

**Senedd Cymru**

**Pwyllgor yr Economi, Masnach a Materion Gwledig**

**Ymchwiliad:** Yr Economi Sylfaenol

**Cyf:** FE04

**Ymateb gan:** Uned Ymchwil Economi Cymru

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**Welsh Parliament**

**Economy, Trade, and Rural Affairs Committee**

**Inquiry:** The Foundational Economy

**Ref:** FE04

**Evidence from:** Welsh Economy Research Unit



# Inquiry into the Foundational Economy

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Economy, Trade and Rural Affairs Committee

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## About the Welsh Economy Research Unit, Cardiff Business School

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1. The Welsh Economy Research Unit (WERU), based Cardiff Business School, seeks to provide research, analysis, and evaluation on all aspects of the Welsh economy. Through considered research it aims to improve the performance of Welsh firms, organisations, and the third sector, as well as the overall Welsh economy. This submission has been informed by WERU's broad work in relation to the overall Welsh economy and our academic research, rather than specific involvement in the implementation of Welsh Government foundational economy policy. Our comments are, therefore, concerned with wider issues rather than specific policy implementation.

## Foundational Economy – Conceptual Understandings

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2. The term 'foundational economy' has only relatively recently emerged through incremental discussion and a degree of policy-based experiment, and understandings of it are sometimes confused. In particular, the foundational economy is often conflated with concepts such as anchor institutions, wealth anchoring, and well-being economics, with which it may share certain desired outcomes, but from which it is nevertheless distinct. Such conflation makes it difficult to evaluate foundational economy policy outputs or desired outcomes.
3. The foundational economy has been defined as those areas of the economy that produce '...welfare critical goods and services like housing, education, childcare, healthcare and utility supply'<sup>1</sup>. In essence, the more recent interest in the foundational economy appears to echo an older interest in what was termed 'the basic economy'<sup>2</sup>. In that instance, it was argued, economic development should not only focus on the 'inherently volatile segments of the urban economy, but also on the economic activities that maintain the daily functioning of the metropolis and its citizens'<sup>3</sup>. The

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<sup>1</sup> Froud J, Johal S, Moran M, Salento A and Williams K (2018). *Foundational economy*. Manchester University Press.

<sup>2</sup> Blumenfeld H (1955). 'The economic base of the metropolis: Critical remarks on the "basic-nonbasic" concept'. *Journal of the American Institute of Planners*, 21(4), 114-132.

<sup>3</sup> De Boeck S, Bassens D and Ryckewaert M (2019). 'Making space for a more foundational economy: The case of the construction sector in Brussels'. *Geoforum: Journal of Physical, Human, and Regional Geosciences*, 105, 67–77.

foundational economy, like the basic economy before it, is thus concerned with distinct segments of economic activity that appear to serve specific basic human needs.

4. It is important to note that as a concept the foundational economy appears to contain three distinct, but interconnected, elements. First, as indicated, the term ‘foundational economy’ was coined as a description of *part* of the overall economy. Second, the foundational economy has emerged as a prescriptive ‘call to arms’ to address a set of economic deficiencies or failures of existing economic policy. Third, foundational economy contains a less well-developed set of prescriptive or normative judgements about the way the economy should be organised to achieve certain desired outcomes<sup>4</sup>. The Welsh Government’s foundation economy policy experiments are clearly a response to the second of these elements, but there remains some policy confusion and inconsistency regarding the first of these elements, and only limited engagement with the third element.

## **The Welsh Government and the Foundational Economy**

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5. The Welsh Government’s Foundational Economy Challenge Fund<sup>5</sup> sought to ‘conceive and introduce innovative ways of working which help to raise the profile of the foundational economy’. It should be noted that, of the successful bids to the Challenge Fund, the overwhelming majority were associated with what might broadly be regarded as anchor institutions<sup>6</sup>. Undeniably important and complimentary though the role of anchor institutions may be, it is important to note their different conceptual foundations. Consequently, the lines between foundational economy thinking and other areas of economic policy appeared to be becoming blurred even at this initial experimental stage.
6. The Welsh Government’s ministerial advisory board task finish group on the foundational economy ceased to exist with the publication of its delivery plan in April 2021. The Welsh Government<sup>7</sup> has indicated that this plan helped shape subsequent foundational economy activity, including:
  - Funding for residential care homes to invest in energy efficient equipment.
  - Funding of hygiene accreditation costs for food producers and suppliers.

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<sup>4</sup> Lang M and Marsden T (2023). ‘Territorialising sustainability: De-coupling and the foundational economy in Wales’. *Territory, Politics, Governance*, 11(8), 1635-1648.

<sup>5</sup> Welsh Government (2019). *Summary guidance notes: Foundational economy challenge fund*. Welsh Government.

<sup>6</sup> Welsh Government (2020). *Business Wales website*. Retrieved September 2024, from [https://businesswales.gov.wales/foundationaleconomy?\\_ga=2.18342589.50820131.1579798134-1832419537.1560422226](https://businesswales.gov.wales/foundationaleconomy?_ga=2.18342589.50820131.1579798134-1832419537.1560422226)

<sup>7</sup> Welsh Government (2023). Economy Minister written response to WQ87271 and WQ87272. Retrieved September 2024 from <https://senedd.wales/media/Ogvio0j1/wq87271-wq87272.pdf>

- Projects to assist the social care sector to test approaches to address the recruitment issues.
  - Support for NHS Wales to embed social value within their procurement process.
7. Although these activities arguably fall within the realm of the foundational economy, the mainstreaming the Welsh Government's support for the foundational economy within wider economic policy complicates the demarcating lines between it and the wider economy. Thus, a clear perspective on what part of the economy is being supported (the first element of the foundational economy concept identified above), and to what desired end (the third element of the foundational economy concept identified above), may be lost.
  8. Were it to have been established on a more permanent basis, the expertise offered by the ministerial advisory board task finish group on the foundational economy may have had the function of helping to overcome some of these complications and, thus, helped maintain a clear ongoing focus on foundational economy policy activity. An annual report of the group might have been a useful resource to help inform future policy.
  9. The foundational economy's most distinct impact on Welsh economic policy making, alongside that of other complimentary concepts, has been to broaden policy and academic dialogue about what economic policy should seek to achieve, and how it should seek to achieve it. Mainstreaming the foundational economy potentially reduces its ability to act as a conceptual device to broaden economic discourse.
  10. Maintaining its sense of distinctiveness might also help guard against tendencies to attribute foundational economy outcomes to relatively unrelated or peripheral activities and policies. Ultimately, ever broadening the horizon of the foundational economy effectively reduces its coherence and, ultimately, its relevance.

## **Moving Forward**

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11. Whereas mainstreaming support for the foundational economy within the broader approach to economic development pursued by the Welsh Government might bring significant benefits, it may also lose sight of broader normative aims. To that end, it is important that a distinct foundational/everyday/basic economy agenda be maintained, which may continue to act as an overarching thematic function. This need not necessarily require a specific budget line, but a distinct foundational economy expert advisory forum with an ongoing remit might prove a useful policy resource.