

Glasgow City Region Foundational Economy

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This report was developed by the Glasgow City Region Intelligence Hub. The Hub provides a wider range of economic functions for the Region - including data analysis, modeling, policy research and strategy development. For further information please contact Andrew Robertson.
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Executive Summary

The COVID-19 pandemic has provided a window into the social infrastructure which underpins much of daily life. Such provision includes health and medical services (nurses, doctors and social care staff), but also encompasses workers engaged in the provision and supply of food, water, energy and communications.

Many of these activities comprise part of what has been termed the Foundational Economy (FE) – the nation’s essential physical infrastructure, operating infrastructure and public services. This briefing note provides an overview of the Foundational Economy, its importance to Glasgow City Region’s (GCR) economy and how it could shape policy in the future.

KEY FINDINGS:

- **It covers a large part of Glasgow City Region’s economy. Over 60% of jobs and 40% of businesses within Glasgow City Region are within the Foundational Economy.**
- **It covers a significant proportion of low paid jobs in the economy. It is the part of economy that employs key workers.**
- **Focusing on productivity growth in the Foundational Economy offers a way of overcoming some of the challenges in ensuring economic growth is inclusive.**
- **Improvements in the Foundational Economy have the potential to be shared in communities across the Region and improve economic resilience.**

NEXT STEPS:

- The nature of the Foundational Economy provides opportunities to develop a Regional approach to supporting businesses and improving employment outcomes for a large portion of the Region’s residents.
- The Glasgow City Region Intelligence Hub is currently undertaking a review of innovation and productivity in the Foundational Economy.
- Over the next few months, the City Region team will explore how the Foundational Economy could play a role in the new Regional Economic Strategy – whether broadly in terms of shifting the focus of sector policy, or more specifically on enhancing innovation across the Region’s business base.

1. Introduction

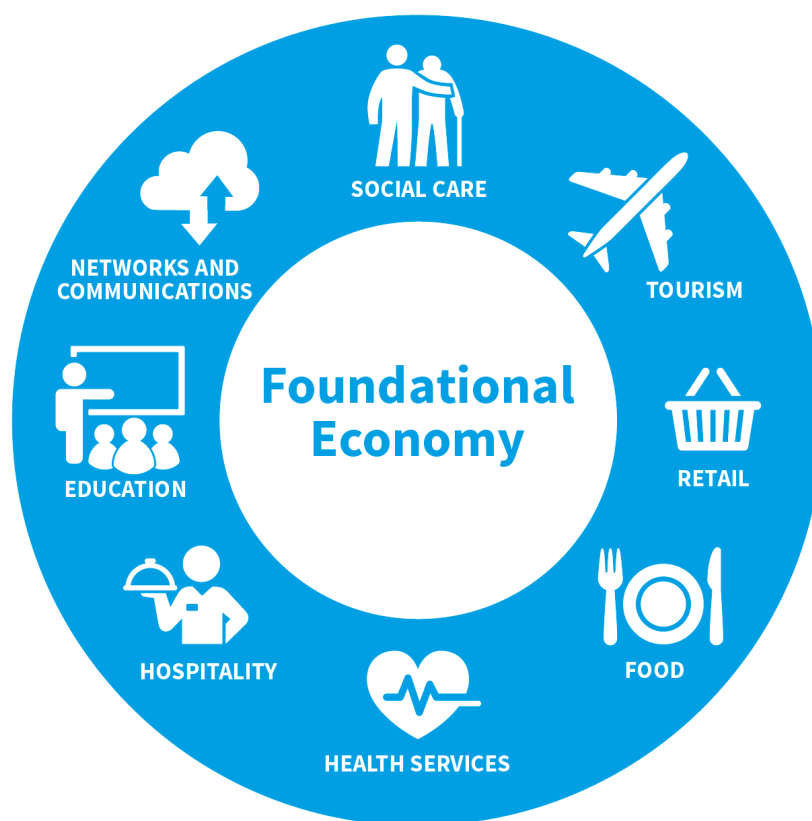
- 1.1 The COVID-19 pandemic has led to a questioning, at least in the short term, of how society values work. For some, questions centre on work-life balance and the opportunity that homeworking provides. For others, it is more fundamental – who are those workers that we value most in society? What economic activity is essential in giving us what we need?
- 1.2 This has led to a renewed interest in the idea of the **Foundational Economy (FE)**. The concept of the Foundational Economy originated in 2013⁽¹⁾ in the **CRES Manifesto for the Foundational Economy**. This argued for an industrial policy that does not only favour high technology sectors, but nurtures and develops the everyday goods and services such as food, telecommunications, and care.
- 1.3 In focusing on the sectors which are critical to living standards, it covers a large part of the economy. **Over 60% of jobs and 40% of businesses within Glasgow City Region are within the foundational economy.**
- 1.4 One of the features of the Foundational Economy is that it covers a significant proportion of low paid jobs in the economy. And this is another of its perceived attractions. Focusing on it offers a way of overcoming some of the challenges in **ensuring economic growth is inclusive**. Research from the IPPR Scotland suggests that focusing on productivity growth in the Foundational Economy will help the poorest sections of society.⁽²⁾
- 1.5 Another factor of the Foundational Economy concept which makes it interesting to metropolitan regions, such as Glasgow is its **‘Place Based’** element. By concentrating on those every day goods and services that impact residents’ quality of lives, the focus is on jobs that often happen locally. **So, improvements in the Foundational Economy has the potential to be shared in communities across the Region and improve economic resilience.**
- 1.6 These are some of the reasons that **policymakers across the UK have started to promote the importance of the Foundational Economy**. The Welsh Government has put the Foundational Economy at the centre of its economic strategy and has launched an Economy Action Plan which includes practical policy tools for supporting businesses in the Foundational Economy (See section 6 page 13).
- 1.7 This briefing note aims to provide an overview of the Foundational Economy, its importance to the Region’s economy and how it could shape policy in the future. It does so by concentrating on the following:
 - What is the Foundational Economy – how does it tie into other emerging areas of economic focus such as the Wellbeing economy and Community Wealth Building?
 - The contribution the Foundational Economy makes to Glasgow City Region and its member authorities in terms of businesses and employment
 - Why the Foundational Economy could help to deliver inclusive growth?
 - Where the Foundational Economy is helping set the policy agenda.
- 1.8 A complementary briefing note on the importance of Key Workers produced by the Intelligence Hub is also available.

(1) UK government definition

(2) IPPR Scotland, 2019

2. What is the Foundational Economy?

- 2.1. The Foundational Economy (FE) consists of basic services and products that keep residents “safe, sound, and civilised”. It is those things which directly impact people’s quality of lives.
- 2.2. **Core Characteristics:** In research and policy literature there is an agreement around a core set of characteristics for the FE:
- **The even distribution of demand for foundational goods and services across the population, which arises from their role in ‘supporting everyday life’.**
 - **In many cases, foundational goods and services overlap with the concept of public goods,⁽³⁾ particularly in relation to utilities and healthcare.**
 - **It is, particularly, in relation to services, non-tradable. Everyday essentials such as social care and sale of food are developed and ‘produced’ in the same place where they are consumed.**
 - **It represents between 40 and 50 percent of economic activity and employment in most developed economies.⁽⁴⁾**



Source: The Conversation

(3) A public good is often thought to have two characteristics, non-rivalry and non-excludability, such as street lighting and police service. Because there is an incentive not to pay for the goods, public goods are often under-provided by the market

(4) For example, FE employs 56.7% of the workforce in Italy and 58.6% in Germany

2.3. **Sectors:** Academic literature concentrates on three aspects of the economy⁽⁵⁾:

Material Foundational Economy: the pipes and cables, networks and branches which continuously connect households to daily essentials. It includes:

- transportation
- water
- electricity
- food (processing, production and distribution)
- retail banking.

Providential Foundational Economy: subset of (mainly) public sector welfare activity providing the universal services available to all citizens. It mainly consists of:

- health
- education
- care
- housing

Overlooked economy: goods and services culturally defined as essential and requiring occasional purchase, for example:

- hairdressing
- leisure and tourism
- hospitality
- furniture.

2.4. **Sectors Not Considered:** There are some sectors which are not included. Over the last couple of decades knowledge-based and high-tech ('frontier') sectors have played a significant role in economic policy for cities and regions. As noted in chapter five, the proponents of the FE do not suggest these sectors should be ignored. But rather, concerted and complementary efforts need to be given to FE sectors.

2.5. **Links to Other Emerging Economic Concepts:** The FE has affinities with other new conceptions of development, all of which can be broadly group under the **Wellbeing Economy**. For example, the British Labour MP Rachel Reeves has written about the **Everyday Economy**, and CLES, a UK-based think-tank, has championed **Community Wealth Building**. The aforementioned concepts are defined as below (see a schematic representation of the relationship between these concepts in the Appendix, Chart 6 page 18):

- **Wellbeing Economy:** it is the type of economy which focuses on quality of life and flourishing for all people and sustainability for the planet.⁽⁶⁾
- **Inclusive Growth:** combines a concern both for the pace of growth and for the equity of its distribution.⁽⁷⁾
- **Community Wealth Building:** is a people-centred approach to local economic development, which redirects wealth back into the local economy, and places control and benefits into the hands of local people.⁽⁸⁾
- **Foundational Economy:** The FE is a complementary concept which emphasises that residents' wellbeing depends on the functioning of infrastructures which provide foundational services through local network and branches. It also stresses the need to shift the focus of economic development policy away from frontier sectors and towards the FE if our aim is to achieve inclusive growth.

(5) <https://foundationaleconomy.com/introduction/>

(6) [Understanding Wellbeing, Wellbeing Economy Alliance](#)

(7) [What is Inclusive Growth, OECD](#)

(8) [What is Community Wealth Building?, CLES](#)

- 2.6. **Place Based Policy:** From an economic development lens, the FE is a place-based approach to policy design and delivery in which the foundational assets need to be nurtured and nourished.⁽⁹⁾ As noted, a strength of this policy is that it recognises that not every city and town in every region is going to be a global leader in the likes of bio-sciences. Instead, it focuses on those sectors which are important to people no-matter where they live. Albeit, the approach needs targeted to the specific challenges and opportunities faced in local communities.

Chart 6 (page 18) in the Appendix provides an illustration of the relationship between these concepts. The commonalities between these economic concepts are contested in academic literature so, the diagram should only be used for illustrative purposes.

Foundational Economy as Seen in Household Spending

- 2.7. It is worth highlighting that the way the Foundational Economy is measured (specifically, employment and output) blurs its true importance to the economy. This point can be demonstrated by considering housing. Housing does not feature prominently since most residents live in an already constructed home which only requires occasional maintenance labour. However, households spend a substantial amount of income on renting housing. As a result, the provision, quality, and affordability of housing matters to meeting other social and economic outcomes, such as poverty reduction.
- 2.8. The FE can also be measured by considering the objects of household expenditure, as disclosed in national household surveys.⁽¹⁰⁾ The survey categories do not exactly suit the purpose of foundational analysis, but it is instructive to compare expenditure on foundational goods and services with total household expenditure.
- 2.9. For the financial year ending 2020, transport, housing and recreation were the largest components of household spending in the UK, together accounting for 41% of total household expenditure (44% when mortgage interest for housing is included).⁽¹¹⁾ Spending on food, housing and transport made up 54% of total expenditure for households in the bottom decile of the income distribution, compared with 42% for those in the top decile.
- 2.10. So, while the FE can appear to be just an unacknowledged part of the economy, in some cases, the extent of provision of foundational goods and services (volume, quality and means of access) has wider inclusive growth impacts.

(9) Kevin Morgan, The future of place-based innovation policy (as if “lagging regions” really mattered), in Mariachiara Barzotto et al (eds) Revitalising Lagging Regions: Smart Specialisation and Industry 4.0, Routledge, 2019.

(10) Foundational Economy, Manchester University Press, 2018.

(11) [Family Spending in the UK: April 2019 to March 2020, ONS](#)

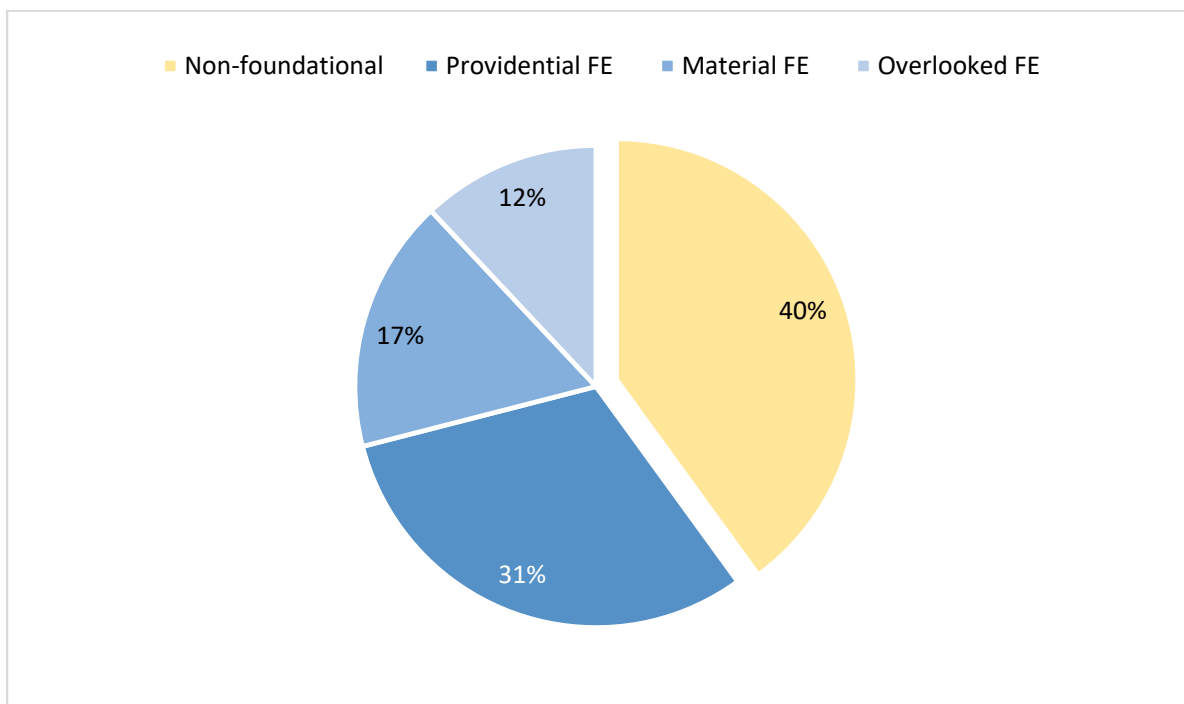
3. Businesses and Employment in the Foundational Economy in Glasgow City Region

- 3.1. It is possible to review the total FE employment in Glasgow City Region and its member authorities using the [Foundational Economy Activity Classification](#) – developed by researchers at the Foundational Economy Collective.⁽¹²⁾
- 3.2. The latest Business Register and Employment Survey (BRES) data (2019) shows that:

60% of employee jobs (full-time and part-time) in GCR were within the Foundational Economy.

Chart 1 compares the share of employment including the split between the three FE domains in GCR. Providential activities, such as education and social care, make up 30% of GCR's employment (it is more than 40% of employment in West Dunbartonshire (Chart 5 page 16)). Over the last three years (2016 to 2019), the share of employment in the Core FE activities in Glasgow City Region is estimated to be relatively stable between 47% and 49% of the total number of jobs in the Region.

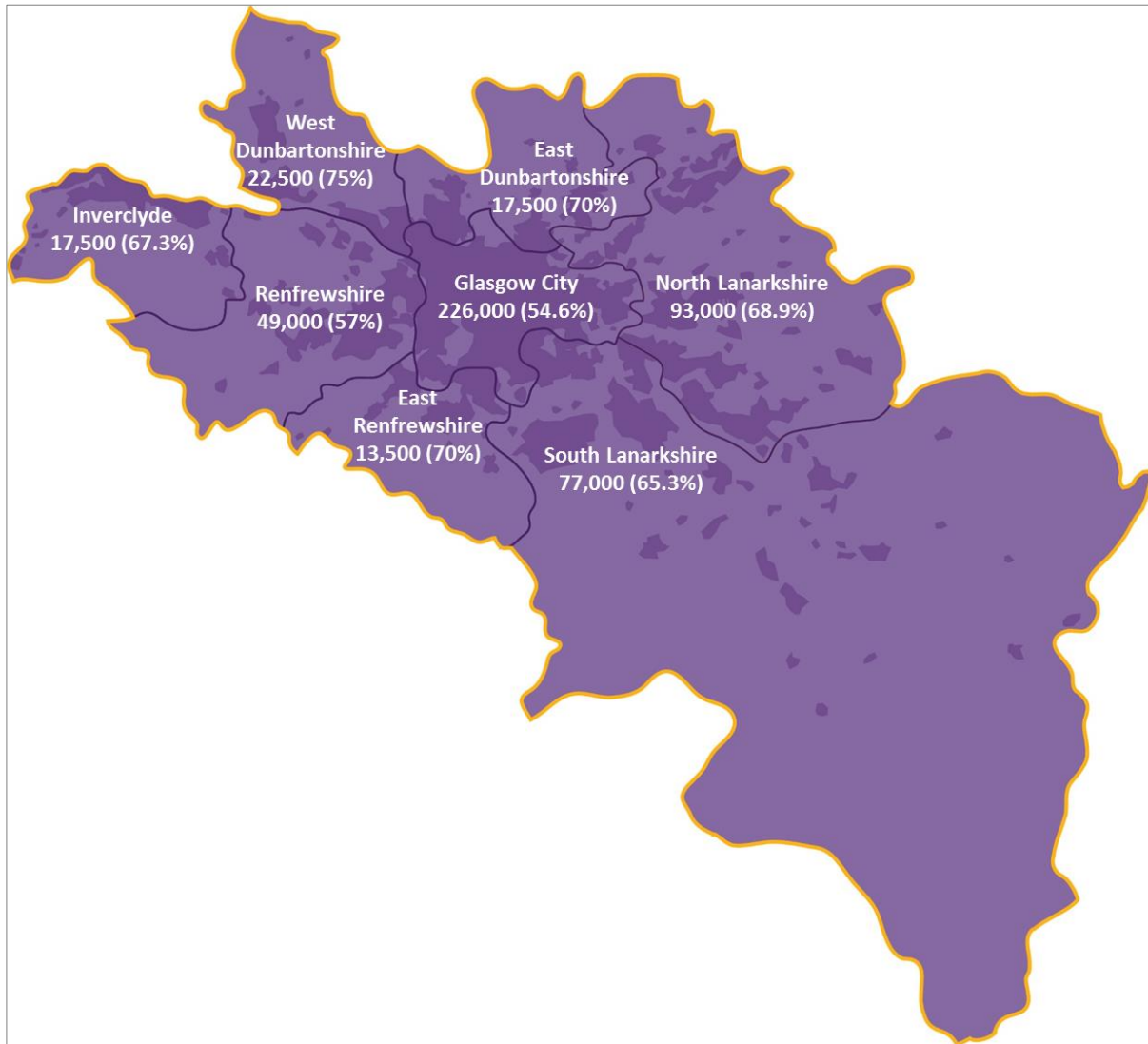
CHART 1: EMPLOYMENT IN GLASGOW CITY REGION, 2019



Source: BRES (2019), NOMIS

(12) The FE is defined using 5-digit SIC codes. For more details on the activities classified as material, providential and overlooked

CHART 2: FE EMPLOYMENT IN GCRs MEMBER AUTHORITIES



Source: BRES (2019), NOMIS

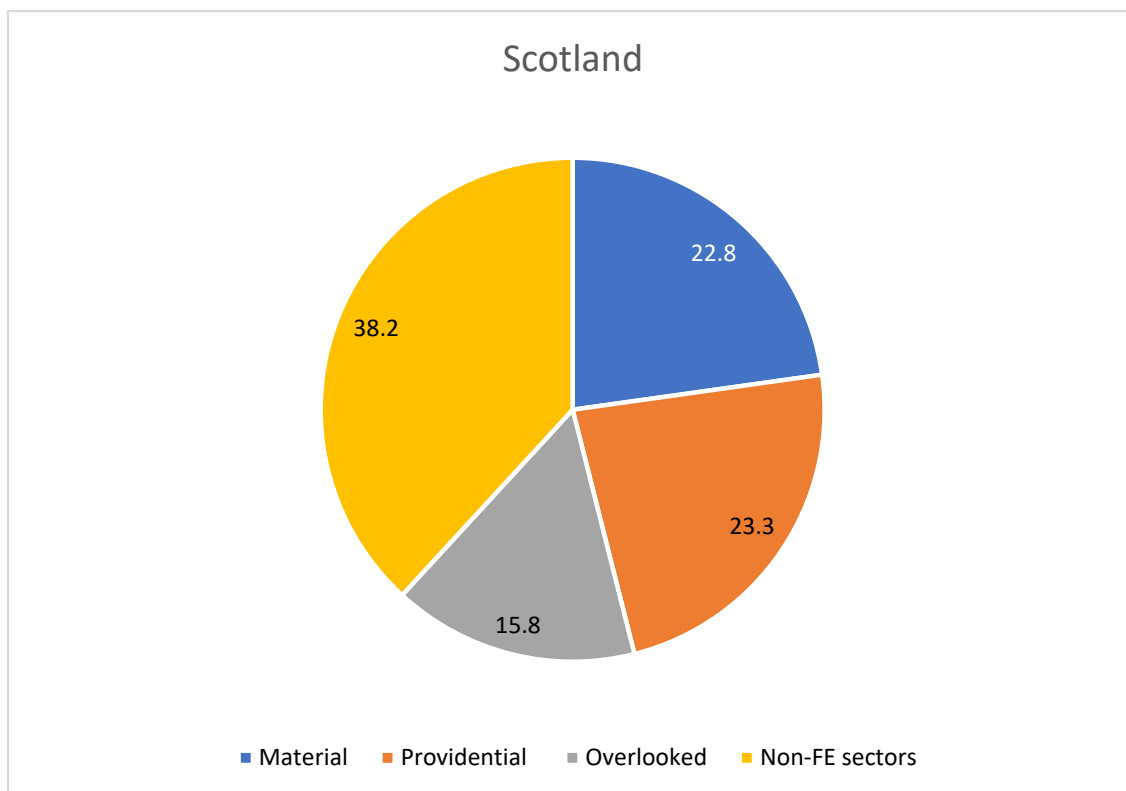
- 3.3. **GCR Business Base:** According to the latest business count data (2020), FE businesses make up 40% of GCR's business base. There are important intra-regional differences too as FE businesses constitute more than half of West Dunbartonshire's business base and 36% in East Renfrewshire.

4. The Foundational Economy's Contribution to the Scottish and GCR Economies

- 4.1. Foundational Economy's contribution to the Scottish and GCR economies can be estimated through Gross Value Added (GVA), a commonly used measurement of the total value of goods and services produced in a region.
- 4.2. The Foundational Economy Collective has produced estimates of the share of FE sectors in regional GVA for Scotland and the UK. ⁽¹³⁾ Chart 3 shows the share of FE sectors in Scottish GVA. In 2016, the Core FE (Material and Providential) share of GVA in Scotland was 46%. Whilst the total FE share was 62% – a higher share than the UK (39% and 58% respectively).
- 4.3. If we assume that the same proportions apply to the Glasgow City Region economy, then it is estimated that:

...of the £42.9 billion of GVA produced in GCR, £19.7 billion is generated by activities in the Material and Providential domains and £26.6 billion in the total FE.

CHART 3: SHARE OF FE SECTORS IN REGIONAL GVA



Source: Foundational Economy Collective Calculation of regional GVA , ONS

(13) [Wales through a foundational lens, Foundational Economy Collective](#)

5. Foundational Economy and Inclusive Growth Considerations

Challenges of the High Tech/Knowledge Intensive Sectors and Inclusive Growth

- 5.1. An important feature of the Foundational Economy lies in its distinction from the high-wage, high-productivity frontier or knowledge-intensive sectors that have been the focus on the UK Industrial Strategy and Scotland's Economic Strategy.⁽¹⁴⁾ The FE approach recognises the importance of high-tech, high value added sectors to the economy, but questions their role in delivering inclusive growth.⁽¹⁵⁾
- 5.2. The Scottish Government has chosen six growth sectors to focus on in its economic strategy.⁽¹⁶⁾ These sectors employ a small proportion of the workforce. In GCR, the Scottish Growth Sectors employ an estimated 221,000 people, around a quarter of all employees. In 2019, Life Sciences constituted 0.6% of employment in GCR and Renewable Energy 1.6%.
- 5.3. IPPR Scotland argues that “we would need to see unprecedented employment growth in Scotland's growth sectors if the aim is to deliver inclusive growth by reducing the size of lower pay sectors and increasing the size of growth sectors.”⁽¹⁷⁾ As an example, IPPR Scotland estimates that at the Scottish level, “to absorb 20% of retail jobs, we would need to see growth sector employment as a whole increase by 6.5%. This is more than the average employment growth seen in Scotland since 2009.”⁽¹⁸⁾

Inclusive Growth Opportunities with the Foundational Economy

- 5.4. FE employs 60% of the total workforce in the Region. This includes lower-pay sectors such as Retail, Social Care, and Hospitality. Chart 6 (page 18) shows gross weekly median pay across broad sectors of the Scottish economy and number of jobs in these sectors in GCR. As illustrated in Chart 4 (page 12), many FE sectors, such as Food and Beverage Service activities, Food Manufacturing and Retail pay an average below the Scottish median weekly pay (£470).
- 5.5. Some proponents of the Foundational Economy argue for a new social contract which values more the type of jobs and economic activities that take place in the Foundational Economy. In this context, the objective of an economic strategy which embraces the FE would be to improve the living standards of residents in disadvantaged communities by focusing on job quality and investment in local community necessities such as health, social care, housing and transport.

(14) IPPR Scotland, 2019

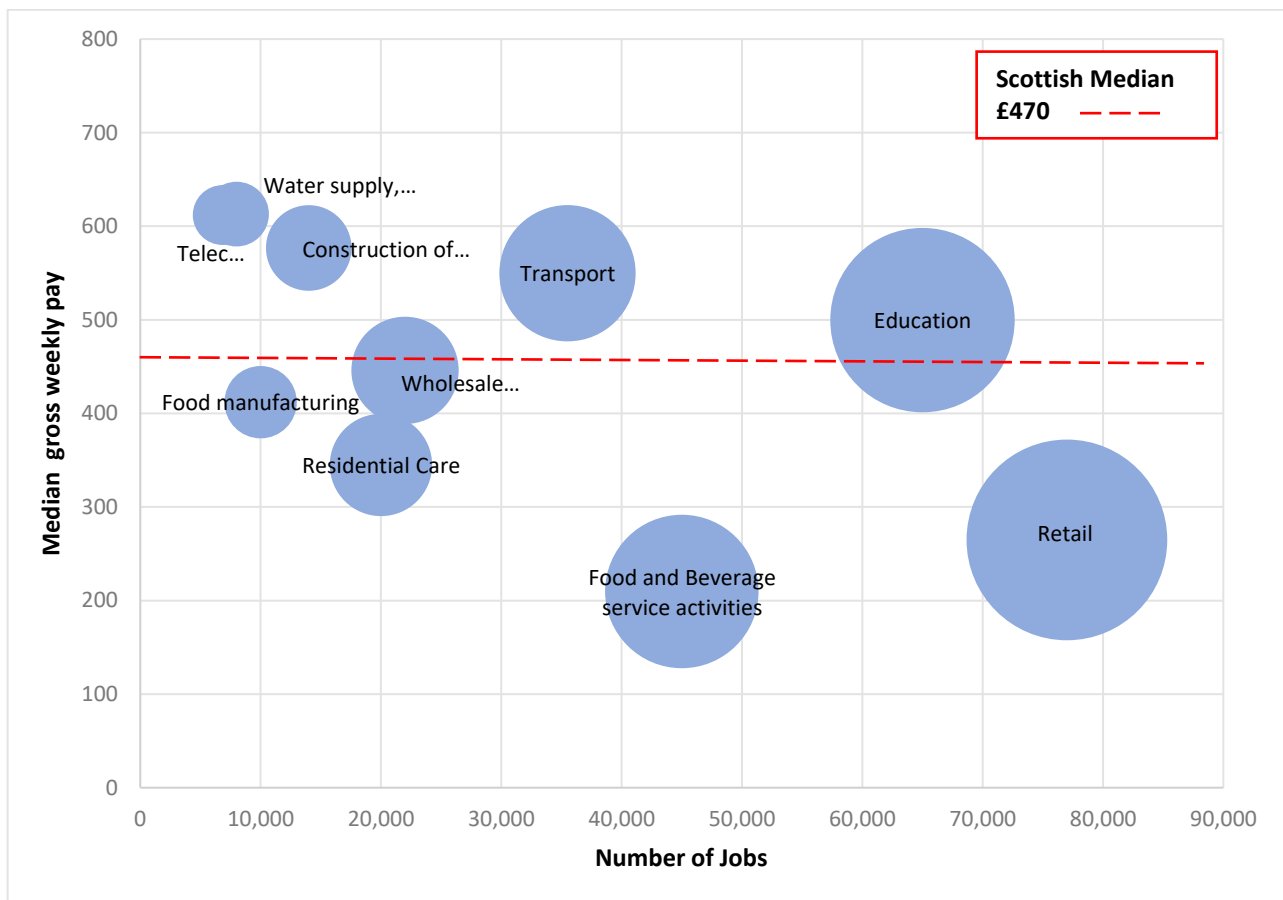
(15) Foundational Economy, Manchester University Press.,2018, pp.16

(16) Food and drink, financial and business services, life sciences, renewable energy, sustainable tourism and creative industries.

(17) (18) IPPR Scotland, 2019, pp. 4

- 5.6. Others see productivity improvements as a useful aim to have with FE. Andy Haldane has pointed to the “long tail” of upproductive small businesses which are often found in FE sectors, such as hospitality and retail.⁽¹⁹⁾ IPPR Scotland suggests that a productivity strategy with a dedicated focus on the everyday economy has higher potential to drive up productivity and pay across the breadth of the Scottish economy.
- 5.7. Through macro-modelling undertaken with the Fraser of Allander Institute, IPPR finds that a one-off productivity shock to lower-pay sectors in Scotland as a whole could deliver an increase in Scotland’s GDP of £1.5 billion and increase government spending of £161 million per year. It would also deliver progressive outcomes benefitting the poorest households the most.⁽²⁰⁾

CHART 4: MEDIAN GROSS WEEKLY PAY, ALL EMPLOYEE JOBS IN GCR IN SELECTED SCOTTISH INDUSTRIES, 2019



Source: Foundational Economy Collective Calculation of regional GVA , ONS

(19) [The UK's Productivity Problem](#)

(20) [For a detailed analysis see here](#)

6. The Foundational Economy as a Policy Agenda

- 6.1. As a policy agenda, the FE focuses on two broad, complementary policy aims:
1. Improving the provision and quality of foundational goods and services, in order to improve citizens' quality of life.
 2. Influencing who provides these goods and services to ensure this provision creates additional benefit for society, for instance through creating higher-quality employment opportunities.

Foundational economy in practice- the Welsh Government approach

- 6.2. The Welsh Government has incorporated the FE into its economic policy making by including foundational sectors in its priorities within the 2016 Economic Action Plan:

'...sectors such as care, tourism, food and retail are the backbones of many local economies. By developing new models of support and partnerships in these areas, we can help small and often fragile enterprises embedded in local communities increase their productivity, encourage skills progression and develop more sustainable business models.'⁽²¹⁾

- 6.3. This quote is illustrative of the Welsh Government's approach to the FE and demonstrates a recognition that many of the firms that operate in the Foundational Economy face significant challenges. The FE literature associates these challenges with a shift in balance between small, locally-grounded businesses and larger, mobile and often highly-financialised businesses who compete in the same markets.⁽²²⁾
- 6.4. At the city region level, Cardiff Capital Region has incorporated the FE into its investment plan as a means to generate sustainable growth and inclusive prosperity.⁽²³⁾

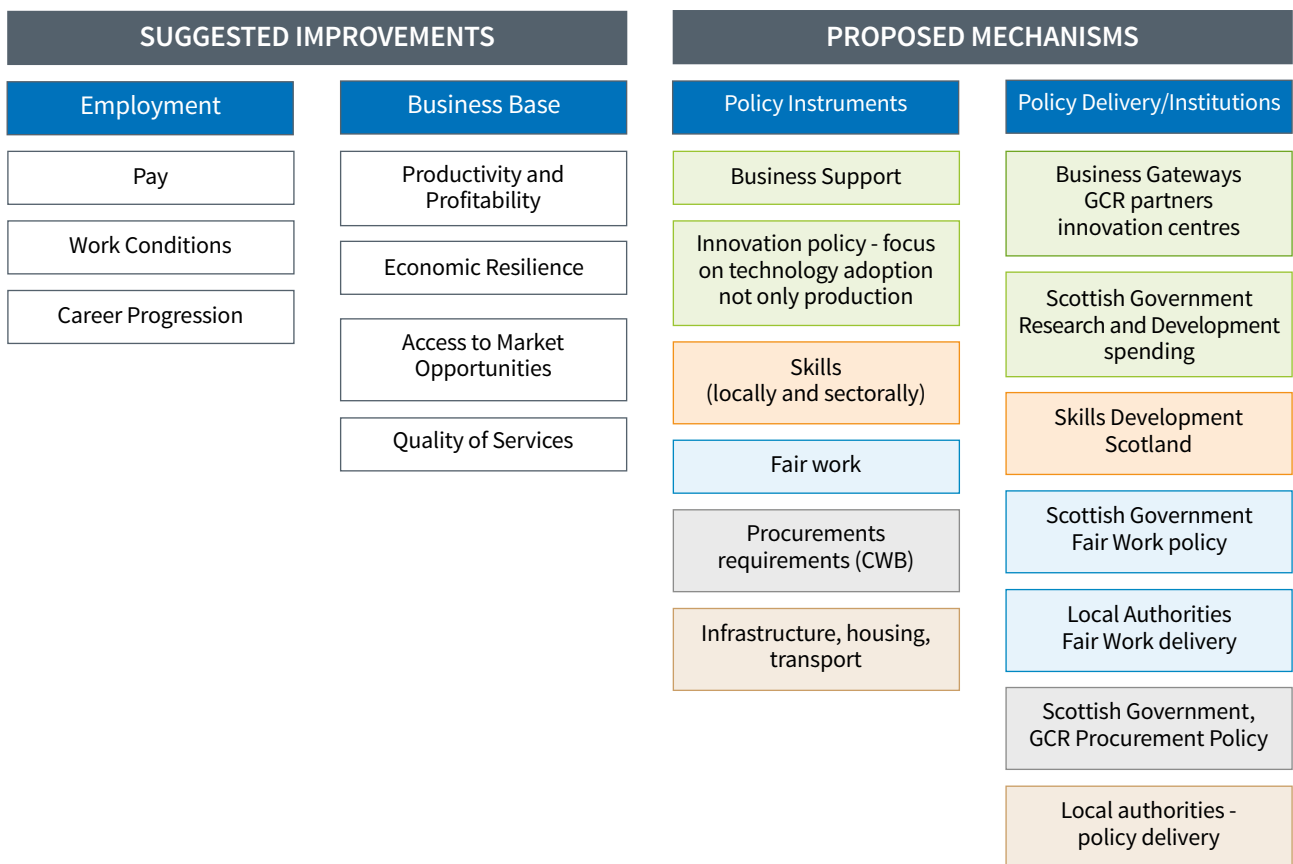
(21) Prosperity for all: Economic Action Plan

(22) What Wales Could Be, Foundational Economy Collective

(23) The Cardiff Capital Region Investment Framework

7. Conclusion and Next Steps

- 7.1. Foundational Economy activities make up 60% of GCR’s employment and more than 40% of its business base. Research suggests that by focusing on improving the productivity of businesses which operate in the domains of the FE – and by improving the quality and access to foundational goods and services – there is the potential to deliver economic and social benefits for a significant portion of the population.
- 7.2. A Foundational Economy approach is thus tasked with two objectives. On the employment side - improving labour market outcomes (specifically, pay, work conditions and career opportunities). On the business side- improving the performance of the business base (specifically, productivity and profitability, economic resilience, access to market opportunities and quality of services) in FE sectors. The chart below summarises our proposed improvements and mechanisms to meet these objectives.



- 7.3. In this context, the Glasgow City Region Intelligence Hub is currently undertaking a review of innovation and productivity in the FE with the aim to informing the new Regional Economic Strategy.

7.4. We have prioritised four FE sectors due to their contribution to Glasgow City Region's Inclusive Growth and Wellbeing agendas. The four sectors are outlined below:

- Social Care
- Hospitality
- Arts and Recreation
- High Street Retail

The contribution of these sectors to GCR's Inclusive Growth and Wellbeing agendas is summarised below:

PEOPLE

- Source of female and youth employment
- Employ the majority of key workers
- Low-pay sectors (thus addressing in-work poverty)

BUSINESS

- Source of social innovation (new practices to meet social needs in a better way, for example, community development, health, social enterprises)
- Disproportionately negatively affected by COVID-19

PLACE

- Large employers which are locally embedded
- Contribute to a sense of community and social cohesion
- The provision of their products and services is important for good living standards

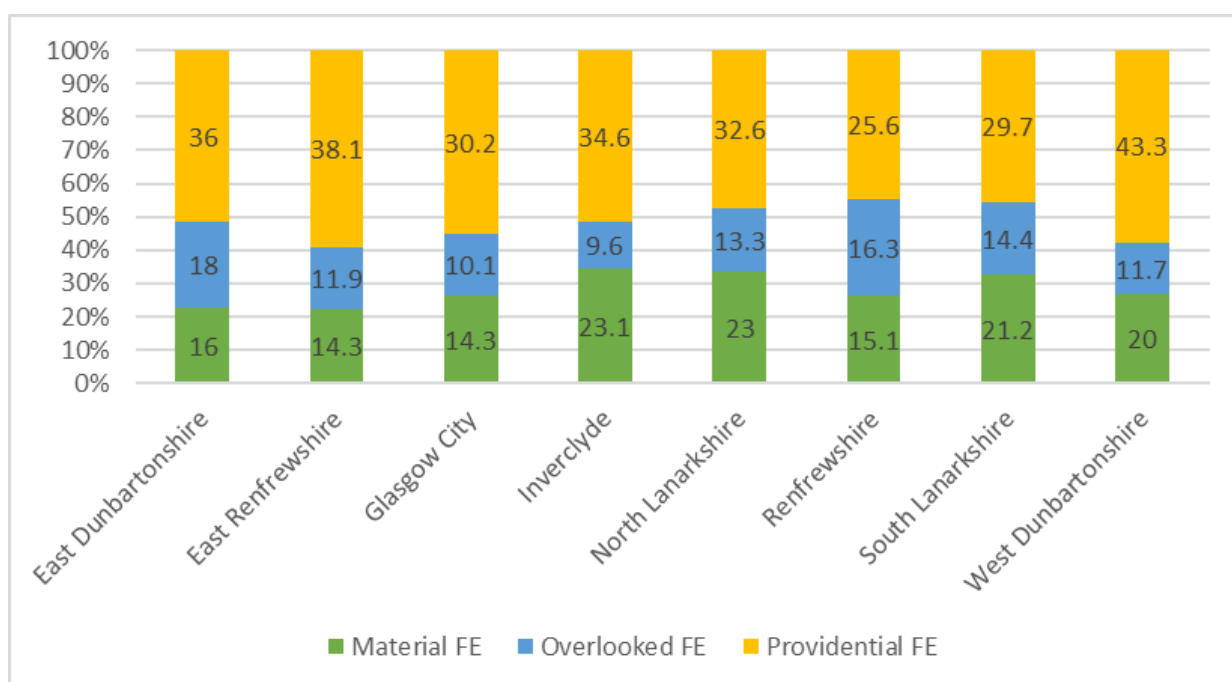
Appendix

TABLE 1: NUMBERS EMPLOYED IN THE DOMAINS OF THE FOUNDATIONAL ECONOMY (FE) IN GLASGOW CITY REGION AND ITS MEMBER AUTHORITIES

AREA	MATERIAL FE	OVERLOOKED FE	PROVIDENTIAL FE	TOTAL	FE SHARE (% OF TOTAL EMPLOYMENT)
East Dunbartonshire	4,000	4,500	9,000	17,500	70.0
East Renfrewshire	3,000	2,500	8,000	13,500	64.3
Glasgow City	59,000	42,000	125,000	226,000	54.6
Inverclyde	6,000	2,500	9,000	17,500	67.3
North Lanarkshire	31,000	18,000	44,000	93,000	68.9
Renfrewshire	13,000	14,000	22,000	49,000	57.0
South Lanarkshire	25,000	17,000	35,000	77,000	65.3
West Dunbartonshire	6,000	3,500	13,000	22,500	75.0
Glasgow City Region	147,000	103,000	265,000	515,000	60.2
Scotland	445,000	342,000	766,000	1,553,000	62.0

Source: BRES (2019), NOMIS

CHART 5: SHARE OF EMPLOYMENT (%) IN THE DOMAINS OF THE FOUNDATIONAL ECONOMY IN GCRs MEMBER AUTHORITIES, 2019



Source: BRES (2019), NOMIS

TABLE 2: BUSINESS COUNTS IN THE DOMAINS OF THE FOUNDATIONAL ECONOMY IN GLASGOW CITY REGION AND ITS MEMBER AUTHORITIES, 2020

AREA	MATERIAL FE	OVERLOOKED FE	PROVIDENTIAL FE	FE SHARE (%) OF TOTAL NUMBER OF ENTERPRISES
East Dunbartonshire	310	620	185	37.7
East Renfrewshire	270	510	190	36.5
Glasgow City	2,055	3,405	1,340	35.0
Inverclyde	235	335	125	42.9
North Lanarkshire	1,400	1,835	385	47.7
Renfrewshire	705	1,100	260	44.2
South Lanarkshire	1,760	2,090	420	47.2
West Dunbartonshire	380	500	105	51.2
Glasgow City Region	7,120	10,390	3,010	41.1
Scotland	35,720	36,180	9,020	45.5

Source: UK Business Counts 2020, NOMIS

CHART 6: RELATIONSHIP BETWEEN FOUNDATIONAL ECONOMY, WELLBEING ECONOMY, INCLUSIVE GROWTH AND COMMUNITY WEALTH BUILDING

