Wealth for all: Building new local economies

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Introduction

At the core of building a good local economy is local economic development. This should be a practice which ensures that an economy is developed in a way in which local people and communities benefit, social outcomes are secured and wealth is fairly distributed. However, this practice has gone array.

Economic development is failing to ensure that economic gains and wealth are delivering socially or at scale. Poverty, wage stagnation, underinvestment, low productivity and widening inequalities of income and wealth are now entrenched features of many local economies. Indeed, over half of all wealth in the United Kingdom is now in the hands of the top ten per cent, with around 20% held by the top one per cent (World Inequality Database, 2017).

Today, we have some devolution in our large cities, and some areas are doing better: attracting inward investment, with property-led development and new spaces of consumption. However, this is the exception rather than the rule. Many areas continue to struggle, indeed in some areas the problems are deepening, made worse by public sector austerity. Inequality and poverty are on the rise (McInroy, 2017a).

With this the economic mainstream is being challenged and a new movement is growing. This movement is characterised by a new municipalism where there are a growing range of alternatives and actions, which seek to advance inclusion and reorganise the economy. A reorganisation where wealth is extracted less, is more broadly held, and has more local roots. Ideas and action around Local Wealth Building are being advanced by local authorities and large local anchor organisations within this new municipalism. This is delivering real social outcomes and is challenging recent local economic development convention. For a good local economy to advance, we need this Local Wealth Building agenda to grow.

A reset to economic development

It has been long recognised that economic growth is limited in that it only refers to an increase in quantity only, e.g. more jobs, greater GVA, higher GDP, more goods, more services. However, development implies a change in character or structure and it refers to a more qualitative shift in resource use, labour market, modes of production, ownership of business, income distribution and financial capital arrangements (Sand and Kane, 1988).

After the Global Financial Crisis, England's approach to economic development could have become more about 'development', with a recognition of the failings of financial capitalism and the rapacious behaviours it seeded. It could have turned its attention towards the long-standing inequalities within England and within local economies. It could have focussed on fairness, considered the distribution of wealth, and acknowledged that more equal societies do better economically (Pickett and Wilkinson, 2009) in terms of being able to innovate with greater levels of social mobility. However, England chose instead to return to much narrower idea of growth (Department for Business, Treasury, & Finance, 2013) with a specific focus on large city regions. Indeed economic 'development' then and now has become synonymous and interchangeably used with economic 'growth'. Such an approach, which is strong on competitiveness and inward investment, is by equal measure weak on tackling inequality and poverty.

Broadly, local economic policy assumes that once investment capital had been enticed (often to our large metropolitan cores) wealth creation will flourish, the business supply chain will benefit and long-lasting local jobs will be secured. However, this assumed pathway has been found badly wanting: 'trickle down' and a geographic 'trickle outward' does not work at scale required. Given the depth of the social need it is ill equipped to deal with some profound changes in the nature of the UK and Global Economy.

First, pick any English local economic strategy and it will highlight the importance of advanced manufacturing, biotechnology, digital sectors and high skills. There is no doubt that these will be key sectors in the future and must be developed at pace. But the ferocious nature of global economic competition means that these aims are shared by hundreds of cities across the advanced world. We need to be smarter and less generic. In many English city regions, the more realisable economic options are the existing social and creative industries, and local enterprise. Cities need to invest in social infrastructure and social enterprise and above all, support indigenous small business activity.

Second, there has been and will continue to be shifts in the economy, technology and the patterns of work (McKinsey Global Institute, 2017). Automation is speeding up a long-standing process by which wealth is gained less by society through employment but more through capital return (which is extracted by investors) (Piketty, 2014). As it continues, automation will increasingly drive down wages and reduce the share of income through labour. The immediate impact will be more and more people trapped in inferior, robotic, low-productivity and low-wage jobs.

Furthermore, human touch, care and empathy cannot be automated, and as such these jobs will not only endure, but with an ageing population will no doubt increase. A shift to investment in these industries (which are too often seen as a cost) is an essential part of economic development. Indeed, for some cities they should be given equal weight to investment in high-end skills, hard infrastructure or property development. They may not help with economic growth, but they remain foundational aspects of all economies and vital in advancing human decency and a good society.

Third, financial capitalism (the act of making money from money). The desire for speedy return on capital investment means there is a preference for the relatively safe property and land markets (often in our urban centres of our core cities). This skews investment away from the relatively employment rich real economy of manufactured goods and services and the less investment ready locations. Furthermore, investors are now increasingly global, often with little or no attachment, connection or affinity to local places. This means that the return on investments is not readily recirculated by local investors into our local economies. Indeed, in an era of opaque and fast-moving global capital, it is increasingly difficult to even identify who investors are or avoid any offshoring of capital return.

In this context, there are limits to any traditional central government 'after the fact' redistribution. By the time any wealth capture process is in place, the wealth has already been extracted – into the ether of the global economy. Moving forward there is a need to reorganise the global and national economy in terms of tightening tax avoidance and more locally we need policy which works before and during wealth creation. This entails more 'sticky' and 'patient' investment in real local economies and a re-energised focus by economic development on human and social outcomes, alongside the growth gains.

This maturing of capitalism requires a commensurate economic development response. A desire for higher levels of social inclusion demand more self-generation of wealth, where social gains are wedded to the actual workings of the local economy. The long-term solution is therefore to redirect wealth and economic activity to employees and communities. This can be achieved through broader ownership models, such as cooperatives and community shares, where more people have a stake in production and thus wealth is more readily harnessed for local good. Current economic development largely ignores this.

The limits of inclusive growth

'Inclusive growth' has its origins in geo-economics (Ianchovichina and Lundstrom, 2009) and is increasingly seen as a reaction to a liberal economic approach to growth and its failure to tackle issues of wealth and distribution. This is welcome, as it places attention on the local economic growth agenda which often fails to tackle local social issues. Furthermore, as people in insecure employment tend to demand more from public services, inclusive growth acknowledges that the hope of addressing demand on public services and reducing costs is predicated on the need for more people in better-paid work. However, for all its conceptual merits, increasingly inclusive growth is seen as imprecise and opaque (Lee, 2018; McInroy, 2017b). In this, it could be seen as yet another phrase devised by the powerful to occlude the need for more fundamental change. Thus, while it may purport to articulate a new solution, it may merely thwart important though less powerful alternatives (Fairclough, 2014).

Furthermore, in practice terms, inclusive growth is shaping up as a mere return to traditional ideas about local economic development and appears timid in the face of the prevailing economic policy and the laissez-faire attitude to the local economy and social outcomes. As such inclusive growth in practice is less a sign of new progressive turn, but rather a mere genuflection to a rising tide of social concern. We should hope for the best, but we must not succumb to the idea that inclusion can be an 'add on' to prevailing economic approach. We need something more voracious.

A new municipalism

For the last 60 or so years, social democracies ensured that citizens had good access to material wealth. Embodied by post-war contracts (such as the UK welfare state), a social contract was created, where social and regional policies sought to redistribute some surplus from a regulated capitalist economy. There was a ‘settlement’ in which the capitalist economy produced the wealth, while the state produced fairness, and equity, in relation to that wealth. In this, our social democracies created central public authorities and bureaucracies which redistributed resource ‘after the fact’ of the wealth being created. However, this arrangement is now challenged by the voracity of social issues and flailing under the global economic system.

The need for a new local social contract is embraced by a new municipalism. This is based on the notion that, at the local level, there is a propensity for deep and enduring place-based economic relationships that the nation state cannot offer (McInroy, 2016a). This new municipalism is a local social contract in which there is a restoration of the rights to the city and the commons in which all citizens have a stake. There are two key components to this.

The first element is a new conception of the local state. The new municipalist movement conceives the local state as a facilitating institution that empowers, coordinates and upscales social innovation from community organisation and social enterprises. This conception of the local state – which some now label ‘partner state’ – is rooted in the acknowledgement that communities can be very effective in self-provisioning cultural/social activities and employment. So, rather than the local state providing local communities with services, new municipalism is about creating the conditions for community organisation to operate and grow. It is about local government being the active enabler, encouraging and inspiring self-determination from a range of sectors and innovative collaboration and crossover between social, public and commercial networks (McInroy and Longlands, 2010). It is about harnessing the expertise and empathy present in a range of local people, other public sector agencies, third sector partners and businesses, and engaging them as leaders in their own fields. It is only through this empathic, coordinated leadership-focused approach to place that complex issues such as poverty can be adequately addressed.

However, new municipalism is not a process of hollowing out the local state, rather it is about the local state as a municipal enterprise. As such, there is a retained appreciation that foundational goods and services – such as electricity, water provision, public transport and formal schooling – are out of reach for community organisation because of their scale. Therefore, the state should ensure that these goods and services are fairly priced and accessible to all citizens.

The second key element of new municipalism is a bold rethinking of local economic development. In the new municipal vision, local economic development should be about building an economy that is plural, fair and democratic. Municipalist economic policy breaks with the orthodoxy of corporate investments, large-scale property redevelopments and mega events. Instead, it focuses on growing public and social economies, i.e. economies that have fairer wages, higher workers’ control and more environmental and social responsibility. This is about building local wealth through the actual functioning of the economy, not as after-the-fact redistribution (Imbroscio, 2013).

Across the world this new municipalism is growing. This is lodged within European and UK social democratic traditions, but it is advancing from it. This is political, social and economic. Politically, we are seeing the rise of new plural democratic movements and municipalisation (perhaps exemplified within Barcelona (McInroy, 2016b) and new global networks such as 'Fearless Cities' (2018)). In cities and localities, it is highlighted by a new plurality of social movements and campaigns, often fuelled by social media and digital connectivity. Socially, new community action and innovation is finding alternative ways in which people, businesses and the state organise themselves to meet social needs and issues. Economically, the collaborative and sharing economy are shortening supply chains and blurring the boundaries between production and consumption. In this a new horizontal flourishing of 'on the ground' political, social and economic innovation is starting to infect vertical power.[1] Key among this is the Local Wealth Building movement.

Local Wealth Building

Local Wealth Building is a practical systems approach to economic development, which is built on local roots and plurality of ownership. In this there is a rejection of liberal economics, with a desire to reorganise our economies. In Local Wealth Building, social and environmental gains are not an afterthought, but rather built in as a natural functioning of the economy. The aim here is to ensure a reliability of outcomes including jobs and meaningful work, equity, inclusion, economic stability and environmental sustainability.

There are a growing range of local agents, who are driving this Local Wealth Building movement. This includes businesses who are paying the Living Wage and growing their care and concern for employees, including the development of investment portfolios which reflect local need and place development (McInroy, 2017c). It includes Unions who, while somewhat fettered by draconian national employment laws, are starting to support local activism and community organisation. In the social sector, we have many organisations developing cooperatives and economic alternatives which ensure wealth is better distributed and owned by the people who are producing the wealth. In the public sector, we are seeing a greater acknowledgement of the public pound (or democratised money), and how the commissioning and procuring of goods and services needs to be more local, and flood through local supply chains (Goff, 2016). There is also a growing recognition of how land and property holdings and pension funds should benefit local economies more. Above all and across all sectors we have a new movement of social innovation, which is seeking to build a better economy, with a growth in local currencies, local banks, community shares and community energy schemes. It is about unleashing activity around the foundational economy (Bentham et al., 2013), cooperatives and post capitalist entrepreneurship (Cohen, 2017).

At the heart of the Local Wealth Building approach are four strategies for harnessing existing resources to enable local economies to grow and develop from within. A key part of this recalibration rests with anchor institutions as ‘community wealth builders’. The term ‘anchor institutions’ is used to refer to organisations which have an important presence in a place, usually through a combination of being large-scale employers, the largest purchasers of goods and services in the locality, controlling large areas of land and having relatively fixed assets. Examples include local authorities, NHS trusts, universities, trade unions, large local businesses and housing associations.

Interest in the role of anchor institutions has arisen in recent years, through the work of the Centre for Local Economic Strategies (CLES) in the UK, and the Democracy Collaborative in USA in highlighting anchors' potential to get involved in economic reordering, stimulate local economic growth and bring social improvements to the local community and environment. While the primary objective of anchors may not always be social justice, the scale of these institutions, their fixed assets and activities and their links to the local community mean that they are ‘sticky capital’ on which new local economic approaches and social improvements can be based.

There are a range of ways in which different anchor institutions can leverage their assets and revenue to benefit the local area and local people. This includes

Workforce of anchors – often the biggest employers in a place, the approach anchors take to employment can have a defining effect on the employment prospects and incomes of local people.

Recruitment from lower income areas, commitment to paying the living wage and building progression routes for workers are all examples of the actions anchors can take to stimulate the local economy and bring social improvements to local communities.

Anchor purchasing – The process of purchasing goods and services (procurement) has historically been a challenge for municipalities and other institutions within our cities, especially when linking to wider local economic, social and environmental benefits (Jackson, 2017a). However, that perception and culture has changed. Progressive use of commissioning and procurement is now acknowledged as a means to developing a dense local supply chain of local enterprises, including SMEs, employee-owned businesses, social enterprises, cooperatives and other forms of community ownership. This is locally enriching because these types of enterprises are more likely to support local employment and have a greater propensity to retain wealth and surplus value locally. Of particular note, is work by CLES in many locations across Europe and the UK (including work over 10 years with Manchester City Council (Jackson, 2017b)), which has proven the significant benefit of a local authority anchor in bending what is locally purchased as regards goods and services and who provides them.

Anchor land, property and assets – anchors are often major land holders and can support equitable land development (through establishment of Community Land Trusts) and development of underutilised assets for community use. In terms of financial investments, directing pension funds to local investment priorities can bring transformative capital to locally rooted enterprises.

Ownership of the economy: At the heart of Local Wealth Building is the principle that wealth is broadly held. Cooperatives, mutually owned businesses, SMEs, municipally owned energy companies and local banks enable the wealth generated in a community to stay in that locality and play a vital role in counteracting the extraction of wealth.

Lessons from Preston

CLES (2016) have been at the vanguard of Local Wealth Building activities since 2005 and have been building up a suite of actions and activities. The prompt for the work in Preston stretches back to 2011 (Jackson and McInroy, 2017). At this time CLES were looking to collaborate with a collection of anchor organisations in one single area, having previously undertaken individual work with dozens of anchor organisations individually. Preston was the ideal location in terms of size and scale of place. At the same time Preston City Council had a long list of pressing issues, not least that in wake of austerity they were faced with an ever-reducing resource base. Furthermore, post Global Financial Crisis, some development and inward investment activity within Preston had slowed down, with little hope of being rekindled. With little funding or capacity to prioritise traditional regeneration, Preston CC needed to think and act creatively.

Of particular worry for Preston was the squeeze on real wage levels and cost of living increases experienced by many residents. Furthermore, banks were re-locating away from the high street and alternative sources of finance were reducing. As such, Preston CC decided to initially prioritise financial issues – helping families with their financial planning and identifying alternative ways of accessing personal and business finance. In this Preston CC used welfare benefits and debt advice teams to provide financial advice, working with Community Gateway (the largest local social landlord in the area), targeting those families affected by the spare room supplement and the roll out of Universal Credit.

Preston CC also extended the Blackpool & Fylde Credit Union to cover Preston, using the council's staff base to provide initial working capital before expanding into communities. The City Council also delivered collective energy purchasing schemes and home insulation schemes to reduce household costs, and they partnered with Lancashire County Council and the Lancashire Pension Fund to secure an investment of £100m in the City Deal scheme.

However, Preston CC also recognised that there was a need for a more systemic transformation of the economy. In this, they approached CLES, and agreed to work collaboratively to explore the role of the public economy and how a re-purposing of existing spend of existing anchors within it could create a social and local economic dividend. Initial analysis by CLES of the top 300 suppliers (by value) for each of the main Preston anchors (the City and County Councils, the Constabulary, the University of Central Lancashire, Preston's College, Cardinal Newman College, the Teaching Hospital Trust, Community Gateway Housing Association) identified over £750M of annual procurement spend.

CLES then undertook a baseline spend analysis for each of the anchor institutions, identifying that only a small proportion of was being spent in Preston (5%) or wider Lancashire (39%).

For each area there was scope to 'repatriate' spend (i.e. where there was a quality local supply base). Following consistent work by CLES with procurement and with potential suppliers, we have seen some increase in local spend. Now across the institutions, 18% of all procurement spend is now with Preston-based organisations, an increase from 5% in 2012/13. This percentage increase has come in times of cutbacks in total procurement spend; nonetheless, the 18% figure reflects an increase in spending in the Preston economy of some £70 million. Spend in Lancashire has increased from 39 to 79%, an increase of some £200 million in monetary terms. There have also been associated reductions in unemployment, deprivation and other social and environmental benefits.

As well as retaining money in the area, the work has also supported other forms of economic democracy and community wealth building. In this an ambitious though realisable portfolio of progressive action is being taken. This includes capitalising on existing links between the University of Central Lancashire and the Mondragon network of cooperatives in Spain. Preston has now created the Preston Co-operative Network, along Mondragon lines. Through it they are currently working to not only turn existing social networks into cooperatives, but to identify the scope for 'gap' cooperatives to supply some goods and services where there is no existing robust business base to support spend localisation.

Preston continues to support new cooperative formation and succession planning work, working with Co-ops UK and the local Chamber of Commerce. They are also working with CLES to bring even more democracy to the local economy by establishing an energy supply partnership, seeking to establish a community bank and actively looking for further opportunities for local investments by Lancashire's Pension Fund. For Preston the work continues to mature and deepen, and they are increasingly collaborating and sharing their experiences with other local authorities.

The future and conclusion

Global investment, agglomeration, property and financialisation are not socially delivering. In this, the new movement is working to distribute the economy and broaden power over it. This is not theoretical: the agenda is practical, live and growing. As the political theorist Hannah Arendt said: 'politics is based on the fact of human plurality'. And we are seeing a new plurality of action exemplified by municipalist movements (i.e. Barcelona) and new global networks such as 'Fearless Cities' (2018).

CLES continue to collaborate with Preston and are also advancing Local Wealth Building in a number of locations (including Birmingham, Oldham, Islington, Kirklees, Calderdale, Southampton and 10 European cities). Much of this work is bespoke to place, with various emphases in elements of wealth building. CLES are also working with Health Foundation, advancing the role of health institutions as anchors across England (Vize, 2018). The Scottish Government has also included wealth building as part of its programme for government (The Scottish Government, 2017), and the UK Labour Party has also set up a Community Wealth Building unit, to which CLES (2018) provide independent advice.

In conclusion, there is a growing global movement, in which Local Wealth Building is contributing to a new democratisation of the economy which seeks to provide resilience where there is risk and local economic security where there is fragility. We are in a moment of great political and economic uncertainty. As such, the energy that fuels this movement is growing and the range of Local Wealth Building work is delivering outcomes. In this, local governments, from Preston, to Birmingham to Barcelona are no longer stepping back, but stepping forward, operating as the active enablers, encouraging and inspiring economic self-determination and new forms economic ownership. The task now is to accelerate.

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