

# What Wales Can Do (for the foundational economy).

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# The 30 year Thatcher/Blair experiment + our need for construction in 2017.

- The post 1979 Thatcher/ Blair experiment: privatised utilities, outsourced public services, housing as a private asset, deregulated labour market; all in an open economy which let manufacturing go (while maintaining welfare provision).
- Central state could do economic disruption; what nobody did was balance that with social and political construction.
- Economic inequality (regional and social) ex uneven gains in market incomes; low wage jobs; difficulties in funding health, education and welfare; residualisation of services + altogether growing social disillusion and political volatility.

# What is to be done?

- Presentation as argument in two halves:
  1. We 've reached the end of the road for mainstream policy; how and why the drugs aren't working (Karel).
  2. We 've got opportunities for doing policy differently: the scope for reorganising the foundational economy (Joe).
- The focus is on Swansea Bay, drawing on the report but the argument is relevant to al of Wales and other laggard regions.

(1) How and why mainstream policy isn't working.

# But.....don't we have a city deal for Swansea Bay + a tidal lagoon?

- The Swansea Bay City deal focuses on “next generation industries” and the rhetoric promises “an economy that works for everyone”.
- But, on closer inspection,
  - ✓ The promise is of 10,000 jobs over 15 years for 3% of the workforce vs loss of 30k manufacturing jobs.
  - ✓ All in “next generation industries” which are not volume employers + generally employ less than 5% across EU.
  - ✓ Tidal lagoon built on hopes of value capture; without plan for value retention.
- Verdict: maybe necessary, certainly not sufficient; and in a dark context of unmanageability + over reliance on “government will fix it”.

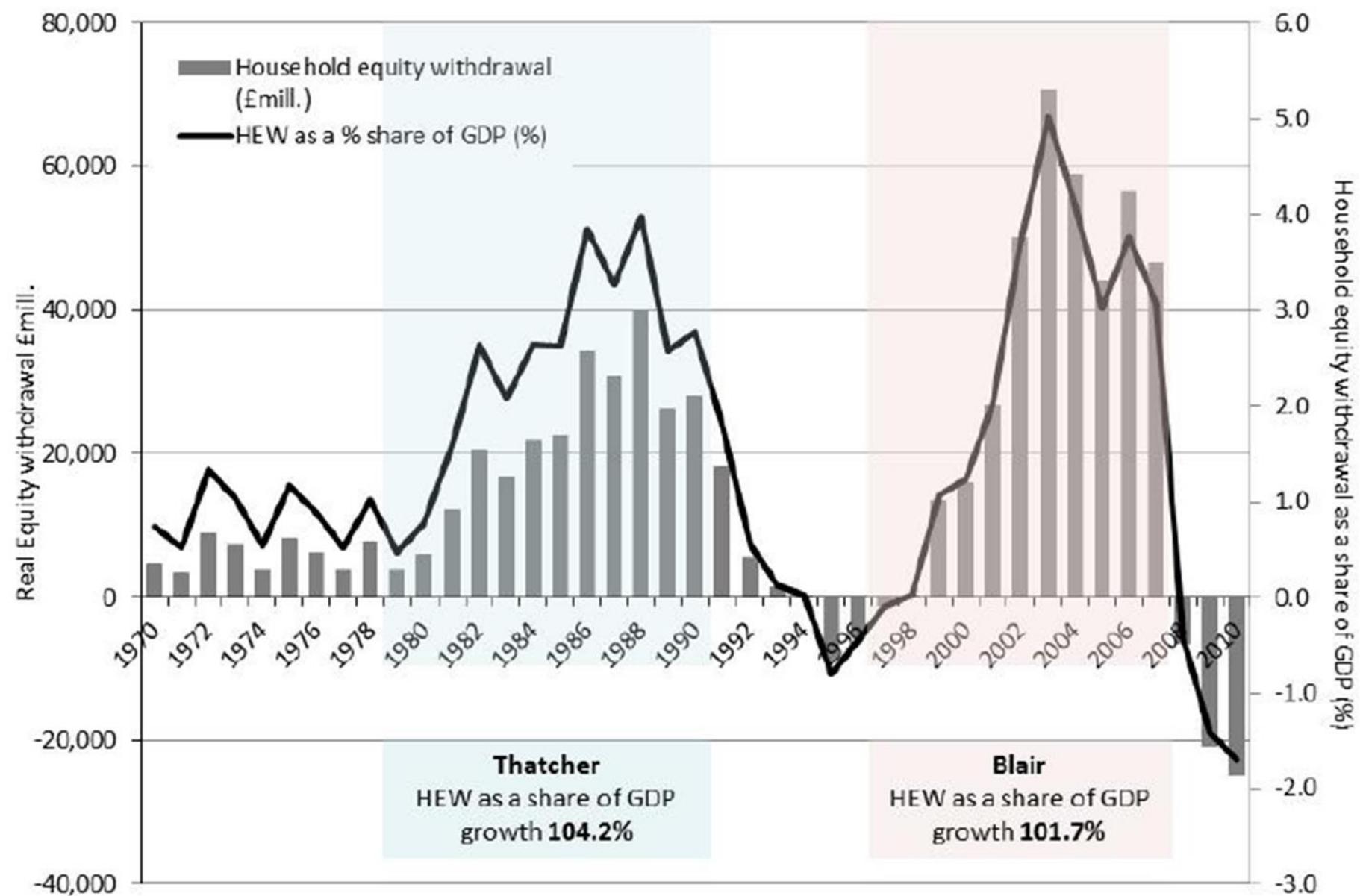
## High-technology sectors (high-technology manufacturing and knowledge-intensive high-technology services) - %total employment.

	2008	2009	2010	2011	2012	2013	2014	2015	2016
	000s								
European Union (28 countries)	3.8	3.7	3.8	3.8	3.9	3.9	3.9	4.0	4.0
France	3.9	4.0	3.9	4.1	4.1	4.0	3.9	4.0	4.0
Germany	4.1	4.3	4.3	4.3	4.3	4.1	4.1	4.1	4.1
Hungary	5.0	4.7	5.0	5.3	5.2	5.3	4.7	4.7	5.1
Italy	3.3	3.3	3.3	3.3	3.4	3.4	3.4	3.4	3.4
Luxembourg	3.6	3.5	4.1	3.8	4.2	4.0	4.3	3.9	3.6
Malta	6.4	5.8	5.1	5.7	6.0	6.2	6.1	5.8	5.9
Spain	3.3	3.3	3.4	3.6	3.7	3.7	3.6	3.7	3.6
United Kingdom	4.9	4.2	4.2	4.4	4.4	4.6	4.7	4.8	4.8

# Context:

## (a) the unmanageable economy.

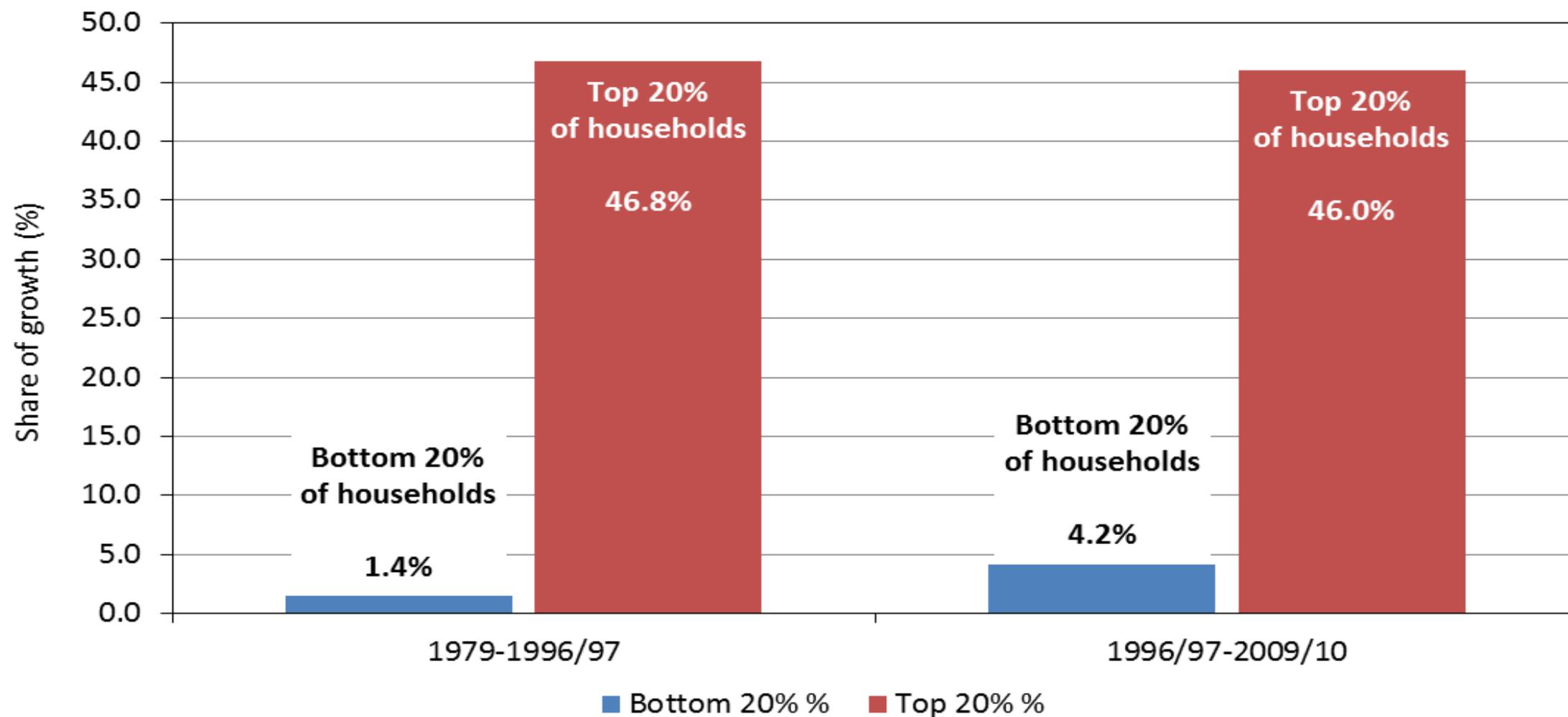
- Assumption of standard policy = that we have a manageable national economy i.e. some setting of macro policy levers will deliver sustainable growth of GDP/ market income and jobs/ diffuse welfare.
- But “property based Keynesianism” feeds unsustainability; GDP is > 60% consumption and the quickest way of boosting consumption is through housing equity withdrawal which was larger than nominal GDP growth under Thatcher and Blair.
- In a deregulated labour market; the bottom 20% make no gains from the market and the result is a growth in number of households receiving more in benefits than pay in taxes; growing austerity crisis about paying for health education and care.



Source: Bank of England and ONS.

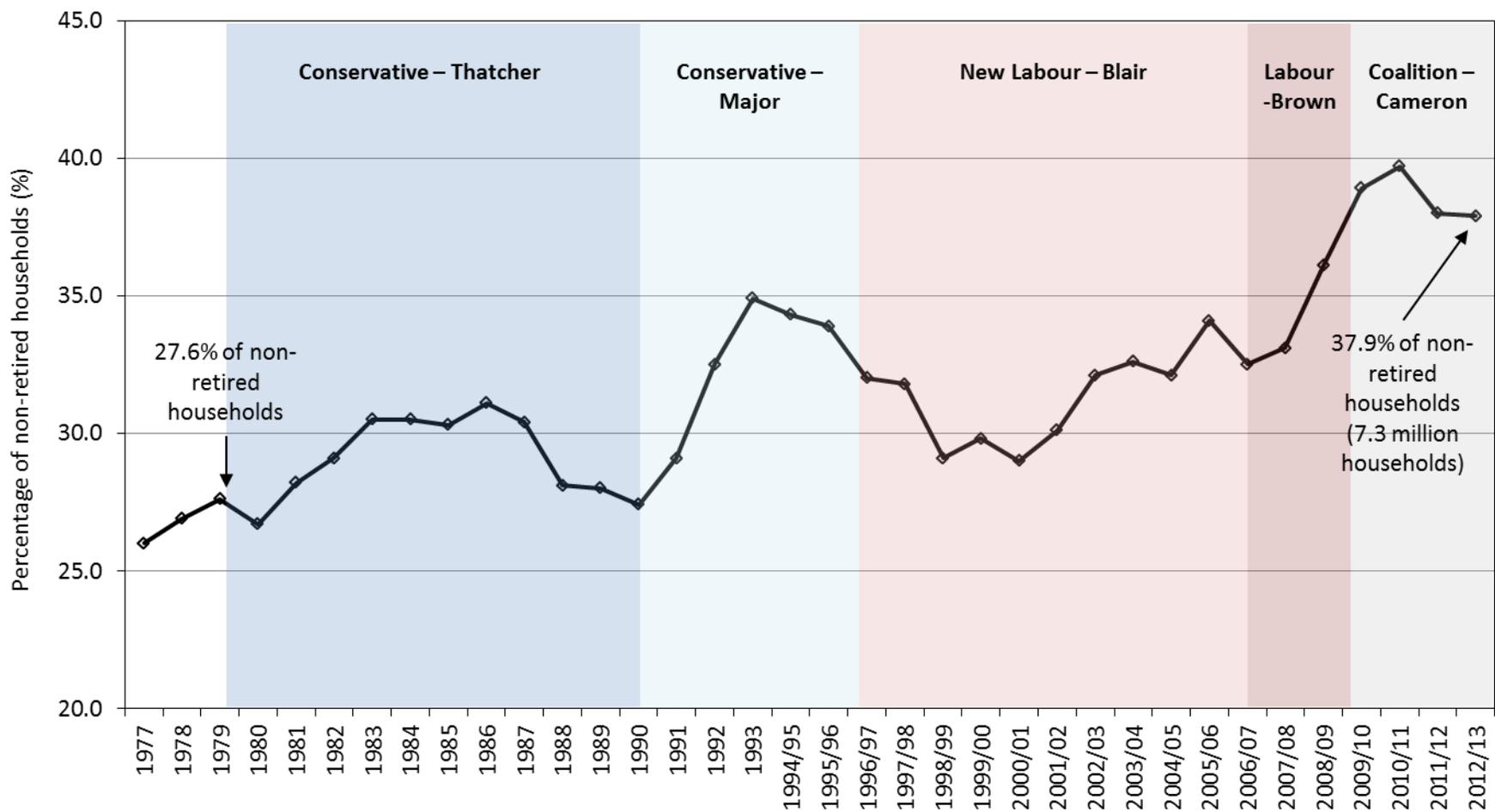
## UK non-retired household share of (nominal) income growth

(Source: ONS. Based on original income)



## UK Non-retired Households receiving more in benefits than taxes paid

(Source: ONS. Benefits include benefits in kind eg. education and tall taxes included)



# Context:

## (b) “government should fix it” mentality.

- While we are all highly critical of what government does, we all look towards government to solve our problems: its Ken Skates + WG’s responsibility to come up with a new strategy.
- But two limits:
  - ✓ Local government has limited management capability and initiative; shift from running things + initiating projects to putting out contracts.
  - ✓ National and regional government has mentality limits; thinking like the state = how do you make markets work better (glossing over unsustainable growth + intrusion of high return capitalist business models in to the social) + relying on standard recipes e.g. adding infrastructure and skills to fix regional imbalance.
- Enforcement of orthodoxy via Treasury financial control; austerity cuts in public service funding + limits on WG borrowing powers.

# Our problems aren't just economic: social capital + intermediary institutions.

- “Deindustrialisation” = a huge destruction of social capital/ the networks that make things work e.g. in South Wales after collapse of the large unionised work place only ¼ of the private sector work force is unionised; the churches + chapels get 5-10% each Sunday.
- What social actors and educators can replace unions and churches?
- Government isn't good at thinking about how to encourage intermediary institutions like HAs or Indycube to move into community organisation and local economic development: WG has a sentimental attachment to co-ops but limited understanding of problems + that co-ops need to be proactively supported.

# Discouraging history on post '45 settlement: built on intermediary failure.

- Beveridge and Keynes were not socialists but liberals who believed there were limits on what the state should do.
- ✓ Beveridge designed flat rate state insurance and supposed friendly societies would provide top up.
- ✓ Keynes favoured quangos like Arts Council and UGC which would independently decide how to spend state funding.
- Intermediary institutions never played their intended role post 1945.
- ✓ Occupational pension schemes provided the top up via deduction without participation.
- ✓ Treasury used funding as a way of controlling everything.

(2) The opportunity for doing policy differently.

# The opportunities for Swansea Bay.

- An opportunity because mainstream economic policy has no answers for areas like Swansea Bay; and the foundational alternative needs non-state actors.
- But getting round the many obstacles requires a clear focus on the problems, possibilities and political persistence in lobbying upwards for powers and engaging downwards for legitimacy.
- And we can all start admitting that we do not always know what to do, and the need is for innovation and experiment with government partnering intermediary institutions, like housing associations; we need a practice which is more like Unger's social innovation than Welsh Government economic policy.
- So let's be clear, drawing on the report *What Wales Can Do* and some Swansea Bay examples.

# Focus on the foundational economy: as the driver of welfare.

- On the demand side, all households depend daily on:
  - ✓ Providential services like health services and care, universal primary and secondary schooling.
  - ✓ Material infrastructure of pipes and cables connect every house to the systems which make everyday life possible, safe and civilised.
- On the service supply side, the two core foundational domains and the outer belt of occasional mundane purchases like haircuts and holidays distribute welfare through waged employment in Swansea Bay: 35% in the providential, a more modest 15 % in material infrastructure and another 20% in the outer belt.

# Develop a new approach: asset based economic development.

- Drawing on asset based community development = don't list deficiencies but map resources, build capabilities, mobilise around local issues.
- Applied to economic development: do not start by listing deficiencies of GVA etc + instead build on firm and workforce assets and capabilities.
- For policy purposes, it is important to adopt the double definition of an asset as something useful that is owned or controlled by a person or organisation.
- Hence the importance of grounded firms whose activity and capability is anchored to the area; that means recognising the value of firms like Jenkins Bakeries regardless of whether they are fast growing and seeing new problems like ownership transition.

# First principles of a foundational approach.

- *The aim is 'citizen lives worth living'* which means better lives supported by goods and services from a reorganised foundational economy; and demoting the goals of jobs (narrowly defined) and GVA growth.
- *The lever is to 'recognise what's there, enable what's there and build on what's there'* by way of grounded assets already in place; with less emphasis on attracting mobile resources like inward investment.
- *The method is 'learn from experiment'* in areas like micro firm support or care reorganisation; this is not about a controlling centre which imposes a template, but an enabling centre which sponsors change.
- *The working assumption is 'social value comes from politically mobilising different actors to work together'* this is not about top down policy but about effective action after coalitions of disparate forces have been mobilised.

# What to do?

## Scalable experiments.

- Low cost, innovative ways to boost the foundational economy through scalable experiments.
- Build up local assets and capabilities, provide citizens with better foundational services + decent jobs and business opportunities. Hence develop the new institutions, skills and cultures which begin to empower participatory decision making.
- The Swansea Bay report's starting points = three key areas where we have complex and urgent problems: more effective small business support; reorganising adult and child care; and building community hubs.

## e.g. building SME and micro firm capability.

- Rebalancing policy: less about reforming external finance to lever growth + more about what to add (beyond money) to increase firm capability and create a collaborative and networked business ecology.
- Starting point here should be mapping micros + SMEs so that we can, for example, identify businesses close to ownership transition + build support networks with experiments to expand the field of the thinkable and doable:
  - ✓ Reach micro businesses by creating a local authority employment/apprenticeship agency and sponsoring virtual SMEs so smaller firms can take on bigger work packages.
  - ✓ Encourage local government “one council one product” policies of marketing support, for example, leaning on supermarkets to buy food with a story like Towy valley yoghurt.
  - ✓ Shift training away from workforce certification: support a culture of making by building makerspaces where equipment and workshop space can be rented by the day; begin to tackle the unsolved problem of providing training for micro and SME owner managers.

# The need for lead institutions.

- In the first instance the initiative for policy experiment must come from lead institutions and organisations who have both the resources and the adaptability to kickstart change and lead mobilisation for foundational economy interventions.
- Organisations are reservoirs of capability and we must tap that capability in the Assembly, in government offices, quangos, civic membership organisations and business of all kinds.
- E.g. around business capability: the Swansea BID, Swansea Bay Futures, FSB, CBI, Co-op Wales + Indycube + all supported by LAs and Business Wales.

# What can housing associations do?

- **Start with modest social projects** e.g. help communities run local facilities like swimming pools, building local skills.
- **Bring forward sites and buildings** that can be used enable start-ups/ space for makerspaces/green space improvement/community hubs.
- **Deploy skills to mentor/support** community groups e.g. in collective purchasing of energy, food etc; support small businesses e.g. in taxis, care, building.
- **Bring capacity to lead consortia funding bids/partnerships** especially with community groups/social enterprises who struggle with fundraising/tendering and the complexity of public service commissioning.

# The need for cultures of collaboration.

- Competition has its place . But in my interviews there was widespread recognition of the need for more collaboration and coordination both within and between sectors and organisations in Wales.
- This applies to competition between local authorities, housing associations, business networks and clubs, central government departments, central and local government, third sector organisations and yes even academics.
- This is challenging because often different kinds of competition (over resources, personalities and prestige) are deeply embedded in the structures we operate within.

# So what would we like to see next?

- a) Develop 4-5 practical local/regional pilots each with a partnership made up of people and organisations here today and others.
- b) Work with allies to lobby nationally with a set of asks across key policy areas e.g. adding a foundational element to city deals and feeding in social care proposals to the health and social care review.
- c) Develop an accessible language conveying the importance of the FE and communicating a compelling overarching vision.
- d) Set up a steering group and some kind of organisational function which can support with a-c and distribute ownership for next steps between us and others not here today.

# Should we set up an SBCR “skunk works”?

- How can we increase the region's capacity to experiment with asset based foundational economy development in a way that has broad shared ownership, avoids duplication and complements the work of existing organisations and projects?
- Maybe a steering committee could borrow some organisational capacity and set up a “skunk works” which can then work with partners across the region to develop imaginative FE pilots (your job), provide supporting research and evaluation (our job) and pass on learning and successes to LAs, WG or other organisations to scale up (all of us).