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MANIFESTO FOR THE FOUNDATIONAL ECONOMY

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Abstract ¹

This manifesto argues that industrial policy should be refocused in a kind of gestalt flip. The primary object of industrial policy should not be a few favoured high technology sectors. Instead it should support what we characterise in this paper as the foundational economy. This new category, the foundational economy, which employs 40% of the workforce and is both private and public, is the sector of the economy that provides goods and services taken for granted by all members of the population and is therefore territorially distributed. At the same time it depends on a kind of 'social franchise', either because it is directly or de-facto franchised by the state, or because household spending and tax revenue sustains its activities which are therefore sheltered. This reconceptualisation justifies a new kind of political intervention which would challenge public and private business models that privilege the point value of least cost and most profit and neglect the preconditions of national, regional and local economic security and social sustainability.

¹ A copy is available to download from <http://www.cresc.ac.uk/publications/manifesto-for-the-foundational-economy>

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A manifesto ²

British economic policy with its commitment to fostering a generic supportive environment for enterprise is failing; privatisation and outsourcing produce perverse and unintended consequences. The recent addition of a new industrial strategy will not change our national trajectory because it focuses on technology intensive, tradable sectors which employ very few; meanwhile, the regions of the North and West will continue to decline. Our aim is to address these failures of policy, and their consequences for social wellbeing and employment, by proposing a new way of framing industrial policy.

To do this we have focused on a new economic entity, the *foundational economy*. This is very large, mostly unglamorous, rather heterogeneous, and is distributed across the country. It is an economy that meets everyday needs by providing taken-for-granted services and goods such as care, telecommunications or food. Our argument is that it needs nurturing and developing, but the question is how? To answer this in policy terms we extend the notion of the *social franchise* and argue that foundational firms are *social franchises* with explicit and implicit obligations to collectives including the local, regional and national state. This is because citizen tax revenues and unavoidable household expenditure sustain foundational activity.

² This manifesto is the result of conversation amongst a team of friends who have over many years jointly researched and published public interest reports, books and academic articles. It is collectively authored because the manifesto has been through several iterations with many hands contributing concepts, edits and rewrites. Bowman, Erturk, Froud, Leaver, Moran and Williams are based at the CRESC research centre in the University of Manchester and teach in Manchester Business School. Johal is based in the School of Business & Management Queen Mary University of London and Law at CRESC in the Open University. Two of the authors are practitioners with Bentham coming from local government and Folkman a venture capitalist. Two mainland European academics, de la Cuesta from UNED, Madrid and Engelen from Amsterdam University, have contributed because they believe our British analysis could be adapted to other European national economies.

The authors acknowledge their debt to many others who have engaged and encouraged the research team to think of alternative policies which would make a difference. It is invidious to single out individuals but we must thank some radical friends who have played a major role. Joy Kent of Chwarae Teg first challenged us to think differently; the councillors and officers at our research partners London Borough of Enfield have since obliged us to develop practical proposals and, more recently, our research intern Joe Earle (University of Manchester) has added analysis and insight. They will all understand that this manifesto is an interim progress report which is published so that others can join the argument and share the work of further development.

Our argument is that the UK needs policies directed at firms in the foundational economy which require them to meet certain social standards in a manner which goes well beyond the bounds of current “corporate social responsibility” practices. This requires a calculative shift from a *point value* concerned with least cost or most profit at a node towards alternative, supply-chain logics which attends to and gives due weight to the larger consequences of transactions. A local council or supermarket chain should not simply meet the demands of consumers (and shareholders), but needs to balance these against those of suppliers, workers, and residents. This shift will in turn require the reinvention of a politics that mobilises collectives at local and regional level to press new agendas of social innovation and re-definitions of territory and what counts geographically and socially.

This article is a short and straightforward manifesto. First we explore *framing* and what is rendered visible in an economy. Second we present outline evidence about the *size and character* of the foundational economy. Third we offer a social franchise *argument for new policies* which challenge public and private business models. These sections propose a different way of thinking and acting on our economy which requires a reinvention of politics. Our final section therefore explores the *political preconditions* of a new economic policy and argues that the present paper is no more than the start of a journey, and that our economic argument has no simple conclusion.

1. Reframing: from key sectors to the foundational

What *is* an economy? What is *in* an economy? The answer is that there are *many* “economies”, even though most economists still speak in the singular about “the economy”. The implication is that a conception of “the economy” is also and inevitably about a framing – both descriptive and prescriptive – which tells a story about foreground and implies (and in some cases actively seeks to sell) a policy *a priori* surrounded by the undisclosed and collateral realities. This article makes an argument for reframing the economy through a kind of gestalt flip which discloses another economy and a different practice of policy intervention.

Since national income accounts became available in the 1940s, the mechanics and macro results of economic activity have been arithmetically described in national income aggregates about GDP, growth, investment and consumption. These aggregates reflect particular preoccupations and framings, but do not alone tell a story or give a focus. Hence the importance of the glosses provided by policy-makers and the media, and also, in an academic context, such descriptive-cum-prescriptive framings such as Aglietta or Boyer’s Post Fordism (Boyer and Durand, 1997), Piore and Sabel’s (1986) flexible specialisation or current ideas about a knowledge-based economy which in Porter’s (1998) version centres on continuous innovation.

Such framings turn some sectors of economic activity into the visible part of “the economy” whilst ignoring much else in the macro-aggregates that necessarily remain undiscussed and undisclosed. This is unavoidable: all forms of knowledge work that way. It is, however, important to remember that whatever is discussed is selective, and it is particularly important to note the normative, political or policy-relevant spins that characterise the process of framing.

Typically some kinds of economic activity are credited with intrinsically dynamic characteristics. They are said to be transformative, or to offer a transferable template for success. They thus become the basis of policy-making not only in the sectors in question, but also for hastening structural change and boosting growth across the economy. A key sector can then be significant because it represents a particular kind of industrial organisation such as the Fordist factory which supports a growth regime; because it embodies knowledge or R and D technology like Silicon Valley which delivers growth through innovation; or because it is high value added such as pharmaceuticals or software which generate exports and are said to sustain national competitiveness.

This kind of framing is now being carried into the new UK revival of interest in industrial policy. For more than twenty years industrial policy was summarily dismissed by British policy makers as a failed firm based approach of “picking winners”. However, it has now returned as what we have called “new industrial strategy”, which is a sectorally focused programme for rectifying national performance deficiencies. As argued in Bentham *et al.* (2013), British industrial policy reports contain overlapping lists of favoured sectors for targeted intervention, usually including advanced manufacturing, automotive, pharmaceuticals and life sciences, digital media and green technology. These favoured sectors are typically technology-intensive activities, producing tradable and exportable goods and services with potential for enhancing national competitiveness.

The political classes endorsed this framing when continuing financial crisis after 2008 led many to conclude that the UK needed new kinds of policies to “rebalance” the economy and, specifically, to engineer a shift away from dependence on London-based financial services and reliance on public sector job creation in the North and West. The implication was that generic pro enterprise policies of labour market flexibility and low taxes had delivered much less than Thatcher or Blair had promised or assumed; and the policy making response was not to change the frame but to add some extra elements.

Policy makers did not question the established horizontal policies of structural reform and labour flexibility; nor did they rethink regional policy which continued to support training and infrastructure in the hope of attracting inward investment. However the BIS ministry and others accepted that such measures needed to be supplemented by a more active industrial policy, typically focused on favoured technological sectors; and this has been backed by academics such as Mazzucato (2013) who have independently argued the case for selective state intervention on the grounds that markets do not sustain early stage innovation.

This shift is being performed as ministers write about “eight great technologies” (Willets, 2013) and government sponsors “catapult centres” where state money is used to underpin commercialisation of innovation in activities like “high value manufacturing”³. All this raises some difficult questions. Even if it were possible to specify adequate instruments for a high-tech industrial policy, their macro leverage would be limited by a series of simple economic realities. First, and most fundamentally, the advanced technological sectors form a very small part of the British economy.

Exhibit 1: Employment in sub sectors of manufacturing –Food production employment vs. favoured sectors (GB, 2011)

SIC	Sector	Employment ('000s)
Food production and manufacture	10 and 11 (GB)	378.0
	01 (minus 017) and 03 (GB)	458.1
	Food production and manufacturing	836.1
Favoured sectors for industrial policy	303 (GB)	84.1
	304 (GB)	3.7
	254	12.4
	29 (GB)	124.3
	26 (GB)	122.7
	21 (GB)	41.8
	Favoured sectors for industrial policy	389.0

Source: Nomis, BRES.

In the UK, the R and D intensive sectors account for 1.76 % of GDP⁴, the whole of manufacturing for just 11% of GDP and much of manufacturing employment is in mundane sectors like food manufacture which together with food production employs twice as many as

³ Catapult centres are officially described on their web site <https://www.catapult.org.uk/>

⁴ Source: OECD. The measure used is GERD, (Gross expenditure on research and development).

all the favoured manufacturing sectors combined. Thus, the largest, stolid and unremarkable part of the national economy is nearly invisible to new industrial strategy (which may be why BIS has recently and incoherently added “agri food” to its list of sectors⁵).

Second, there must be doubt about whether UK policy makers have the policy instruments to deliver “re-balancing” by expanding their favoured sectors. In regional terms, a policy of support for favoured technology sectors will do more for the M11 corridor and the Thames valley than for a region like South Wales where tradable goods production has collapsed. If many other high income countries have similar lists of favoured sectors, it is also clear that they cannot all succeed competitively and flourish as national champions.

More fundamentally, Gordon (2012) has analyzed historical growth trajectories and repeatedly questioned whether digital technologies are transformative like universal electrification and the internal combustion engine in an earlier era. The cautious response would be that transformation requires a top to bottom reformatting of the economy which is the work of more than a generation. Meanwhile, the UK economy has problems about an unsustainable growth regime which was built before 2007 on housing equity withdrawal and state funded jobs in the outsourced para-state (Buchanan *et al.* 2013). More recently, low tech and low wage sectors such as hospitality and retailing have accounted for more than half the jobs created in the UK private sector since 2010.⁶

We are not against state support for high tech but for all these reasons we are sceptical about the narrowness of the current industrial strategy focus on favoured technology sectors. Instead, our view is that to understand and manage economic development new concepts and language are urgently required: new ways of seeing the economy and its strategic possibilities are necessary. In particular, the need is to reframe and highlight an important part of the economy that has a brilliant historiography in the work of Braudel (1981, p.23) who understood “there were not one but several economies”. But this perception has little present recognition in official economic policy. Against this, our re-discovered object is *the mundane production of everyday necessities*. What we will call the *foundational economy* is that part of the economy that creates and distributes goods and services consumed by all (regardless of income and status) because they support everyday life.

The foundational economy includes the networks and branches of private companies or state agencies that distribute health services, education, utilities and food. It is nationally distributed according to population: care-homes or supermarkets are always local, even if they are organised and owned elsewhere. And unlike high-tech industry it operates in more or less sheltered areas of economic activity. International competition is limited and offshoring is

⁵ The Heseltine Review (2012) acknowledges that a large part of the economy consists of undistinguished small and medium sized private sector firms of limited capability and ambition but then wants to upgrade them rather than accept that small business is more a social estate than an economic dynamo.

⁶ According to TUC research, 80% of jobs created from 2010-2013 were in low wage industries where the average wage is less than £7.95 per hour. <http://www.tuc.org.uk/economic-issues/labour-market/four-five-jobs-created-june-2010-have-been-low-paid-industries>

difficult whenever goods and services have to be delivered locally (The import of labour is technically possible but often politically contentious).

Because the foundational economy provides the infrastructure for everyday civilized life it is also very large. As we shall see in the next section it employs some 40% of the workforce in the UK. At the same time, it is also problematic since it has become the engine of ever more insecure, low-wage work. If the favoured technological sectors are about science fiction dreams of the future, the foundational is increasingly about a race to the bottom through wage reductions and poorer working conditions. With the foundational, the social scientific gaze shifts from biotech to contract office cleaning.

If we reframe thinking about the economy in this way it becomes clear that new kinds of policy intervention in the foundational could give more leverage on our economic and social futures not only by putting a floor under pathological labour-based competition but also by delivering existing mainstream policy objectives. If high tech exports are unlikely to deliver an improved trade balance and new clean energy technology's such as tidal power or carbon capture and storage are faltering, there are more immediate possibilities for improving the trade balance through import substitution in food and reducing energy use through housing insulation.

Of course, the state could and should play a more active role in developing of new high technology sectors, because the market is unlikely to generate the required innovation in crucial areas like clean energy. But the new industrial strategy takes that justification and turns it into a politically expedient romance about what technological innovation could do to transform everything and escape the mundane. The focus on the foundational economy rests on a sober analysis of what is left and what is going on in present day capitalism. The foundational is all that is left in the declining old areas of heavy industry all across Northern Europe. It is also – or it might be – a basis for construction and aspiration because it includes all the sectors with volume growth of employment.

Our choice of framing, our proposal to focus on the foundational economy, is therefore driven by a concern with the UK's present national trajectory. The question is: is it possible to re-plumb the supply chains and re-wire the financial circuits of the foundational economy to prevent further deterioration in the composition of employment and create good quality jobs in volume? It is possible to re-create the foundational as a path to economic and environmental sustainability and quality of life rather than a habitat for extractive corporates? Those are the challenges.

2. The foundational? measurement and analysis

Direct measurement of the foundational economy is impossible because official statistics were not designed to do this. But, by drawing up a list of activities in the foundational economy it is possible to estimate its size using various input or output measures which all suggest the importance of the foundational in production and consumption. And by reflecting on what is

made visible in these measures, it is possible to produce an analysis of the institutions which are dominant in the foundational economy.

So what to include and what to leave out? We have worked on the assumption that we should include the everyday activities which underpin social and economic life by supplying goods and services that could be locally produced and which already employ significant numbers in branches or networks across the nation. This classification involves judgement, its boundaries are necessarily imprecise, and will need further specification. At the same time it is broader than might otherwise be the case because it needs to include not only existing activities but those that it might be desirable to develop and expand.

The list of sectors below therefore overlaps with but includes more than the established categories of utilities and infrastructure. Given our criteria, the list does not include all the stuff of everyday life because we have excluded much, from newspapers to building materials because they are not broadly-distributed significant employers in all localities. And ideally in due course the list below needs to be complemented by a more aspirational list of activities, such as repair and reuse which might – and in our view should – be expanded beyond high unit value items such as cars or white goods. So what gets included?

- The starting point is the **utilities** including piped or cabled services such energy, water, sewerage and telecoms. These have a specific political-institutional association in the UK which pioneered the privatisation of these activities.
- But this list needs to be expanded to include some traditionally **private corporate activities**. Retail **banking** is just as much an utility as electricity in a society of card payment and mass credit; and we would also add **food and petrol retailing** through supermarkets and behind them **food processing** because food supply is central to the quality of life and security of the population.
- The foundational economy is also broader than what is traditionally considered to be **infrastructure**. This foundational category overlaps with pipe and cable utilities but also includes networks and services such as rail or bus for **transport and distribution** of people and goods, and telecommunications networks. Such activities have a primary economic function and generally require large fixed capital investments in systems (railways, sewers, fibre-optic cables) where cost recovery from users is often problematic.
- Finally, we would include most labour-intensive activities in **health, education and welfare/social care**. In European countries these have usually been funded by the state from general taxation and offered to all citizens as a basic entitlement. They are included because they are an everyday part of social participation and reproduction and allow people to live their lives as much as contribute to the economy.

This list quickly gets to big numbers on any measure. Total employment provides the most readily intelligible measurement of scale and the relevant evidence on the UK is summarised in exhibit 2 below, which distinguishes between employment in the private and privatized foundational activities and employment in the state and para-state sector (including direct state provision and outsourced activity funded by the state).

As exhibit 2 below shows, one third of the UK workforce is employed in the foundational economy with nearly 10% of the UK workforce employed in private and privatized activities and twice that number employed in state-provided and state-funded activities. The number working in capital intensive pipe and cable utilities is small, but retailing remains labour intensive with some 440k employed in retail banking, 1 million in supermarkets and some 323k in food processing.

Exhibit 2: Private sector and state and state supported employment in foundational economy activities

		England		Wales	
		Employees No.	Share of total employment %	Employees No.	Share of total employment %
Private, state and state supported foundational economy activities	Private sector activities	2,256,674	9.4	122,772	9.8
	State and state supported activities	5,744,372	23.8	353,247	28.1
	Total foundational economy activities	8,001,046	33.2	476,019	37.8
Comparators	Total employees	24,104,050		1,259,038	
	Manufacturing	2,066,567	8.6	129,680	10.3

Source: Nomis.

But by far the largest number of foundational workers are employed in the state or para-state sectors of health, education and welfare/social care which, in total employ 4.6m in the England and Wales, such services were once delivered locally by the state and are now increasingly delivered by the para-state where some or all of the funding comes from the state but services are delivered by private sector firms, charities or social enterprises. The number employed in the para-state sector has already grown to one third of those directly employed by the state.

Exhibit 3: Weekly family expenditure by UK households on foundational economy goods and services in 2011

	Quintile group					All/ Average
	Q1	Q2	Q3	Q4	Q5	
Persons per household	1.4	2.1	2.4	2.8	3.1	2.4
TOTAL EXPENDITURE	£198.20	£323.85	£444.65	£573.60	£878.35	£483.60
Food and non-alcoholic drink	£31.60	£44.95	£54.80	£63.50	£79.10	£54.70
Percentage share of total expenditure	15.9%	13.9%	12.3%	11.1%	9.0%	11.3%
Expenditure per person in household	£22.57	£21.40	£22.83	£23.09	£25.93	£22.79
Electricity, gas, other fuels and water	£18.20	£24.85	£29.50	£34.05	£42.10	£29.80
Percentage share of total expenditure	9.2%	7.7%	6.6%	5.9%	4.8%	6.2%
Expenditure per person in household	£13.00	£11.83	£12.29	£12.38	£13.80	£12.42
Telephony, internet and postal services	£6.85	£10.00	£12.60	£15.15	£19.00	£12.70
Percentage share of total expenditure	3.5%	3.1%	2.8%	2.6%	2.2%	2.6%
Expenditure per person in household	£4.89	£4.76	£5.25	£5.51	£6.23	£5.29
Rail, bus and other fares (excluding cars)	£3.60	£5.60	£8.20	£12.30	£21.50	£10.10
Percentage share of total expenditure	1.8%	1.7%	1.8%	2.1%	2.4%	2.1%
Expenditure per person in household	£2.57	£2.67	£3.42	£4.47	£7.05	£4.21
Car spares, patrol, diesel and repairs and servicing	£8.50	£20.00	£31.05	£44.85	£65.95	£34.10
Percentage share of total expenditure	4.3%	6.2%	7.0%	7.8%	7.5%	7.1%
Expenditure per person in household	£6.07	£9.52	£12.94	£16.31	£21.62	£14.21
Spending on foundational economy activities	£68.75	£105.40	£136.15	£169.85	£227.65	£141.40
Percentage share of total expenditure	34.7%	32.5%	30.6%	29.6%	25.9%	29.2%
Expenditure per person in household	£49.11	£50.19	£56.73	£61.76	£74.64	£58.92

Source: Family Spending, ONS

The importance and weight of the foundational sector is corroborated by other measures. Expenditure measures are complicated by the way in which part of the foundational economy is funded from general taxation and part from ordinary household consumption expenditure. But the household expenditure survey very clearly shows the importance of weekly spend on the foundational economy. Some basic figures are offered in table 3 above which presents an overall result for all households and then disaggregated results for households grouped by income quintile.

As exhibit 3 shows, if we consider all households, in 2011 £141 or nearly 30% of all household expenditure went on foundational activities with the big ticket items being £55 on groceries (excluding alcoholic drinks), £42 on pipe and cable utilities and £34 mainly on car fuel. The other notable point is that, though expenditure on these objects varies with income, all households are enlisted as foundational consumers: food and non-alcoholic drink accounts for 15.9% of total expenditure in the poorest Q1 households and 9% in the richest Q5 households.

Three major institutions are dominant in the foundational economy: the state, the privatized utilities and the supermarkets.

- The state is potentially sovereign and most important. Centrally and locally it is the major funder of outsourced activities and inescapably the regulator of many privatized and private activities which operate in a context of politically constructed profitability. This political construction of profit is direct and obvious in regulated quasi monopoly utilities; but it is also important in the private sector where planning regulations, for example, give a superstore an effective territorial franchise.
- The privatized utilities are (with London finance) the dominant lobby force in society. In everything from railways to broadband to energy, they work to limit state sovereignty, typically through trade narratives of sectoral benefits delivered by private firms. Thus, utilities protect their option on profit from democratic scrutiny and control while the costs and risks of investment are passed to the state. From this point of view, the neo-liberal project does not so much shrink the state as change the form in which state power is exercised so that it becomes hugely more amenable to corporate influence. The implication – to which we will return below – is that this needs to be socially counter-balanced.
- Finally, supermarkets also play a key role in two ways. Chains such as Tesco have a kind of capillary power in the national economy through their branch systems, derived from their ability to capture household spend. This gives them a fine-grained controlling power over food processors and producers that have no other way of accessing household demand. Exhibit 4 shows that the major UK supermarket chains had an 80% share of all the main groceries categories in 2011 and their share of the car fuel market was then 40% and is currently rising towards half.

Exhibit 4: UK household spend on food non-alcoholic drinks in supermarkets, 2011

	Large supermarket chains		
	Household average weekly spend	All households total weekly spend	Share of total weekly household spend
	£	£ mill.	%
Bread, pasta, biscuits, pastries	8.10	210	83.0%
Meats	9.50	251	80.2%
Fish and fish products	2.00	52	83.9%
Milk and dairy	5.70	148	80.9%
Oils and spreads	0.90	23	85.2%
Fruit and veg	9.50	246	80.1%
Sugar, jam, confectionery, ice cream	2.60	70	74.5%
Other food products	2.00	51	79.7%
Non-alcoholic drinks	3.60	95	80.5%
Grocery	43.90	1,146	80.6%
Fuel	24.90	649	39.0%

Sources: Family Spending 2011, ONS and 'Study of the UK Petroleum retail market, Deloitte, 2012

These tables and our gloss on them are the first step. Albeit provisional both conceptually, and because what we can show is hampered by the ill-adapted nature of the available statistics, they start to bring to visibility the new kind of economic object that we have proposed above. *They frame the foundational economy. It becomes possible to see and think about it.* It becomes clear that this unglamorous sector of economic activity is very large. We can see that it is not homogeneous. We can begin to see how and in what ways it reaches into every household in the country. We can see that it has its own large scale employment patterns. And we can see that it is dominated by particular players – the state, the over mighty utilities and the supermarkets.

This combination of statistics and institutional analysis also clears a space for thinking about policy means and policy ends with respect to the foundational economy. It makes it possible to ask questions about social innovation which have very little to do with high tech: how good quality jobs might be fostered in the sector; how the foundational economy might be encouraged to generate and redistribute social value; and how it might in the longer run

contribute to the national economy not simply through better employment, but also through import substitution, and by fostering a lower carbon economy. So how to think about this?

3. From point value to the social franchise

A new practice of intervention in the foundational economy will require a fundamental recalibration of policy which in turn will depend on new language and concepts. In outline the aim must be to press social measures of *chain value* against dominant *point value* measures which originated in private sector management accounting and increasingly now prevail in the public sector. This kind of (re) calculation will challenge established private and public sector business models. The political justification for such challenges is that the necessity for existing arrangements is often organisational-cum-cultural fixity not any kind of efficiency; and that, furthermore, all foundational business benefits from a *social franchise*.

So what is point value? ⁷Our form of financialized and globalised capitalism is historically distinctive because it no longer sees value as a stream (of benefits over time divided between stakeholders holding established claims within a given territory which has taken for granted boundaries). Instead, encouraged by formulae about discounting and the time value of money and normalised by the institutions of shareholder value, the tendency has been to privilege low costs or high profits in individual transactions at a node, while marginalising economic or social consequences elsewhere in the chain of production and consumption. This is the logic of *point value*. The longer term is ignored because distant benefits and costs have low value; and stakeholders in the smaller spaces - whether local, regional or national – have no legitimate claims as territorial boundaries shift and profits are higher and prices are lower by operating in a global context.

All this has been set in motion in a particular conjunctural context in the last twenty years as a way of managing unmanageable financial demands. Since the 1990s large public corporations (such as supermarkets) have used point value to try to reconcile the contradiction between capital market demands for shareholder value and forms of product market competition which require low prices and modest margins. Since 2008, public sector point value pressures have been intensified as budget cuts have been imposed on state agencies whose social responsibility has increasingly been undermined by their purchasing and outsourcing brief to deliver “value for money”.

The result is a narrow and self-defeating management accounting rationality in public sector agencies, and a lazy choice for private sector corporations with supply chain power and limited organisational competence:

- Public sector point value represents a narrow management accounting rationality because the state on one account saves directly on wages and conditions in its provision of services.

⁷ For an extended argument on point value, see Bowman *et al.* (2012a)

Elsewhere, however, the state in other accounts picks up an increasing indirect bill for low wage dependence via housing benefit, health care and pensions whose combined cost in these other accounts simply increases unsustainability. Practically, also the result for in an activity like adult care may be 20 minute home visits, unpaid travel, and wages that are effectively well below the legal minimum

- In the private sector, point value represents a boost for shareholder value in lazy, predatory corporations which learn that they can use controlling power to pass problems and take margins off others in the supply chain. As CRESC research shows, success at a point is often boosted by capturing supplier margins. This is what Apple has done to its assembler Foxconn (2012) and what the three leading UK supermarket chains did to a meat supplier like Vion with consequences for wages and margins in processing and prices paid to producers (Bowman *et al.* 2012b)

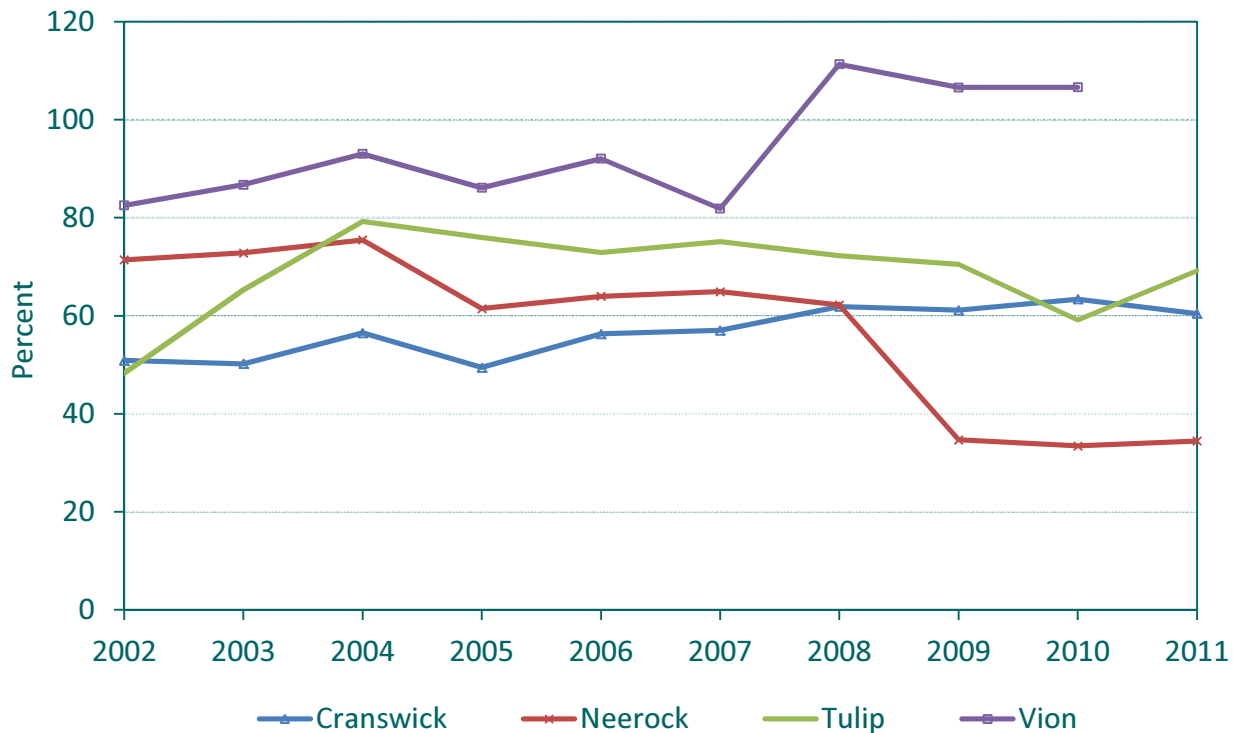
Point value calculations are about a kind of disconnect from broader social or economic concerns. They are enforced by trader mentalities and predatory contractualism, which flourishes in the absence of incentives to think of supply chains and social linkages as enduring relations to be grown and developed for long term social good across particular socio-political spaces of obligation. Point value is justified, especially in the private sector, by the economic alibi about how it is the one best way to least cost; such justifications are often plausible because they can only be contradicted by those with substantial knowledge of activity specifics.

However, the case of the British supermarket chains suggests that such justifications can involve false necessity⁸. Three of the four chains are buyer-led and make a large part of their profit by exercising power against producers and processors. The fourth UK supermarket chain, Morrison, is vertically integrated in meat with its own abattoir and processing plants which run more profitably and efficiently than those of outside suppliers. The difference is that Morrison's own plants do not meet ever changing orders; instead, they are fully loaded with steady high throughput so they utilise labour effectively and Morrison's labour share of value added in processing is a very low 35%. Morrison's uses the cash generated from meat processing to cross-subsidise a weak retail chain; the market leader Tesco cannot do this because its buyer-led retail organisation has no manufacturing competence.

If vertical disintegration and least cost outsourcing close off viable alternatives and pass costs elsewhere in the chain, they are embedded in the business models of dominant private and public sector business players which deliver on narrow point value criteria and are generally supported by economic policy makers whose notion of policy remains one of providing a supportive environment for enterprise.

⁸ This argument is developed with supporting evidence in Bowman *et al.* (2012b) pp. 47-57

Exhibit 5: Labour share of value added in Neerock (a Morrisons subsidiary) and in 3 supermarket suppliers



The big three buyer led supermarket chains in the UK have delivered profits for shareholders and everyday low prices for consumers. Like the rest of the private sector they also offer corporate CSR which means the ostentatious avoidance of egregious practices like child labour and a token contribution to good causes. In return, dominant firm and sector business models very often escape without examination or criticism. Nevertheless, there is now a growing volume of criticism about how the UK central state is disadvantaged at the contracted interface between state and private capital. Parliamentary Select Committees protest about complex risk management arrangements in public private partnerships which disadvantage the state; and our own research into train franchising shows false competition on the rail ways gives an option on profit to risk and investment-averse corporates (Bowman *et al.* 2013).

This disadvantage is structurally inevitable as long as the political classes cannot think of any alternative to outsourcing (which must then be kept going). And disadvantage is ignored by Whitehall policy makers whose objective is not to challenge specific business models for cost recovery but to create a generic supportive environment for established firms and inward investors through structural reform and horizontal measures which involve liberalising planning, deregulating employment law and lowering taxes. The recent mainstream enthusiasm for new industrial strategy in the UK only adds new elements of financial support and establishes catapult centres for technologies and working parties in favoured sectors as a kind of special case supplement.

How to shift this commitment to point value that frames so much economic activity in the public and the private sectors? The answer is unavoidably political. It will require a political

justification framed in a new language about *social obligation* that connects with a social concept of innovation. It will need an alternative vision of the economic and social compact that ties citizens, corporations and the state together. This is why we want to talk about *social franchise*.

In general terms all businesses can be understood as franchises. Enterprises work as socially located entities whose activities draw on and are limited by (for instance) legal, contractual requirements and in varying degrees by ethical or customary frameworks. In the foundational economy this is more than usually obvious because profits are made in social and geographical spaces that are more or less politically constructed. Such political mechanisms come in at least three forms.

- **Contractual franchising** gives the right to operate a business at a site or in a territory and sets explicit social and economic conditions for business operation. Classically, contractual franchising has been used since the mid nineteenth century in natural monopoly utilities where duplication of competing capital intensive networks would not be sensible. For instance network franchises in train operating or other privatised utilities give a firm the right to extract revenue from a territory subject to an obligation to supply and regulatory oversight. Analogous franchise-relevant conditions are set (for instance) for prisons or care work.
- **Regulatory franchising** is less obvious but works in a similar way. A variety of state regulations give implicit territorial rights to businesses, classically in branch activities like retail. Thus, planning regulations prevent the construction of adjacent and competing grocery superstores, so that a local authority planning consent creates a position which licenses one firm to take significant weekly revenues from households within a catchment area which stays much the same from one decade to the next. In this case, the territorial right is not explicit and there is only a vestigial attempt to assert social obligations; in the UK supermarket case, for example, by requiring the firm to add something useful like a doctor's surgery
- **De facto franchising.** Much branch business is not subject to formal regulation which excludes competitors from a territory. For example, any bank can open new high street branches but the costs of opening new bank branches are such that incumbents with high street networks do not have to fear new entrants. And much activity of this kind works within regulated spaces. This has been very clear in the post-2008 period, when local retail bank lending has been influenced by a range of measures to encourage some kinds of lending (e.g. to small business) and by regulatory requirements intended to improve the central resilience of the financial system.

If we reframe the argument about the foundational in this way the pieces start to shift in several ways.

- First, to broaden the notion of the social franchise, as we have above, is to locate communities of stakeholders within political, economic and territorial boundaries. It implies the need to balance relations between consumers and citizens. People are not

simply consumers concerned with price or pensioner recipients of shareholder value dividends. Instead, and in addition, they become potentially active citizens who can negotiate what their foundational spend and taxes buy by way of national sourcing, regional employment and support for the common good and quality of life.

- Second, the essentially political character of franchise arrangements is made manifest. Consumers and citizens are taxpayers too, and can (we are saying should) demand more local accountability on issues such as long chain sourcing and local employment conditions. If we think in terms of social franchises it becomes clear that businesses need to earn the right to extract cash from a territory in sheltered sectors, rather than expecting sweeteners to operate locally.

To reframe the foundational economy as a matter of social franchising is thus to insist that it is not simply about point-value economic transactions, but also about reciprocal social relations. This is a re-framing for a different kind of industrial policy that says that the provision of mundane goods and services provision is intertwined with the multiple identities of people as consumers, workers, and local residents so that prices, wages and quality of life need to be triangulated. The aim is a new world of social franchising where it will no longer be so easy for councils to collude with below minimum wages, or supermarkets to ignore local concerns.

4. Implications: the reinvention of politics

The idea of the social franchise implies the need for changes in procurement and employment involving corporate and state partnership. In this new world, firms will need to pay living wages, recruit and train locally, source regionally and nationally as they anchor themselves in communities. At the same time financial circuits will need to be reworked so that pensions and savings flows can be redirected into steady low-return projects such as social housing. The vision is of innovation but our concept of innovation is less technical and more social because it involves balancing different identities and claims.

This new world would of course still require technical experts. Keynes famously envisaged a world where economists became competent technicians such as dentists. In our alternative world the technicians would be socio-politically engaged to act as plumbers fixing supply chain leaks and as electricians rewiring financial circuits around all the public bodies and private corporations that commission or supply foundational goods and services. But how to move to this world? How can we construct the political machinery that would direct, sustain and enforce such socio-technical intervention?

The answer is radical: we need to reinvent British politics. The UK is peculiarly disadvantaged both by the absence of intermediate level political structures and the *idées fixes* of our political classes. The British state is hugely centralised. 80% of local government revenues come from the centre, and English regional government does not exist. The current experiments with developing city region government are deeply flawed because the city regions are dominated

by city councils such as Manchester or Liverpool whose agendas reflect the narrow interests of public or private property development.⁹

Equally disabling is the central policy makers' preoccupation with competition as the driver of national competitiveness and consumer benefits. This originated with Edward Heath's abolition of resale price maintenance in 1964; was then incorporated into the Thatcher/Blair imaginary as competition for a market through tendering; and it is now peddled everywhere because more competition is the generally supported Westminster fix for banking and irresponsible utilities in energy and other sectors. This is simply disabling because the corollary is central state investigations into utilities and supermarkets which focus on whether point value competition delivers price and quality for consumers, while completely ignoring consequences up and down supply chains both now and into the future.

These intellectual confusions are reinforced by the way in which the central state is increasingly dependent on the business elites in finance and other sectors which deliver privatised utilities and outsourcing; while the much-disparaged local state sector has been neither encouraged nor allowed to take a reflexive, self-critical stance about its own business models. Within the public sector, there are increasing limits on the state's ability to create employment directly, but it nevertheless remains a large-scale purchaser of goods and services. Here it is responsible for the "three e's" of economy, efficiency and effectiveness, but economy – meaning least cost at a point – is increasingly dominant.

All this matters because the central state is making things worse when it should be playing a major role in setting a broad vision and redistributing from rich to poor regions. The centre should not abdicate responsibility in ways that make poorer regions responsible for dealing with the legacy of several generations of under-development and inequality. That said, disadvantaged localities cannot put much faith in the benevolence of Whitehall and Westminster as long as the central civil service lacks both the imagination and the expertise to engage with the activity-relevant specifics of industries such as food supply, transport or energy.

This means that local and regional government need to be reinvented, empowered and re-skilled as appropriate to use micro-level knowledge to develop textured and context-specific understandings of the foundational economy and to share intelligence about how to deal with common problems such as EU procurement rules. The regional level is essential to creating axes of co-operation so that local councils are not simply engaged in efforts to shift economic activity across municipal boundaries without creating new capacity. Equally, the regional is important because local government cannot challenge its own business models.

The word reinvention is a neologism but our programme is in the radical liberal collectivist spirit of Beveridge and Keynes who recognised that things must change economically and socially if

⁹ The relation of Liverpool city region to the private developer Peel Groups is analysed in the *Ex Urbe* (2013) report which raises major public issues about subsidy, accountability and democracy. There is no comparable research into the conflicted roles of Manchester City Council as lead public developer around Manchester Airport and promoter of an airport business park.

everything is to stay the same politically; and that markets, firms and competition needed state supplementation backed by powers of prohibition and constraint on firms and sectors. Our gestalt shift to the foundational is about updating this vision, and detaching centrist politics from its current New Labour definition which often simply reflects and reproduces the concerns of particular sections of capital. If Westminster and Whitehall can buy into this redefinition, the implementation of a new economic policy will in turn require a substantial reinvention of democracy which will also and inevitably mean some shift away from central government-led policies to local and regional initiatives.

Attending to the foundational economy is therefore not simply a matter of framing. Indeed, it is not simply about fixing the economy. Our starting point was the deteriorating composition of employment and output without social value, but the most worrying aspect of our current discontent is political. In many high income countries, populist extremist parties such as UKIP or the Front Nationale are garnering the votes of the disinherited and disturbed, while the established centre left and centre right mass parties are in decline because they have no policies except to preside over a mess that they do not understand.

Looked at in this way, a thought-through policy for the foundational economy is also a political vision for achieving the kind of economic security and social sustainability that must be re-established if the political centre is to hold. Starting from what is left in our economy it imagines how foundational activities could be enhanced, grown and developed in all regions because there is everywhere a public interest that is ill served by our political classes and our current democratic arrangements.

The radical aim is clear. In a dismal national context of slow failure and continuing relative decline, it is to imagine how we can develop foundational activities in the UK to create employment, build stronger supply chains and networks and provide a more local basis for decisions about how products are sourced and distributed, how services are managed and how assets are controlled for social value which includes taking the future seriously. As a part of this we need to reinvent democratic politics and empower the regional and local. The prospect of a new kind of liberal collectivism is intimidating as well as exhilarating. But, as Rabbi Hillel asked: if not now, when?

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