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# After the Pandemic: Experimental Governance and the Foundational Economy

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## Abstract

*The purpose of this article is to outline the convergence – an intellectual as well as a political convergence – of two concepts that will play a critically important role in fashioning a more inclusive and more sustainable model of development in the post-Covid world. The first concerns the concept of the Foundational Economy, which offers a new lens through which to view and value social and economic activity by highlighting the significance of a range of goods and services that loom large in terms of meeting human needs. The second concerns the concept of Experimental Governance, which offers a multilevel framework in which to understand place-based social innovation, a framework which overcomes the shortcomings of principal-agent models of collective action as well as the binaries associated with top-down versus bottom-up theories of change.*

**Keywords:** Foundational Economy; Territorial Governance; Sustainable Development; Wales; Global Markets

## 1. The Foundational Economy<sup>1</sup>

COVID-19 has triggered hopes and fears for the post-pandemic world. Hopes that a new world is possible; fears that the old world will re-assert itself, albeit with more debt, higher unemployment and greater inequality.

□ *«Historically, pandemics have forced humans to break with the past and imagine their world anew. This one is no different. It is a portal, a gateway between one world and the next» (Roy, 2020).*

To re-imagine the world anew we need new concepts, new frames and new values. All three of these requirements converge in the concept of the Foundational Economy, a radically new approach to place-based development. Before the pandemic struck, many OECD countries were debating the “new industrial policy”, with its mission-oriented approach to innovation policy, which involves a more activist approach to state intervention in the economy. However, what is most problematic about the new industrial policy debate is that it leaves unanswered

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questions about the fate of the vast majority of people and places that do not figure in the narrow world of mission-oriented innovation policy. It is in this space that the concept of the Foundational Economy (FE) makes its most important contribution because, far from being socially and spatially exclusive, it has something to offer everyone everywhere, in the sense that the FE constitutes the infrastructure of everyday life (Foundational Economy Collective, 2018).

The FE refers to the basic requirements of civilised life for all citizens irrespective of their income and location. It includes material infrastructure – pipes and cables and utility distribution systems for water, electricity, retail banking – and providential services – education, health, food provisioning, dignified eldercare and income maintenance. Conventional ways of theorising and measuring the economy render the FE invisible and overlook its contribution to development. Orthodox thinking is fixated on the contribution of hi-tech industries and property-led regeneration to boost GDP. But growth in GDP is not translating into improvements in living standards for many households and provides only a narrow and desiccated index of progress. Understanding the FE is essential to thinking about more inclusive forms of development, because it is welfare-critical for those with limited access to private provision; it underpins household consumption; and it is a large employer in sectors like water, energy and eldercare, which typically are sheltered from international competition. With few exceptions, current discussions about industrial strategy in OECD countries rarely mention the FE, despite the fact that the supply of these services is critical to rising living standards and social wellbeing (Heslop et al., 2019).

However, the FE should not be reduced to a purely social welfare policy. Far from being a technological backwater, the FE contains sectors that are advanced users of cutting-edge technology. In other words, when we appreciate the importance of inter-sectoral linkages and knowledge spillovers, we begin to see the dynamic interdependence between the technology-generating sectors that dominate conventional conceptions of innovation and the technology-using sectors of the FE, where social innovation is arguably more important than technological innovation. “By thinking about the history of technology-in-use”, says David Edgerton, “a radically different picture of technology, and indeed of invention and innovation, becomes possible” (Edgerton, 2007).

The FE has affinities with other new conceptions of development, all of which are primarily focused on what we might call the Wellbeing Economy.

□ *For example, the British Labour MP Rachel Reeves has written about the Everyday Economy: «Researchers at University College London are calling for Universal Basic Services; civil society think-tanks in the UK and the US have championed Community Wealth Building; and the LSE researcher Ian Gough makes a compelling plea for the satisfaction of human needs as the only viable measure for negotiating the trade-offs between climate change, capitalism and human wellbeing» (Reeves, 2018).*

## 2. Experimental Governance

The legitimacy and efficacy of democratic governments are currently in question and the only enduring response is to re-imagine new, more effective and accountable forms of democracy and democratic governance: to “make hope practical” as Raymond Williams said of such projects. We propose that Experimental Governance (EG) – a form of multi-level organization in which framework goals are routinely corrected in light of the ground-level experience of implementing them – is already re-imagining delivery of public services and regulation in ways that take up this challenge (Morgan & Sabel, 2019).

Our engagement with sectors that are central to social and economic well-being – including affordable housing, dignified eldercare, sustainable food provisioning, socially responsible public procurement and place-based innovation policy – suggests that the most successful national and sub-national governments are those in which the jurisdictional authority abandons the pretense of command and control. Instead, in all these domains, rules are subject to revision, to be corrected when challenged by compelling argument and evidence. This new understanding of rules goes hand-in-hand with the advent of porous organizational structures that are more transparent and more open to participation by nominal outsiders than traditional hierarchies are (Morgan & Sabel, 2019).

These new forms of government are in fact forms of co-governance, in which the officers of state and the members of civil society work in concert to overcome the traditional and self-limiting division of labour between experts and government officials. At once agents and principals in the policymaking process, citizens and stakeholders in EG governance help to re-design policy, re-creating trust in the public realm, re-imagining their own identities as subjects rather than objects of the state – making hope practical in ways that contribute to more sustainable forms of development and deeper forms everyday democracy (Morgan & Sabel, 2019).

Decentralisation to sub-national governments has been one of the major governmental trends of the past 50 years, signaling a “silent revolution” in the governance systems of both developed and developing countries. The most tangible result of this territorial trend has been the proliferation of the devolved polity and its growing significance in economic and social development. In OECD countries, sub-national governments now represent a significant share of public spending, accounting in 2016 for 16% of GDP, 40% of public spending and 57% of public investment. At the sub national level education represents the largest share of public spending (25%), followed by health (18%), general public services (administration), social protection and economic affairs/transport (OECD, 2019).

The role of sub-national governments and devolution generally is misconceived in two contradictory ways, both of which distort the productive relation between levels of government as seen by EG. In the conventional, top-down misconception the lower levels are the worker-bee agents charged with passively implementing the policy designs of higher level principals. However, this view supposes incorrectly that the principals have precise and reliable ideas of what to do and how to do it. This kind of unerring foresight is simply impossible in an age of uncertainty. For this reason the process of local policy implementation, if it is to succeed at all, must be a creative, problem-solving activity, not passive execution of higher policy designs.

The top-down view acknowledges this obliquely, conceding that although sub-national governments have inferior political status, they are closest to the citizen and by far the most knowledgeable about local problems. This recognition, together with the continuing failures of top-down government, explain why devolution has gone so far, but also why we need more of it: why those who feel the immediate pinch of their problems should be empowered and encouraged to better utilize their unique knowledge and experience in solving them (Morgan & Sabel, 2019).

However, the second, bottom-up misconception is to think that such empowerment is sufficient for successful devolution. It is not. The ground-level actors know best what their problems are; indeed, it is hard to imagine effective solutions to those problems without their participation. Nevertheless, that does not mean that local experience and initiative is all that has needed. Local actors have to learn from what is worked and has not elsewhere, and from pertinent experience in other domains: in short, they have to learn from the pooled experience of actors beyond their immediate ken. EG is designed to do that. It is a form of democracy in which the experience of the “higher” levels is corrected by the “lower” ones, and vice versa, in a continuing cycle that allows the initial and necessarily provisional goals to be adjusted in the light of experience (Morgan & Sabel, 2019).

EG then is neither top-down nor bottom up. It does not aim to replace a failing form of government with an alternative, however appealing, that suffers mirror-image defects. At its most ambitious EG is democracy in which legislation is in continuing and close touch with lived experience and the popular sovereign – commonly depicted as asleep except for periodic elections – is finally awake.

### **3. The Case of Wales**

Turning to the worlds of policy and practice, Wales became the first nation in the world to officially embrace the FE as part of its repertoire for place-based development. To test the water, the Welsh Government recently launched a Foundational Economy Challenge Fund to invite development proposals from every part of the country. One of the distinctive features of the challenge was the fact that the conception of “development” was left open – to be defined by localities themselves (Foundational Economy Collective, 2019). However, all the successful proposals were informed by the values of the Welsh Government’s Well-being of Future Generations Act, a widely acclaimed societal innovation that placed a duty on public bodies to promote sustainable development (Morgan, 2019).

To promote its sustainable development agenda Wales has joined the Wellbeing Economy Governments (WEGo) alliance with Scotland, Iceland and New Zealand. The rationale for this small nation alliance is to implement the UN’s Sustainable Development Goals and to champion the idea that national success should be denied by the quality of life of citizens rather than the growth rate of a country’s GDP. Given its commitment to “sustainable human development”, the Basque Country would also be at home in this WEGo alliance (Ibarretxe, 2015).

Therefore, if ever there was a time for the Foundational Economy and its wellbeing agenda to move from the margins to the mainstream that time is now. COVID-19 has wrought such social and economic devastation that it is widely assumed that we could not return to our pre-pandemic ways of working and living. However, the same was

said in the wake of the financial crisis in 2008, only for the neoliberal past to re-assert itself with a vengeance through painful years of austerity. What is most distinctive about this crisis however is that every country has become aware of what we might call the Societal Disconnect, where the list of essential workers – in health, social care, education, food provisioning, transport and the like – is largely the same as the list of the lowest paid workers in society? The societal disconnect reveals the paradox of a society in which the lowest status workers play the most important role in keeping society safe, sound and civilised. In other words, the pandemic demonstrates the importance of the foundational as that part of the economy which cannot be shut down. Moreover, the list of essential workers in each national economy provides a common sense and practical definition of what counts as foundational (Foundational Economy Collective, 2020).

Promoting the FE in the post-pandemic world requires nothing less than a process of societal innovation for foundational renewal in which two things are necessary:

- a) citizens and consumers continue to view and value activity that has social value;
- b) national and supra-national authorities work in concert with cities and regions in a spirit of co-production rather than the top-down manner of the pre-pandemic era.

Cities, regions and municipalities have the local knowledge and the proximity to local citizens to design and deliver public services and regional development strategies and these foundational assets need to be nurtured and nourished if the pandemic is to be a portal to a better world.

After 20 years of devolution in the UK, the Welsh Government might legitimately claim to be an experimentalist polity in the making – being the first government in the UK to launch a programme of local experimentation designed to incubate and scale public sector innovations – all of which involves a more iterative and equitable relationship between the Welsh Government and its interlocutors in local government and civil society, a relationship that was hitherto based on a command and control style of governance.

At the national or all-Wales level, the Act establishes a statutory Future Generations Commissioner for Wales, whose role is to act as a guardian for the interests of future generations in Wales, and to support public bodies to work towards achieving the well-being goals. At the local level, the Act establishes Public Services Boards (PSBs) for each local authority area. Each PSB has a duty to engage local citizens to co-design and co-produce a local well-being plan to improve the economic, social, environmental and cultural well-being of its area (Welsh Government, 2016).

In EG terms, the Act establishes a radically new framework for place-based development and mandates a new process of co-production that challenges the hierarchical division of labour between the state and the citizen.

Nevertheless, the weakest part of the WFG legislation is the provision for monitoring and delivering the well-being goals. One of the key challenges of next 20 years of devolution will be to transform the good intentions of the WFG Act into good practice. To do this the Welsh Government will have to break with the habit (hardly unique to Wales) of treating leading and lagging performers the same – as if noticing the difference was a form of discrimination, rather than the first step towards improvement for all.

Once that habit is broken, a modest reform of monitoring the PSBs could be of further help. Since the local PSB well-being plans are by law required to have regard for certain key sectors, such as health and policing, it makes sense to institutionalize

annual or more frequent peer review of their experience by a federated body that includes local and national actors. Similar functions in different local authorities could be compared horizontally and the assessments linked vertically to the Future Generations Commissioner and the Welsh Government. This would help generalize local successes quickly and detect local problems early. It would underscore that participation is as important in implementation as it is in design. A demonstration that locales can learn from each other – and that government can help them learn, while also learning from them – might itself contribute to the restoration of trust in the public realm.

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## Notes

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