INSIGHTS North East

Strengthening the Foundational Economy Through Local Growth Plans

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AT A GLANCE

The foundational economy provides the social and physical infrastructures, goods and services that are essential to everyday life, including transport, food, energy, education, health and care. These sectors support economic growth and resilience as well as individual and societal wellbeing. But they are often overlooked in economic and industrial policy in favour of high-growth "frontier" sectors.

Amid rising levels of inequality and political discontent, consensus is growing among policymakers and academics regarding the need to strengthen local foundational economies to benefit people and places typically "left behind" by conventional growth strategies. This briefing explains the importance of strengthening the foundational economy for inclusive growth, and sets out principles policymakers should consider when seeking to do so through Local Growth Plans.

ACTIONABLE INSIGHTS

- Recognise foundational economy sectors as key local assets and as the foundation of inclusive growth. Use Local Growth Plans as an opportunity to enhance these sectors through sustained investment and policy attention.
- Adopt a tailored, place-based approach to strengthening the foundational economy, co-designing interventions with local communities, businesses and third sector bodies to ensure that these interventions tangibly enhance people's wellbeing and community liveability.
- Provide tailored support and resources to allow foundational economy businesses to promote good work and skills development.
- Boost productivity by combining policy measures that achieve quick wins in highly productive sectors, whilst addressing barriers in less productive sectors through sustained investment.

CHALLENGE

The foundational economy encompasses the social and physical infrastructures, services, and resources that sustain everyday life. It includes essential material goods, such as food, energy, utilities, and transport, as well as providential services, including education, health and care, and housing. Together, these elements form the basis — or "foundation" — of societal wellbeing and long-term economic prosperity.

Despite its importance, the foundational economy has long been overlooked in policymaking. Regional industrial policies and growth strategies are typically concerned with achieving gains in the tradable economy, especially high-growth "frontier" sectors. This imbalance is a problem because growth generated by frontier sectors is not distributed evenly within or across regions.

By contrast, recent research reveals the importance of enhancing the foundational economy to achieving inclusive and sustainable economic development and addressing longstanding issues of economic inequality and inactivity. But doing so in practice remains challenging. This briefing explains the importance of strengthening the foundational economy for place-based growth, and sets out principles policymakers should consider when seeking to do so through Local Growth Plans.

Who will find this briefing useful?

Local and regional policymakers

Local authorities and combined authorities, local economic development practitioners

Public and anchor institutions

Universities, NHS bodies

Private sector

Small and medium-sized businesses

Voluntary and charitable sector

Social enterprises, community groups and voluntary organisations

BACKGROUND

What is the foundational economy?

The concept of the "foundational economy" emerged in academic research in the early 2010s. It has since gained traction as a useful framework for understanding and addressing challenges in local economic development and social inclusion.

According to foundational economy thinkers, the economy can be divided into four "zones", each comprising different types of activity:

- The **tradable economy** of aspirational goods and services
- The **overlooked economy** of occasional purchases
- The **foundational economy** of essential everyday goods and services
- The **core economy** of family care, community support and volunteering

The foundational "zone" of the economy includes sectors that provide the basic infrastructure, services and resources that underpin everyday life. These include *material goods* such as public transport, food, energy, and utilities, as well as *providential services*

such as primary and secondary education, health and social care, and housing. These foundational services are delivered by a combination of public, private, and voluntary, community and social enterprise (VCSE) sectors.

Beyond meeting people's basic needs, the foundational economy is an important source of employment and driver of local wealth creation. It supports broader economic activity by providing businesses and VCSE organisations with the resources they need to grow and flourish.

Why the foundational economy — and why now?

Until recently, the foundational economy has rarely been centred in local economic and industrial strategies. Regional policymaking has instead been mostly concerned with achieving gains in the tradable zone of the economy, particularly high-tech, high-growth "frontier sectors" like advanced manufacturing, renewable energy or pharmaceuticals. The remaining three zones, including the foundational, have been overlooked when it comes to government investment and policy support.

This is a problem because growth generated by high-tech sectors is not always distributed evenly within or across cities and regions. The number of people employed in such sectors is relatively low compared to foundational sectors, and new jobs that are created generally go to highly skilled and already well-paid workers. This means the benefits of new work and productivity improvements in the tradable economy do not filter down to those who would most benefit from them. By contrast, academic studies emphasise the importance of strengthening the foundational economy to achieve more developed, liveable and sustainable communities, particularly in so-called "left behind" places. The need to invest in the foundational economies of these places has been underscored recently by the rise in political discontent.

Research on the foundational economy is still in its infancy, and questions remain regarding the potential for investments in these sectors to drive economic growth. Recent attempts at policy experimentation in Greater Manchester, Glasgow and Wales are providing opportunities for places to learn from experiences elsewhere. Local Growth Plans (LGPs) offer an opportunity for places to drive economic growth and resilience through strengthening their foundational economy.

The foundational, or the everyday economy?

Whilst the foundational and overlooked economies are distinguished with the zonal model of the economy, the two are increasingly referred to in combination as the "everyday economy." This latter term has become more popular, in part because it is more accessible and relatable to wider publics.

The term "everyday economy" is also used within UK Government policy discourse to refer to sectors typically understood as belonging to the foundational economy. For these reasons, local policymakers are increasingly using the term "everyday

economy" to refer to industries and sectors key to driving growth.

FINDINGS

The foundational economy is wellbeing critical

Foundational economy sectors are critical for individual and societal wellbeing and liveability (the capacity to thrive through freedom and autonomy). Households and businesses rely on foundational services in every aspect of their lives and work.

But evidence suggests that poor or uneven access to foundational services, like affordable public transport, prevent lower income groups from accessing employment or training opportunities. It also negatively impacts population health outcomes, especially in deprived areas, which slows economic growth.

By contrast, academic studies suggest that, through focusing policy attention on the basics of economic wellbeing and liveability, and getting these basics right, local policies will ensure the right conditions are in place to enable everyone to contribute to and benefit from economic growth and resilience.

Foundational sectors anchor resilient local economies

Foundational economy sectors represent the largest zone of the economy when measured by workforce size and total employee compensation (i.e. more gets paid out to workers in foundational economy sectors than in any other). They are mostly distributed according to population size and need, and are also heavily place-based, meaning they are delivered at or very near the point of use. As such, foundational economy sectors account for many of the businesses that make up hyperlocal economies, including in neighbourhoods and on high streets. In more deprived areas, they make up the vast majority.

Demand for foundational services is also heavily inelastic: it does not decrease in response to changing market conditions or other factors. People always require foundational goods and services, wherever they are.

For these reasons, foundational economy sectors provide an important source of resilience for communities against wider economic trends and shocks. Academic evidence says that strengthening the foundational economy should be the first step to building more resilient local and regional economies.

However, evidence also cautions that the size of the foundational economy, as well as the diversity of sectors it encompasses, presents a challenge for policy design and implementation. Different foundational sectors will require bespoke policy interventions that are responsive to sectoral challenges and guided by local needs and priorities. LPGs seeking to strengthen the foundational economy should be guided by principles of inclusivity and spatial equity to ensure the benefit the people and places most dependent on foundational sectors.

Good jobs in foundational sectors will improve skills and economic participation

Jobs in the foundational economy are, despite their importance, disproportionately lower wage. A high proportion of people experiencing in-

work poverty are employed in foundational sectors.

Rates of turnover in foundational sectors, especially in sectors like health and social care, can also be very high.

To ensure foundational economy sectors can support economic growth, it is essential that these foundational jobs remain attractive to workers and reward them fairly. Policy efforts to enhance the foundational economy should be heavily focused on improving opportunities for good work in foundational sectors. Good work is that which offers people a comfortable (disposable) income as well as opportunities to develop skills and undertake training to progress their careers.

If these conditions are met, LGPs which seek to strengthen the foundational economy will go a long way in solving problems of in-work poverty and skills shortages, which constrain economic participation and, ultimately, economic growth.

Marginal productivity gains in the foundational economy make a big difference

It is often assumed that foundational sectors are characterised by low productivity. Sectors such as healthcare and transport are very resource intensive, and productivity increases are difficult to achieve. Yet, the size and importance of these sectors mean that even marginal productivity increases will make a big contribution to boosting regional productivity and to improving liveability.

Meanwhile, other foundational sectors, including utilities and energy, are generally highly productive and much more amenable to productivity improvements. LPGs should balance the need to invest in maintaining areas of local strength whilst addressing gaps in the foundational economy, which limit economic participation and local growth. To optimise use of available resources, LPGs should distinguish local foundational activities in which marginal productivity gains can be easily and with limited investment ("quick wins"), and those for which larger gains can be made but over longer timeframes and with more sustained investment ("system change").

STRENGTHENING THE FOUNDATIONAL ECONOMY

The foundational economy is vital to the prosperity and wellbeing of people and places, yet it remains undervalued in conventional growth strategies. Local Growth Plans offer a timely opportunity to place foundational sectors at the heart of inclusive economic development.

By recognising their importance, investing in good work, and tailoring interventions to local needs, policymakers can foster more resilient, equitable, and sustainable local economies. Strengthening the foundational economy is, ultimately, about creating the conditions in which everyone can contribute to and benefit from economic growth.

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POLICY CHANGE IMPACT

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