

The foundational economy

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As in the UK, Wales has lost much of its manufacturing base but retains its 'foundational economy', argue researchers from the Centre for Research on Socio-Cultural Change (CRESC). Whilst this 'mundane' yet vital area of the economy provides the goods and services essential for citizens' well-being, they suggest it is 'pervasively mismanaged'.

On 8 March, Assembly members will discuss the [foundational economy](#) during a [Debate by Individual Members](#). This comes within the wider context of the development, by the Welsh Government, of a new economic strategy for Wales later this year. The Committee on the Economy, Infrastructure and Skills will hear from CRESC researcher, Professor Karel Williams, on 15 March to discuss the foundational economy during a [session on alternative perspectives](#) on what the strategy might include.

Foundational economy: The basics

The foundational economy is built from the activities which provide the essential goods and services for everyday life, regardless of the social status of consumers. These include, for example, infrastructures; utilities; food processing; retailing and distribution; and health, education and welfare.



They are generally provided by a mixture of the state (directly or through funding outsourced activities); small and medium enterprise (SME) firms; and much larger companies such as privatised utilities or branches of mobile companies such as the major supermarkets, who often originate from outside of Wales.



The importance of the foundational economy to Wales

Unlike manufacturing sectors where production is concentrated in specific areas, the foundational economy is nationally distributed along with population. As expressed by CRESC's [‘Manifesto for the Foundational Economy’ \(PDF, 435KB\)](#), in many areas of former heavy industry throughout Europe the foundational is ‘all that is left’. It is thus vital for many people in Wales, not only to provide the goods and services they need but also as an employer.

The report estimated that in 2013, 37.8 per cent of the Welsh workforce were employed in activities that contribute to the foundational economy, compared to 10.3 per cent in manufacturing. In England, 33.2 per cent of the workforce were employed in the foundational economy in the same year. A more recent report by CRESC researchers for the Federation of Small Businesses (FSB), entitled [‘What Wales Could Be’](#), suggests that ‘on any count, grounded SMEs and large scale foundational employers account for at least 40 per cent of the Welsh workforce’ (p.32).

Many sectors of the foundational economy are ‘sheltered’; because they are inherently local, international competition is limited and offshoring is difficult. Foundational goods and services are also ‘inelastic’, i.e. demand for these essentials does not change significantly when their prices or consumers’ incomes change. Combined, these effects lead to a greater level of resilience to external economic shocks in the foundational economy than, for example, in manufacturing, whose output can decline markedly during recession.

Challenges for the Welsh foundational economy

CRESC researchers have argued that the provision of foundational goods and services has been overlooked by industrial and economic policy in the UK and Wales, whose focus tends to be on high-tech processes and sectors. These are often technology-intensive, and produce tradeable and exportable goods, yet form a very small part of the Welsh and UK economies. Only three of the Welsh Government’s [nine priority sectors](#) for growth – construction, energy and environment and food and farming – produce foundational goods and services.

Moreover, they highlight that the foundational economy is marked by low-tech and low-wage employment, and that this issue is becoming more prevalent. Since 2010,



they highlight that sectors such as hospitality and retailing – marked by low pay and part time work – have accounted for more than half the jobs created in the UK private sector.

There is a further issue of ‘occupational segregation’ in these sectors, whereby women are over-represented and hence often stuck in [low wage or part-time work](#). This is a known contributor to the [gender pay gap in Wales](#).

The [FSB report highlights](#) some of the specific issues facing foundational sectors in Wales. They suggest that in food, competitive chain supermarkets have captured the profits of food processors and left Welsh dairy and sheep farmers exposed to volatile market prices. In adult care, they continue, well-resourced private enterprises are displacing smaller family-run homes with large, purpose-built accommodation which can satisfy shareholder demand for high rates of return. This, they argue, has contributed towards an increasingly underpaid social care workforce, high local authority spending and worsening quality of care.

Towards a specific focus on the foundational

CRESC researchers call for a radical reframing of the economy that better accounts for the provision of foundational goods and services, considering ‘the multiple identities of citizens as producer, tax payers and consumers’ (p.70). The focus of this message involves moving beyond a key sectors approach to better understanding dynamics within sectors (for example, between firms of different sizes), as well as the behaviour of organisations within these sectors.

Given their significance both as providers and employers, by focusing on the *quality* of work within foundational sectors they argue that the Welsh Government could gain significant leverage on economic and social outcomes. Specifically, they suggest that the Welsh Government should ‘break with the idea of creating a generic business-friendly environment’, using non-standard policies which are adapted to sectoral characteristics and specific business requirements.

In food, for example, this might involve negotiating with suppliers on formal commitments on sourcing, training and living wages (p.70). Above all, the researchers argue that the Welsh Government should ‘encourage responsible business by promoting continuity of ownership for SMEs and “raising the social ask” of big business organisations in the foundational economy’ (p.7).



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