-organisation and mutuality movements. Bevan’s model for the NHS had its inspiration, at least in part, in the Tredegar Medical Aid Society and other local insurance schemes across the UK. Today, forms of mutualism operate in the form of co-operative food production, industries and business, building societies, credit unions and community-led housing organisations. Community Land Trusts are an example of co-operatively-owned, resident-controlled housing which lies outside the speculative market. Some of the largest CLTs are now in urban areas, often in areas which have suffered from long term decline and disinvestment and large numbers of empty homes, such as the Granby 4 Streets in Toxteth, Liverpool. Such initiatives can serve

unmet needs but remain marginal relative to the structural problems that deprived communities face.

On a more micro-scale, localised networks of *sharing and caring* occur at the neighbourhood and household level through the pooling of physical, economic and intellectual resources; this can include forms of time-sharing, care-sharing, asset-sharing, knowledge-sharing and skills-swapping. Practices of collaborative consumption socialise and make sustainable everyday practices of consumption. The power of these informal practices is that they give expression to fundamental biological behaviour which is crucial to all forms of life and daily human existence. Both the new mutualism and sharing economies offer promise, but they face the market power of large firms and raise questions about how they can be broadened and scaled-up.

The articles by Debbie Green and Oriol Estela in this issue highlight practical applications of the FE approach, drawing on the experiences of two markedly different places. Green draws attention to Morriston, a struggling post-industrial district of Swansea in South Wales, where Coastal Housing, a community provider, has used FE to frame its analysis and actions. There is a diverse range of needs in Morriston, but also a range of assets – in the form of a strong sense of local identity and attachment to place, affordable housing and valuable social infrastructure. In the case of Barcelona, Estela shows how issues of basic infrastructure lie at the heart of efforts to tackle rising levels of air-borne pollution, provide safe and reliable supplies of water and create affordable housing, in a city that is characterised by rampant but unequal development.

The Foundational Economy as framework for analysis and action

In both the Morriston and Barcelona cases, the FE perspective provides an analytical framework to a series of practical initiatives already underway. In this issue, Luca Calafati, Julie Froud, Sukhdev Johal and Karel Williams set out the core propositions of the FE. They ask us to rethink the economy as a series of mutable zones comprising the tradeable, competitive economy, the overlooked economy, the foundational economy and the core economy of family and community. Economic and industrial policy is fixated on the tradeable zone, ignoring the vital role played by other activities in supporting wellbeing. Focusing only on the tradeable zone assumes that economic welfare depends primarily on individual income that sustains private consumption in the market, overlooking the way that human wellbeing relies on a range of factors that the market fails to provide. The FE approach draws our attention to the importance of *collective* consumption; to its location in the places where people live; and its supply by a range of public and private providers that in many cases deploy business models that fail to adequately provide foundational goods and services. Perhaps the best example of an inappropriate business model is the high-risk/high-return model of hedge fund companies, currently being applied to FE sectors such as water and adult social care.

Calafati *et al* propose that outsourcing should be reformed by a system of ‘social licensing’ – requiring social returns on investment, placing limits on debt financing and guaranteeing labour standards. The scale and scope of such licences could vary, contingent upon a mix of political struggle, technical innovation and scientific investigation. The authors envisage the FE resting on a mixed ecology of public,

private and intermediate providers – in the manner originally envisaged by Keynes and Beveridge but lost in the era of Morrisonian nationalisation and the welfare state.

Debating the Foundational Economy?

The publication in 2018 of the Foundational Economy Collective's *Foundational Economy: The Infrastructure of Everyday Life* has provided the centre left with an ideal opportunity to debate the scope for – and limits to – this important contribution to place-based policy and practice.^{vii} The fact that we are devoting a special issue to the FE shows that we think it merits more attention in progressive circles in and beyond the UK. Here we consider three lacunae which have been identified already – around gender, ecology and active citizenship. The FE is a highly gendered construction – for instance, women are disproportionately employed in many of its low-wage sectors – and the implications of gendered work need to be considered both as a cause for concern and as an opportunity to redress gender-based inequalities. Ecological challenges – globally, in the form of climate change and species extinction, and locally, in the form of the deteriorating quality of urban air – also suggest the need for deeper thinking about the FE in terms of environmental infrastructures and services. Andrew Sayer begins to address the ecological shortcomings of the FE in his contribution to this special issue, and Ian Gough's new book presents another compelling case as to why climate change must be better integrated into progressive narratives of wellbeing.^{viii}

The governance of the FE also represents a major challenge, and because of this the question of active citizenship can be seen as a third under-developed theme in current theories of the FE. Local government has been reconfigured over decades in many countries, in the narrow service of property-led urban development. And the geography of the FE also requires consideration. How can weaker economies that lack fiscal, governmental and civic capacity reorient their activity toward the FE? Treasuries and town halls remain in the grip of old certainties about markets, competition, productivity and growth. The capacity of the local and central state to fashion an economy based on social licensing is lacking. Voters are increasingly concerned about the impacts of austerity and the rundown of public services, but many also have a stake in the inequities of residential capitalism. Crafting a new, hopeful, pragmatic and progressive narrative in an age of populist simplicities is thus an enormous challenge. The FE makes a vital contribution to this task, but it also raises a number of unasked questions.

Given that the FE is predicated on citizens playing an active role as co-producers of the services which they use, the question arises as to whether all citizens equally are able and willing to play such a role. Indeed, active citizens are typically those with agency, time and money – attributes often lacking in the communities most reliant on the FE. Because the evidence is not encouraging, we need to devote much more thought to what kind of governance structures – local juries, citizens' assemblies and the like – can be fashioned to ensure that participation is fostered rather than frustrated by the formal and informal institutions that govern our everyday lives, and to consider how these become socially embedded.^{ix} Fabrizio Barca's account of the Italian Inner Areas programme in the previous issue of *Renewal* offers some insights into the challenges and possible remedies.^x

The Foundational Economy represents a major advance in rethinking economic development strategy. In particular it offers a framework for making sense of the world of experimentation that we discussed earlier, and is already underway in places like Barcelona and Morrision. It presents a radical challenge to the fraying neoliberal hegemony but also raises questions for the left. In particular it suggests a vision of a porous place-based polity – where government at all levels works with and through intermediaries such as housing associations, Community Land Trusts, cooperatives and private organisations, to design and deliver policies that are more locally-attuned and socially accountable.

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Notes

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ⁱⁱⁱ J. Leibowitz and N. McInroy, 'Beyond Preston: how local wealth building is taking the UK by storm', *Citymetric*, 25 March 2019:

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^{iv} Martin O'Neill and Matthew Brown, 'The road to socialism is the A59: the Preston Model', *Renewal*, Vol 24, No 2, 2016; 'Preston, Jeremy Corbyn's model town', *Economist*, 9 October 2017: <https://www.economist.com/britain/2017/10/19/preston-jeremy-corbyns-model-town>.

^v Thomas Hanna, 'The Return of Public Ownership', *Renewal*, Vol 26 No 2, 2018; A. Cumbers and S. Becker, 'Making sense of re-municipalisation: theoretical reflections on and political possibilities from Germany's *Rekommunalisierung* Process', *Cambridge Journal of Regions, Economy and Society*, Vol 11 No 3, 2018, pp. 503-17.

^{vi} See P. Kropotkin, *Mutual Aid: A Factor in Evolution*, CreateSpace, 1902/2015.

^{vii} Foundational Economy Collective, *Foundational Economy: The Infrastructure of Everyday Life*, Manchester University Press, Manchester 2018.

^{viii} I. Gough, *Heat, Greed and Human Need. Climate Change, Capitalism and Sustainable Wellbeing*, Edward Elgar 2017

^{ix} Martin O'Neill and Joe Guinan, 'The institutional turn: Labour's new political economy', *Renewal*, Vol 26 No 2, 2018.

^x Fabrizio Barca, 'Place-based policy and politics', *Renewal*, Vol 27 No 1, 2019.