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Economy, Trade, and Rural Affairs Committee

Inquiry: The Foundational Economy

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Evidence from: Foundational Alliance Wales



Foundational Economy Briefing

By members of the Foundational Alliance Wales network for the Senedd Economy, Trade and Rural Affairs Committee

This briefing document is the first of two documents submitted to the Committee and addresses definitions of the foundational economy and related practice. The second document contains answers to the Committee’s questions and should be read in the context of this first briefing document by the same authors

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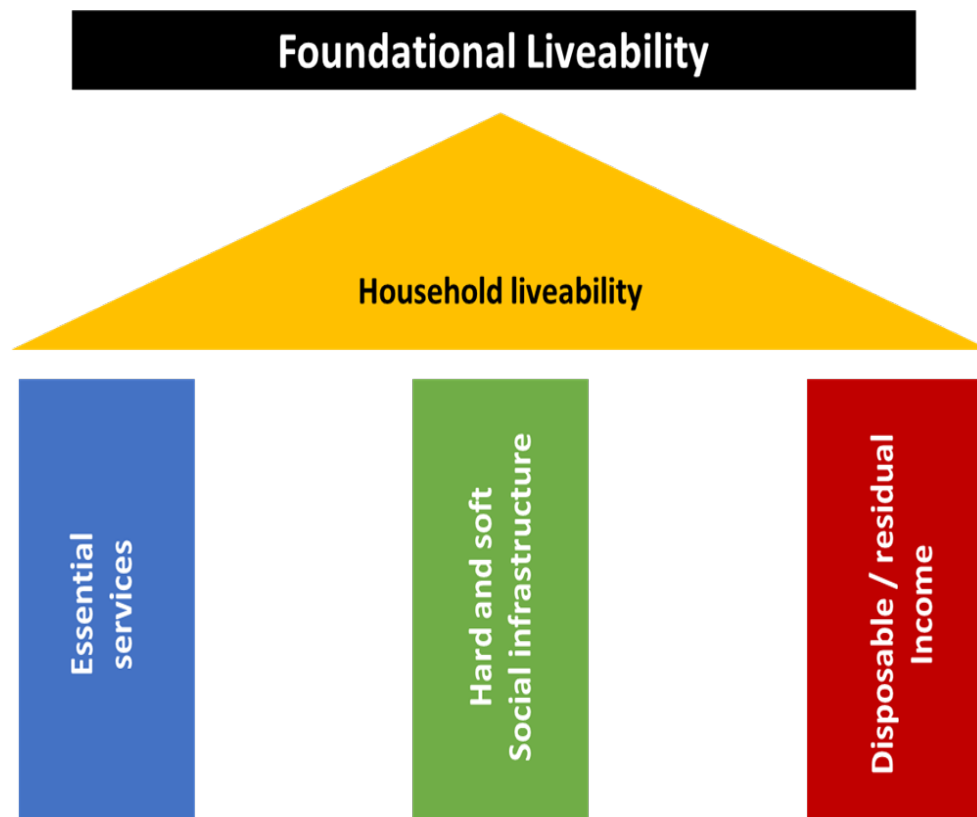
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This briefing reflect the views of the eight individuals above who are all members of the Foundational Alliance Wales network. It has not been debated or approved by the full membership.

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1. Two definitions of the foundational economy, and their different policy implications

1. There are two definitions of the foundational economy (FE), both of which are correct and complementary¹:
 - i. *A narrow, descriptive definition of the FE as the non-tradeable sectors providing basic services like health and care, utilities etc. These sectors have been neglected by those preoccupied with policies for high-tech and tradables but altogether they account for 40% of employment in Wales.*
 - ii. *A broad, analytic definition of the FE as the conditions of well-being: (a) the three pillars of household liveability (residual income after paying for essentials + access to basic services + social infrastructure) on the demand side; and (b) the stock of capable resourceful firms on the supply side; with (c) consumption and production mitigating nature and climate emergency.*



2. The distinction between these two definitions matters because they have very different implications for policy and political practice.
3. Welsh Government and the Welsh political classes (like some northern English Mayoralties) are fixed on the narrow descriptive definition, because its political corollary is business as usual in terms of policy. Those who use this definition see that it largely legitimates and extends what they were already doing in terms

of policy objectives and instruments. So, the Greater Manchester Combined Authority sees the FE as a way of extending their higher productivity objective to low wage activities like care and hospitality. The Government and opposition parties in Wales see it as a way of continuing the consensual, cross-party promotion of local purchasing, which predates the FE concept. See, for example, the Economy Minister's statement in December 2023 on the progress of the FE², which listed procurement achievements in transport, energy and housing. It is no exaggeration to say that this statement could have been given by a minister and warmly received by opposition parties at any time in the past 15 years.

4. Those who think and do foundational in Wales, like the Foundational Economy Research Ltd³ consultancy and the Foundational Alliance Wales⁴ membership organisation, are fixed on the broad analytic definition. The political corollary is urgency because in 2024 we are in the middle of a liveability crisis when all three pillars are crumbling. Cost of living crisis is squeezing household residual income (i.e. disposable income minus the cost of the foundational essentials of housing, utilities, food and transport). At the same time citizens have access difficulties and waiting lists in essential services like health and care. While austerity-hit local authorities are retreating from hard social infrastructure provision in the form of community centres, libraries and parks and cutting support for activities like youth clubs which sustain social cohesion⁵. The implication is that FE is a frame within which we must think about doing things differently for the times we are in, and for the new 2020s challenges we are facing.
5. What and how to do different is the puzzle we all need to address.

2. Welsh Government's grand objectives and limited achievements

6. In Wales (as in Scotland) the story of devolved government is grand objectives and limited achievements. In both cases it suits opposition parties to blame a long-standing party of government and claim that, if elected, they could do better. But, in all fairness, underachievement is rooted in political structures and processes which have been largely taken for granted by all major parties.
7. Welsh Government has to act within a complex multi-level political apparatus. This includes Westminster above and below a collection of 22 local authorities plus not-for-profit institutions serving households (NPISHs) like health boards and housing associations; around this are the Cardiff Bay satellites of trade bodies defending private interests and the NGOs dependent on government contracts.

8. In this context, Welsh Government's broad approach has been strategizing and mission driven. Before Mariana Mazzucato⁶ popularised the term, Welsh Government went for big goals and targets. Hence the Communities First goal of poverty reduction in deprived communities 2001-18, and the Future Generations Act 2015 translating UN Sustainable Development Goals into Welsh legislation. And targets are set in almost every policy area, from tree planting to the reduction in car journeys by 2030.
9. Where the objectives of Welsh Government policy overlap with the liveability agenda, progress has been limited. Most obviously the big three publicly funded and Welsh controlled foundational systems of health, education and care have not been reformed to operate in a new and better Welsh way. And liveability has been going uncontrollably backwards in the 2020s with austerity funding undermining public services and social infrastructure; while the cost-of-living crisis about market entitlement, especially around energy and food prices, erodes residual income.
10. Against this background, Welsh Government has responded defensively. Where possible, it has softened the edges of Westminster policy as, for example, by building social housing in Wales when England did not. On complex problems, it has pressed single-shot mandating policies, recently including universal free school meals, 20mph speed limits and (proposed) 10% tree and woodland cover on farms. These are policies which are challenging to implement, even when they do not encounter political resistance.
11. The underlying problem with the Welsh Government version of mission-driven is that it does not address who does what and how except in a proceduralised way. Welsh Government's approach is to legislate or issue regulations and commit to goals and targets before setting up another office, unit or committee whose job is to get everybody on board for top-down policy.
12. Archetypally the Future Generations Act created a commissioner with an office and the local Public Service Boards (PSBs). This did not confront the central problem of risk avoidance and inertia around established ways of working within single institutions and across large, complex systems. Hence PSBs too often do formal compliance through meetings and reports while the multiple agendas of members ensure that progress is at the pace of the slowest ship in the convoy.
13. The Future Generations Act does legitimise the efforts of those arguing the case for sustainability and the Commissioner's reports do document how Welsh Government is off track. But the apparatus of Commissioner and PSBs did not advise on priorities and trade-offs between goals which cannot all be achieved and could not secure grand ambitions,

14. The *Cymru Can* reset for 2023-30 under a new Commissioner recognises limited progress but continues with 5 missions that include a shift to “an economy that puts people and planet first”⁷. It does not engage with foundational delivery in the sense of this briefing. Foundational delivery is about who does what, how and when to make a meaningful difference to liveability, stock of firms and climate change
15. Sustained under delivery must discredit Welsh Government and the effects are being compounded by a market driven cost of living crisis in the mid- 2020s, All this is economically and socially damaging and now threatens to destabilise the centrist consensus politics on which devolution has been built. Reform UK is in second place in 13 Welsh Westminster constituencies after the 2024 general election⁸ and Senedd members will most likely face a volatile electorate in 2026 under the additional member system.
16. Welsh Government needs to face up to the outcome of state centric failure after two decades of devolution and urgently needs to find a new role in a multi-level system. Currently, nobody has worked out, who does what alternative which is guaranteed to work. But we can find some hopeful precedents and developments which provide a starting point and a basis for learning.

3. Alliances of the willing as a who does what discovery

17. One of the reasons to be cheerful is that there is a ferment of mid -level social innovation on liveability in Wales. Some values driven organisations are doing the right things, often without using or understanding the foundational concept. Others like NHS Wales are getting up to speed and moving towards an analytic definition with its ‘people, places and purchasing’ vision.⁹
18. At the leading edge of foundational innovation are our Welsh *shining lights*. Typically, these are locally grounded medium sized organisations of all sorts, which combine management capability with a secure revenue stream so that they are not dependent on short term Welsh government grants. Thus, for example, Merthyr Valley Homes has pioneered flexible shorter hours, Cyngor Gwynedd has innovated in home care reform, and Grange Pavilion is a remarkable case of community social infrastructure provision under the aegis of a university.
19. Our Lottery funded project¹⁰ is currently analysing why it is difficult to sustain or spread such innovation and how we can better support social innovators. The preliminary finding is that innovation initially depends on alignment of favourable conditions and then faces structural obstacles. Providential foundational

- systems like health and care are well organised to reproduce standard behaviours and ways of thinking which reject change. Material foundational systems like food distribution are organised around an offer of price, choice and convenience, so that innovation outside the mainstream is a niche opportunity.
20. Hence the revealed importance of organising alliances of the willing in key target areas where we can find leverage. The willing are a subset of typically middle-level, self-directing enthusiasts from organisations which are innovating (or want to innovate) around a shared problem definition and a group agenda. Alliances need an enabler/ connector to bring change makers together; and, in the case of hierarchical systems, alliances need permission and support (but not control or direction) by senior management.
 21. Through a process of discovery, Wales has good alliance for change examples. In the Healthy Housing Alliance, Cwm Taf Health Board, seven housing associations and the University of South Wales come together to bring economically inactive and poorly qualified local residents into NHS employment.¹¹ The sources of initiative are varied. In North Wales, a local authority initiative originally brought local authorities, health board and housing associations together to found Movement 2025 with a task-based approach to avoidable health inequalities.¹² An alliance of federated social enterprises (Cwmni Bro Ffestiniog, Partneriaeth Ogwen and Siop Griffiths) is in the lead in the slate valleys initiative for community benefiting tourism,¹³ which will deliver on Gwynedd Council's Sustainable Visitor Economy Framework.
 22. There is scope to do much more quickly by building alliances around existing single organisation innovation as with, for example, bringing housing associations and health boards together around 'grow your own' workforce initiatives. For example, Hywel Dda and Aneurin Bevan both have single organisation initiatives for training up care assistants to become registered nurses¹⁴ which could be expanded through alliances
 23. Of course, what we have at present are promising, small-scale experiments in alliance which come with no guarantee of local success, nor any certainty that local success will be followed by spreading and sharing elsewhere. And alliances are only part of a larger necessary push against inertia. But given the liveability crisis and the blockages on strategizing, it is worth getting behind this approach as a way of tackling the crisis of liveability.
 24. This is about new ways of working because alliance groups will often need to have substantial autonomy in defining challenges and responses. And we need to innovate not only by changing foundational systems and building the stock of capable enterprises but also to innovate by tackling liveability in places. After all,

people live in places where foundational provision like health, public transport and housing intersect.

25. In all this, the role of Welsh Government should be not to strategize but to sponsor and empower mid-level initiative by alliances of the willing delivering innovation in a broad foundational frame and using their initiative to improve the conditions of well-being in task-centred, specific ways. Practically, this requires top-down support for alliances tackling priorities like domiciliary care reform, as well as funding support for the key individuals who act as connectors to bring alliances together.

4. The potential of skunkworks projects

26. Of course, Welsh government needs to do more than sponsor mid-level initiative in alliances of the willing. And one of the neglected ways in which Welsh Government can do more to accelerate positive change is by funding skunkworks projects which harness the power of small task centred units which are in but not of government.
27. This approach was pioneered in the private sector by Lockheed Martin in the 1940s for jet fighter development and was subsequently used by corporates including Google and Apple with the development of the Macintosh as the first successful mass market PC. These companies recognised that a culture of control and standard organisational processes slow disruptive innovation. Their response was to create a skunkworks, an officially sanctioned breakout space with high level report to the organisation (not low-level control by the organisation). Inside the skunk works, a small team of innovators is given a difficult task and deadline with substantial autonomy about how it tackles problems.
28. Skunkworks is now rather out of fashion in the private sector because corporates are instead pressing continuous innovation and cultural change across the whole organisation. Thus, Alfa Romeo used a skunk works team to halve model development time on the all new Giulia in the 2010s, but companies like VW now want shorter development times on all their products because that is what their Chinese competitors can do.
29. But Wales is a different case. In and around Welsh Government, many individuals and organizations are reluctant to step outside their comfort zone and default onto established control routines of writing specifications and inviting tenders. In this Welsh political context, wider adoption of the skunkworks approach is an appropriate next step because Wales needs more small

autonomous teams tasked with tackling difficult problems in flexible, innovative ways.

30. Broadly, this is the road not taken by devolved Welsh Government because skunkworks does not fit its dominant state centric model of governmentality. But the good news is that Wales does have some past and present exemplars of successful skunk works approach. These show that when Welsh government does let go, our innovators can think outside the box and come up with ways of getting change that takes us towards our objectives.
31. Looking back wards, the two classic examples both from the early 2010s are Inform to Involve/ i2i and Arbed1.
 - In i2i a small team of housing professionals funded by Welsh Government but located outside in the Chartered Institute of Housing was tasked with getting more community benefits from public contracts. Their Can do Toolkit gave practical advice on how to write local preference contracts so as not to breach EU regulations and had considerable influence on RSL practice.
 - Arbed 1 was about improving social and private housing stock for energy efficiency, reduced fuel poverty and supply chain benefits. An autonomous team in Warm Wales, a specially formed community interest company, facilitated problem solving action by RSLs and local authorities, their contractors and energy suppliers while keeping householders on board.
32. These programmes were formally evaluated¹⁵ and positively written up by academics¹⁶ but they did not become templates for action because they were both supported and opposed by sections of Welsh Government. Value Wales actually went so far as to seek legal advice on the supposed illegality of the contract provisions proposed in the Can do Toolkit.
33. The story to the present day is that Welsh Government has occasionally stumbled into doing skunkworks projects and has the opportunity to do more. The Delivering Net Zero programme¹⁷ has been through several iterations and is now operating in a skunkworks mode to facilitate the move to low carbon social housing. 12 RSLs and 11 local authorities are being brought together to work on delivering low carbon timber frame homes and to work collaboratively to develop a supply chain with a pattern book and a visible pipeline of orders.¹⁸
34. And more could be actioned quickly if funders and local actors recognised the potential of this way of working. Foundational Alliance Wales and Foundational Economy Research Ltd currently have a proposal for a skunkworks project on liveability in Neath Port Talbot. This would be a constructive, non-standard response to the job loss at Tata Steel and could also provide learning for other places and communities.

Endnotes:

¹ For an overview of FE definitions and context see the *What is the FE* section on the web site for international FE researchers <https://foundationaleconomy.com/introduction/>. For extended up to date argument, see the 2023 book *When Nothing Works* by L. Calafati et al which is primarily oriented to what Westminster government should do.

² Oral statement: Foundational Economy, Vaughan Gething 5 December 2023
<https://www.gov.wales/oral-statement-foundational-economy-2>

³ FERL web site at <https://foundationaleconomyresearch.com/>

⁴ FAW web site at <https://www.foundationalalliance.wales/>

⁵ On infrastructure see the Bennett Institute definition at https://www.bennettinstitute.cam.ac.uk/wp-content/uploads/2023/01/Social_infrastructure_international_comparative_review.pdf

⁶ See the publications of the UCL Institute for Innovation and Public Purpose
<https://www.ucl.ac.uk/bartlett/public-purpose/research/mission-oriented-policy-hub>

⁷ Cymru Can at <https://www.futuregenerations.wales/wp-content/uploads/2023/11/2023-11-20-Strategy-English.pdf>

⁸ BBC report on 2024 general election results [Wales election live: Tories lose all MPs as party wiped out - BBC News](#)

⁹ See NHS Wales foundational economy programme at [A Healthier Wales foundation economy programme | GOV.WALES](#)

¹⁰ The Lottery project runs from 2024 to 2026 and brings together People's Economy, Foundational Alliance Wales and Foundational Economy Research Ltd

¹¹ For more information contact Bethan.Underwood2@wales.nhs.uk The Cwm Taf programme is described at <https://www.skillsforhealth.org.uk/resources/cs-cwm-taf/>

¹² Described at <https://www.2025movement.org/about>

¹³ See community tourism page on the FAW web site
[\https://www.foundationalalliance.wales/community-research-network.html

¹⁴ Described in the 2022 FERL report on NHS Wales
<https://foundationaleconomyresearch.com/wp-content/uploads/2023/03/NHS-Wales-Public-Interest-Report-June-2022.pdf> pp. 32-40

¹⁵ See for example the evaluation of Arbed 1 by Joanne Paterson
<https://orca.cardiff.ac.uk/id/eprint/41181/1/FINAL%20WW%20Arbed%20Report%2008%202012.pdf>

¹⁶ See Kevin Morgan's 2012 article
<https://www.ncl.ac.uk/media/wwwnclacuk/curds/files/Kevin%20Morgan%20-%20Values%20for%20Money%20-%20Agenda%20article.pdf>

¹⁷ <https://carboncopy.eco/initiatives/delivering-net-zero>

¹⁸ An out-of-date description is at <https://carboncopy.eco/initiatives/delivering-net-zero>

Foundational Economy Response to Questions

By members of the Foundational Alliance Wales network for the Senedd Economy, Trade and Rural Affairs Committee

This is the second of two documents submitted to the Committee and contains answers to the Committee’s questions. It should be read in the context of the first briefing document by the same authors which addresses definitions of the foundational economy and related practice.

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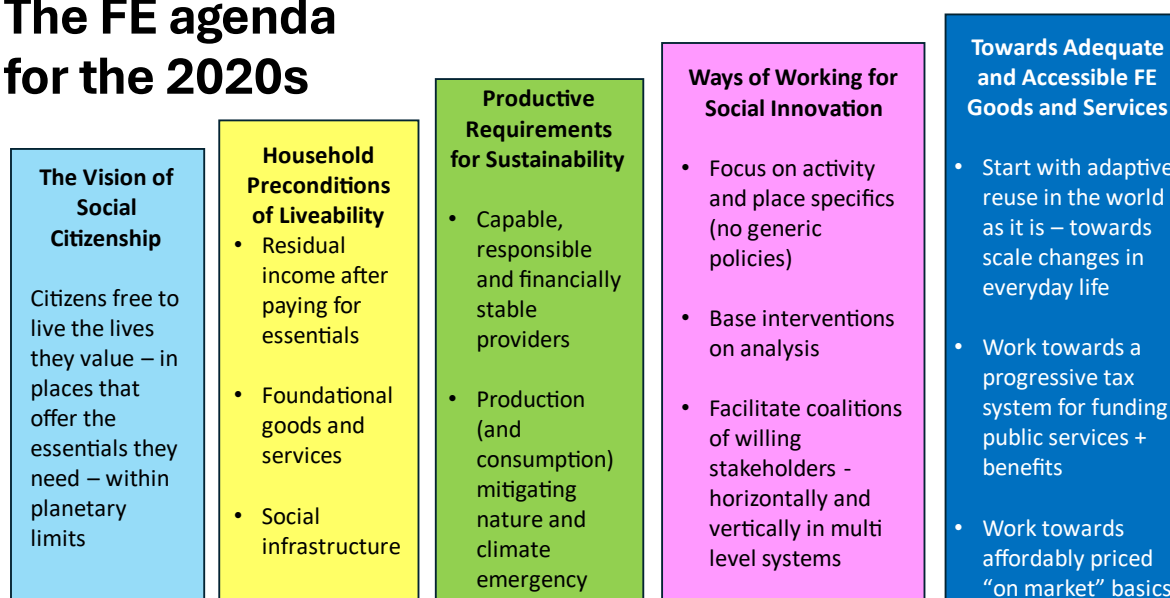
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The Committee's six questions

1. The Economy, Trade and Rural Affairs Committee has six questions which are answered below. Our caution is that the questions are generic and do not fit easily into the foundational agenda for the Welsh and Westminster governments which is outlined in the 5 bar diagram below (taken from the Foundational Alliance Wales website). Our answers need to be read in the context of the briefing document separately submitted, which deals with different definitions of the foundational economy and their various policy implications.

The FE agenda for the 2020s



Question 1

To what extent has the Welsh Government embedded support for the foundational economy into its overall approach to economic development? What further steps should it take to do this?

2. The descriptive concept of the FE, and the preoccupation with procurement specifically, has been added on to the established Welsh approach to ‘economic development’ which is about more GVA per capita, economic growth, skills and inward investment.
3. This approach is not well considered.
 - The long-term objective of faster growth is almost certainly unattainable in the present conjuncture of low growth and unexpected crises in all the advanced economies.

- If attained, faster growth would increase social inequality because upper income groups always capture a larger share of the increase in disposable income. In the UK between 1999 and 2020 the top 30% of households by income captured 48% of the increase in disposable income and the bottom 30% got just 16.6%.ⁱ
 - Faster growth would also increase emissions because globally growth and emissions are relatively but not absolutely decoupled; and the UK's apparent post-1990 success in reducing emissions comes from doing the easy bit which was closing the coal fired power stations.ⁱⁱ
4. The analytic FE concept is about the conditions of well-being. It starts from a different concept of development drawing on the work of Amartya Sen.ⁱⁱⁱ The aim of development is freedom for citizens to 'live the lives they have reason to value'.
 5. This requires intervention in places to address social infrastructure and in strategic activities, especially health care. NHS Wales provides an essential service for the population and is also the leading economic sector of the Welsh economy when NHS Wales employs 100,000 at diverse grades and all across Wales.^{iv}
 6. Grow your own workforce development should be the first foundational priority in health care. Each health care job created for a local provides years of reliable support for a Welsh family by a worker who understands language and culture in ways which will be crucial to preventive medicine in the next generation. NHS Wales is too dependent on recruiting 'ready-made' nurses and doctors who have trained overseas, as well as on bank and agency staffing.^v NHS Wales needs to get beyond (successful) small scale experiments in 'grow your own workforce' by adapting and scaling the principle more widely across health boards and across roles. This is low hanging foundational fruit.

Question 2

Given the cross-portfolio nature of the foundational economy, how should the Welsh Government create a co-ordinated approach to mainstreaming support for foundational economy sectors across government?

7. The creation of a small foundational economy unit within an economy and skills group under the Secretary for the Economy has not led to a co-ordinated approach. The unit has been compartmentalised intellectually by a narrow definition of the foundational economy and politically by the chronic difficulty of getting buy-in from other units even those within the same directorate.

8. The idea that the FE can be mainstreamed by coordinating different groups within a multi-level system of government and governance underestimates the power and resilience of sectional agendas and resistance. The outcome too often is that everybody's business is nobody's priority.
9. In this context, there is a role for challenge by bodies like Senedd Committees when ministers and officers persist with consensual policies which are not delivering. For example, food and drink processing is the largest Welsh manufacturing sector employing around 25,000. But, under established policies of business support, the number of SMEs in the sector has not increased in more than a decade.^{vi}
10. But, without serious research briefings, committees cannot make effective challenges on such issues. The point is proved by the 2024 Senedd Climate Change Committee report on underperforming Dwr Cymru.^{vii} Without research-based support the committee was unable to judge and challenge management claims that the proposed increase in investment by Dwr Cymru over the next price review period from 2025-30 was adequate to deliver the necessary improvement in reducing storm overflow discharges and major pollution incidents.
11. All report writers know that knowledge does not lead to action. But the absence of knowledge undermines the possibility of effective action. Independent research-based support for ministers and Senedd committees is a key foundational priority.

Question 3

Which of the Welsh Government's foundational economy policy initiatives have been most successful, and why? Which have worked less well, and why?

12. In terms of explicitly labelled foundational initiatives, 'worked less well' must be the verdict because there are too few outcomes that are positive and policy driven. The £4.5 million Foundational Economy Challenge Fund^{viii} was innovative in conception, but the responsive nature of the process meant that applications were not targeted on specific organisations, activities and places, diluting the impact and learning opportunities.
13. The result was what might be called accidental successes. The Fund offered short term funding with follow up communities of practice which have generally not developed into alliances of the willing. But it did provide catalytic support for some self-directed organisations like Cwmni Bro, Drive and Wood Knowledge Wales which are now putting together alliances of the willing. This shows how a small amount of money can go a long way if it gets to the right people.

14. More broadly, housing and transport are the two major areas where Welsh Government did have policies which were foundational but not labelled as such. These policies were constrained by the gap between ambition and funding limits which stand in the way of delivering for example, on social housing building targets or low bus fares.
15. Given the inevitable funding constraints, it is important to remember that Welsh Government can often effectively support alliances of the willing or skunk works projects by sponsoring and enabling change without spending large sums of money or acquiring new powers. Top-down support of mid-level champions of innovation is essential. Without such support, the reform of time-and-task based systems of home care for older people will not be consolidated in local authorities like Gwynedd where they are being pioneered, nor will they spread effectively to new areas. Equally, internal system inertia and resistance can be overcome by creating skunk works teams

Question 4

What examples of best practice exist in different foundational economy sectors and places within or beyond Wales? How could the Welsh Government better support partners to deliver best practice, and to scale it up where appropriate?

16. The Foundational Economy conference in Cardiff on September 10-11th showcases good practice in ‘making things work’.^{ix}
 - It offers case studies of foundational innovation from Wales and beyond including from Italy and Australia, covering key sectors like health and care, public food, transport infrastructure provision, and localisation of supply chains.
 - This is balanced by reports on place-based development from Grangetown in Cardiff to neighbourhood development in Birmingham, as well as reports on the many good things being done by grounded local community enabling enterprises like Planed in West Wales and the social enterprises like Cwmni Bro and Partneriaeth Ogwen in the slate valleys.
17. As argued in the opening sections of this briefing, Welsh Government can become more effective in supporting social innovators by (a) formally adopting the broad analytic definition of the foundational economy and (b) empowering and enabling alliances of the willing and skunk works projects in sectors and places.
18. In thinking about places, the analytic foundational concept of development puts considerable emphasis on development *with* communities. Because communities must have collective agency if they are to develop the “lives they

have reason to value". This agency is denied them in the main stream concept of economic development where development is something which is done *to* and *for* communities.

19. For example, communities need agency over the development of the tourism sector which is now the key Welsh source of export earnings from outside Wales.^x Welsh Government has backed the development *for* communities approach with unimaginative and unnecessary financial support for major corporate projects like Surf Snowdonia and Zip World at the Tower Colliery site. Welsh Government needs to recognise that tourism development *with* communities depends on community engagement and building an infrastructure of social enterprises and family businesses.
20. In a very Welsh way, the Gwynedd and Eryri Sustainable Visitor Economy 2035 strategy gives us a tourism mission with lots of tourism goals and objectives but very little on how to get there^{xi}. Meanwhile, it is London based UK Research and Innovation (not Welsh Government) which has been supporting the Dolennu project by funding a community-based researchers' initiative in the slate valleys^{xii}. One of the urgent foundational priorities is a Wales wide overview of how we could mobilise through alliances to do tourism differently.

Question 5

What progress has been made in using procurement to strengthen the foundational economy since our predecessor Committee looked at this issue in 2019? What further actions are required to deliver greater progress, and what innovative examples of best practice could be built on?

21. The role of public procurement has been widely misunderstood. Postcode localisation does not capture value added and risks building client firms, not capable firms; the broader approach of supply chain development is limited by Welsh capacity to mobilise volume demand. On the demand side, the population of Wales is not much larger than the near 3 million population of the Manchester metro area. And on the supply side, the two main activity clusters (Wrexham/ Flint and Cardiff/ Newport) are heavily integrated into the adjacent English economy.
22. Smarter procurement requires activity-based analysis of specifics. Thus, on food, the enthusiasm for public purchasing of local food does not give much leverage. Foundational research showed that in the early 2020s the total Welsh annual public sector spend on food and catering was roughly equal to the turnover of just one Tesco superstore;^{xiii} and Welsh consumers want more

diversity than the meat and dairy which pastoral Welsh farms produce in volume for export.

23. The implication is not that food procurement does not matter, but that we need a much more discriminating approach to identifying and seizing opportunities in ways that make a difference to the lives of households and builds capable SMEs which are grounded in communities and which are able to train, invest and sustain themselves while providing decent pay and conditions.
24. If public sector demand for food and catering is very modest, the food served in our schools and hospitals is important in itself and a lever for changing food culture, as Kevin Morgan argues in his forthcoming book.^{xiv} On the supply side, the failure to grow the stock of food processing SMEs reflects the absence of consistent top-down support for the relevant foundational policies. The 2022 Foundational Economy Report recommended more food parks with rented units and public contracts giving preference to regionally based food service distributors that can and do successfully develop supply chains in Wales.

Question 6

How effective have the Welsh Government's actions to deliver fair work in foundational economy sectors been? What further steps should it take within its devolved powers to progress this agenda, and how can it work with the UK Government to drive improvements in non-devolved areas?

25. There is a role for fair work provisions through living wages and progressive conditions provision in all kinds of public contracts. Essentially, these put a floor under competition and usefully prevent a race to the bottom on wages. There are of course structural revenue side ceilings on the ability of employers to pay higher wages in service sectors like tourism and hospitality.
26. And at present the immediate issue is not wage rates and conditions but the rising prices of on market essentials like rents, utilities and food, The “cost of living crisis “is about increases in these market prices which are squeezing low wage households by eroding the residual income available for everything else. High energy prices and fuel poverty are here to stay. The current 10% rise in the energy price cap^{xv} and the burden of ‘cheapflation’ on food prices in value ranges^{xvi} are squeezing low-income households in ways which are not controllable by Welsh Government. Welsh Government does not have the powers to establish a social tariff to reduce the utility bills of low-income households; nor to establish progressive charging according to household income so that high income households paid more and low income households paid less.

27. The implication of all this is that Welsh Government action on fair work needs to be supported by a range of broader liveability measures. As with so much else, this has to start by recognising realities. Wales has in the past 50 years transitioned from a high wage, male breadwinner, manufacturing and extractive economy to a low wage, dual wage earner, service economy. And this is not going to change in the foreseeable future.
28. From a foundational point of view, the problem of the low wage, dual earner Welsh household is time as much as money. Because these households cannot afford to outsource services – such as cleaning, childcare, food preparation - as higher income households do. For this reason, experiments in flexible, shorter hours are an effective foundational prescription for liveability and it would be good to see them enthusiastically backed by Welsh Government.

Conclusion

29. The argument of the accompanying briefing and the responses to the Committee's questions can be summarised in three points:
- i. In a new period of economic instability and political volatility, Welsh Government and all the mainstream Welsh parties need to change their state centric approach and begin to think and act differently.
 - ii. The analytic focus on the foundational economy as the conditions of well-being directs Welsh Government attention to what has gone wrong and urgently needs fixing.
 - iii. Welsh Government could do more to improve liveability, build a stock of capable firms and mitigate climate change if it explicitly shifted from strategizing and directing to enabling and empowering others through alliances of the willing and skunk works projects.

Notes

ⁱ Data in L Calafati et al. (2023) *When Nothing Works*, pp. 113-115

ⁱⁱ Data in L Calafati et al. (2023) *When Nothing Works*, pp. 48-54

ⁱⁱⁱ Amartya Sen (1999) *Development as Freedom*, Oxford University Press

^{iv} Data in 2022 FERL report on NHS Wales <https://foundationaleconomyresearch.com/wp-content/uploads/2023/03/NHS-Wales-Public-Interest-Report-June-2022.pdf> pp.13-16

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- ^v See evidence in 2022 FERL report on NHS Wales
<https://foundationaleconomyresearch.com/wp-content/uploads/2023/03/NHS-Wales-Public-Interest-Report-June-2022.pdf> pp.21-6
- ^{vi} See FERL2022 report for Welsh Government on SMEs in food processing
<https://www.gov.wales/sites/default/files/publications/2022-07/what-can-welsh-government-do-to-increase-the-number-of-grounded-sme-firms-in-food-processing-and-distribution.pdf>
pp. 13-16
- ^{vii} Senedd Climate Committee report at <https://senedd.wales/media/lijnmtov/cr-ld16328-e.pdf>
- ^{viii} The official rationale for the Challenge Fund is at
<https://businesswales.gov.wales/foundational-economy>
- ^{ix} The Cardiff conference programme is on the FAW web site at
<https://www.foundationalliance.wales/conference-making-things-work.html>
- ^x See this briefing on tourism in Gwynedd <https://foundationaleconomyresearch.com/wp-content/uploads/2023/04/Tourism-briefing-1-Gwynedd-tourism-March-2023-p.pdf>
- ^{xi} Gwynedd and Eryri Sustainable Visitor Economy 2035
<https://authority.snowdonia.gov.wales/the-authority/partnerships/gwynedd-and-eryri-035/#:~:text=What%20is%20the%20Gwynedd%20and,tourism%20in%20Gwynedd%20and%20Eryri>
- ^{xii} Dolennu Slate Valleys Project 2023-4 <https://www.foundationalliance.wales/community-research-network.html>
- ^{xiii} The numbers on public spend are at
<https://www.gov.wales/sites/default/files/publications/2022-07/what-can-welsh-government-do-to-increase-the-number-of-grounded-sme-firms-in-food-processing-and-distribution.pdf>
pp.18-19
- ^{xiv} Kevin Morgan (January 2025) *Serving the Public*, Manchester University Press.
<https://manchesteruniversitypress.co.uk/9781526180469/>
- ^{xv} For the current 10% rise in energy price cap <https://www.ofgem.gov.uk/energy-price-cap>
- ^{xvi} See the IFS report at https://ifs.org.uk/sites/default/files/2024-08/Cheapflation-and-the-rise-of-inflation-inequality_1.pdf