

## Liveability within planetary limits

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Growth and emissions are relatively not absolutely decoupled. So, (under existing political and technical conditions) growth as we know it will simply make the nature and climate emergencies worse. It is then pertinent to ask, “how can we construct an economics consistent with the biological and physical limits to growth”. But that question is also incomplete because we face two interconnected crises which are both in different ways threats to the Senian freedom of citizens to “live the lives they have reason to value”. First, a crisis of outcomes in the Anthropocene where aggravated nature and climate emergency will devastate poor people in the global South who cannot easily adapt to extreme weather events, as on the Bangladeshi flood plain or in the desertification of sub-Saharan Africa. And second, a crisis of political process about the erosion of liberal democracy which we have taken for granted in the high-income countries under pressure of citizen discontents which the establishment political classes are unable to fix.

The two crises are interlinked. If we do not address citizen discontents, then Western democracies will, under the aegis of the radical right, default to “do nothing” or denial about climate change and building walls against migrants (see Trump in America or the eclipse and disintegration of centre right and centre left governing parties all across Europe because they are perceived to be not delivering). Matters are complicated by the current conjuncture of unexpected and unresolved crises. Israel’s assault on Gaza comes after the Ukraine War, the Covid pandemic and the Great Financial Crisis. Policy then becomes bipolar. Bursts of uncontrolled bail out of firms or households (as with the European response to the energy price spike) do not earn any gratitude. While the default back to austerity deepens discontent.

“Foundational economy” is a developing way of thinking about how we collectively address the double crisis of outcomes and process in the current conjuncture. Foundational economy is not an adjunct to mainstream economics or a reform movement within economics. Foundational economy is a practically concerned alternative. It holds open the space for a politics of improvement by proposing relevant measures which directly improve everyday life for households, build a stock of responsible capable firms and manage the cost of renewing reliance systems like sewerage systems or the electricity grid. In doing all this it challenges the assumptions and priorities of mainstream economists and politicians who believe that higher wages and a better funded welfare state are the key to managing discontent. The mainstream problem then is how to get back onto a trajectory of sustained, faster economic growth which will increase the tax yield for public services while higher productivity allows higher wages. Mainstream right and left then divide only over whether the policy fix should be tax cuts or productivist industrial strategy.

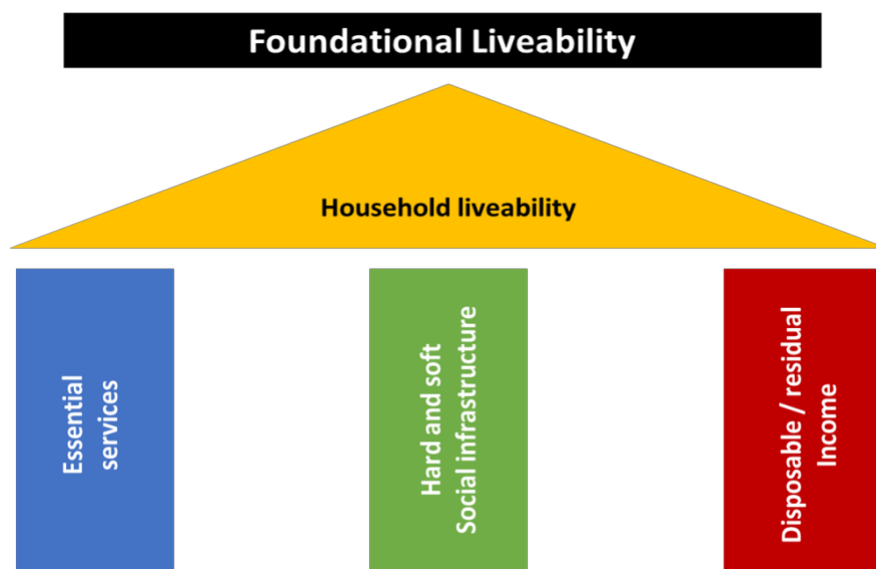
The evidence and argument below are drawn from our recent book on the UK but is relevant to all high income, liberal democracies. The question of what to do in the global South is a considerably more complicated wicked problem given often limited internal resources and neo-colonial external relations.

**1. Focus on direct benefits for households which improve liveability (not on indirect benefits for individuals from making the economy work to deliver higher wages)**

In recent opinion polls, more than half of respondents agreed that “nothing In Britain works anymore and three quarters believe that “things in Britain are worse now”. The foundational priority is to address these discontents by making direct and meaningful improvements in everyday life so that we hold open the political space in which nature and climate emergency can be recognized and addressed. It is important to head off the radical right argument that mitigation policies impose additional and unnecessary costs on households already overburdened by the cost of market essentials.

The foundational starting point is the household not the individual because most of us live in multi person households where income as well as expenditure sharing is increasingly important. We are no longer in the 1940s where the male breadwinner’s wages supported a family. In the EU, female work force participation is 65 % and rising while in the UK both partners work in three quarters of households where couples have children. Households with one earner, especially single parent households, disproportionately live in poverty. What matters for households is not top line wages but disposable income (after tax and benefits) and residual income (after paying for the four universal essentials: housing, utilities, food and transport). Residual income becomes crucial with the “cost of living” crisis. This is about a squeeze on residual income triggered by a near doubling of energy prices in the UK (despite price cap) and sustained by food price inflation and rising housing costs.

**Figure1: The three pillars of foundational liveability**



The household problems about squeezed residual income are compounded by failing public services and collapsing social infrastructure. In the UK. More than 7 million are on the English NHS waiting lists for non-urgent treatment and those in the bottom half of the income distribution cannot afford to queue jump by going private. Equally, social infrastructure of all kinds is crumbling because underfunded English local authorities' real expenditure on cultural and leisure activities has been cut by more than half since 2010. The consequence in the UK, and other high income countries, is a foundational crisis because all three supporting pillars of liveability- residual income, public services and infrastructure- are crumbling. No wonder electorates are in such a sour mood. Especially the working poor trapped in a dysfunctional tax and benefits system with an effective marginal tax rate of 70 % for those on Universal Credit.

The first constructive step is to ask what government and other social actors with agency can do directly to rebuild each one of the pillars of liveability in the short, medium and long term. The importance of the three pillar approach is that it broadens the range of interventions and actors in complex multi-level systems of government and governance. As we are beginning to understand in Wales, for example, it is not necessary to wait for Westminster central government or Cardiff Bay Welsh Government because local authorities, housing associations and regional health boards can make a difference (often within existing budgets).

In this context, mainstream economics preoccupations are irrelevant. The monetary issue is not higher individual gross wages through growth and productivity but the deductions for disposable and residual income which drive discontent, The economics approach is doubly irrelevant because, as hand wringing commentators recognize, there are no orthodox policies which in the short run will raise the secular growth rate, while any gains from productivity are likely to be captured by capital in profits, not by labour in the form of wages. And this is to say nothing about the material-ecological consequences of the problems of targeting continual economic growth.

## **2. Give due weight to social innovation especially in public service delivery (end the monomania about productivity increasing economic innovation)**

The foundational starting point is the balance of activities when 80% of the UK economy is services. The sectors of health and social care in the UK together now employ more than all of manufacturing whose largest sector in terms of employment is low tech and sheltered food processing. This is good news for those concerned with the environmental consequences of output growth. Personal services like education, health and care have a much lower carbon footprint than most manufacturing activities.

Even if we can have more services at low environmental cost, the problem remains that the key sectors of health and social care must meet the challenges of an ageing obesogenic society where demand threatens to outpace any feasible increase in supply. At the same time, underfunding and ill-judged policy pressure for productivity increases in the NHS (in the case of the UK) has resulted in cost cutting and increased throughput with no spare capacity. This makes the hospital system increasingly fragile and unable to cope with epidemics, surges in demand or "bed blocking", where discharging patients is difficult because care beds are not available. To deal with these challenges, sectors like health and care need social innovation which requires a new kind of imagination that operates within financial limits but without the financial incentive that drives economic innovation. Doing social care differently for the elderly

requires a focus on the whole person not just bio-medical needs after assessment. In health, the crux is a comprehensive reinvention of preventative public health to deal with avoidable health inequalities.

In this context, economics preoccupation with productivity is another irrelevance. In car assembly you can get more physical output for less labour input by adding capital or changing layout. But in hospitality or care services, labour is both input and output so that reducing the labour input often results in worse service (think budget hotel or low-cost mobile contract where labour has been taken out of the product). Again, here the preoccupation with productivity is doubly irrelevant because mainstream economics has no policies which will deliver its desired outcomes. The standard fix is to subsidize R&D and early-stage innovation in the hope that shiny new technologies - in digital, aerospace, life sciences and such like - will deliver higher productivity and competitive success. That is unlikely in a small country like the UK which accounts for 2% of world manufacturing output and R & D and this would not be socially transformative because hi-tech everywhere employs a small part of the workforce.

With productivity growth stalled, the UK has doubled down on workfare to compel participation in the workforce which delivers growth of output (if not per capita output). But low quality, low paid jobs require state subsidy of wages and rents as with housing benefit which is an economic subsidy to private landlords masquerading as social policy for tenants. Such policies block innovative thinking about what low wage households need. As much as income from work, the low paid need the gift of time in the form of predictable flexible hours which fit round family tasks they cannot afford to outsource. Failures here are also problematic sources of social and economic problems in a time of climate emergency.

### **3. Focus instead on building a stock of responsible and capable firms (end the preoccupation with upgrading the individual to fit the needs of the economy)**

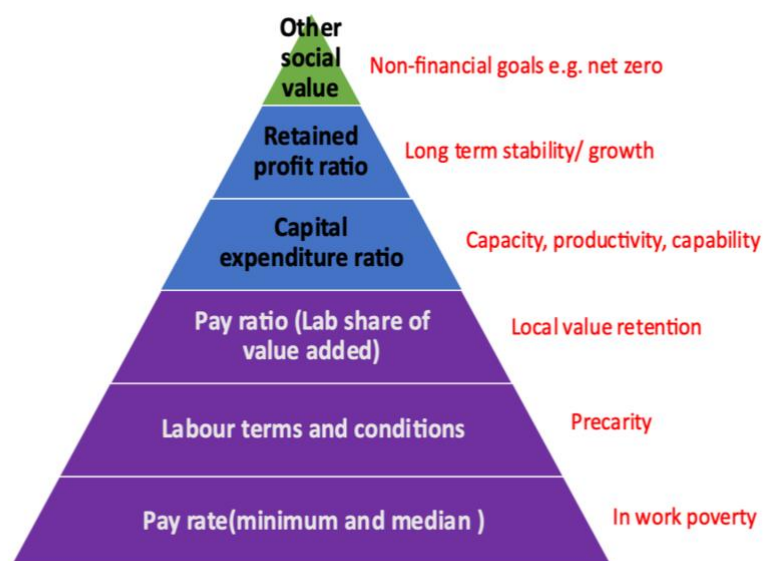
A stock of technically capable, socially responsible and financially solid firms is essential if there is to be any greening of the economy. It is only on this solid basis that we can expect sustained delivery on ecological obligations which will impose costs on firms. Irresponsible and fragile firms will not have the motivation or capacity to contribute to the cost of renewing infrastructural reliance systems or to pass up the opportunity to earn profit from polluting activities or to stop greenwashing behaviour.

The pressure for higher returns in a financialised system and public sector austerity have separately worked to dramatically increase the number of irresponsible private firms and public organisations. Thus, we have managers behaving badly. In many large firms like supermarkets, managers use their power against suppliers to capture margins; or, as in construction, subcontractors caught in a least cost system have no option but shoddy workmanship and no training. Ownership models which undermine stability are another aspect of the problem. Private equity owners strip out assets and/or load firms with debt, as in the residential care sector. In the UK public sector, underfunding reduces capital expenditure in schools and hospitals at the same time as it erodes pay and conditions so that staff recruitment and retention problems become endemic.

Here again, foundational economy thinking is practical and direct in focusing on the broad range of what matters. The responsibility and capability of firms is judged using the McGrady triangle

which inputs standard accounting information that all firms have on capital expenditure, retained profits and labour pay. This triangle is being used experimentally in purchasing to assess suppliers, screen out substandard suppliers and set improvement targets. But it is also a 360-degree tool, if suppliers are generally not offering decent pay and conditions or investing in the future, the problem is usually created by the private purchaser or public funder.

Figure 2: The McGrady triangle<sup>1</sup>



While foundational economy focuses on the demand for labour by firms and organizations, mainstream economics and politics diverts onto upgrading the labour supply. The political request is always for more skills training, with the employers who benefit usually lobbying not to pay for the training. The intellectual elaboration is human capital theory where humans are assets in production to be developed so they yield more. The underlying mainstream assumption is that individual and social benefits are aligned as the upskilled will earn more and enable innovation and productivity increases. But supply does not create its own demand so that, for example, an increasing number of university graduates are in ill paid non-graduate jobs. The provision of training and the return from training is limited by the stock of firms. If firms offer no jobs or low pay and poor conditions, then trainees will divert into other occupations and employees will churn.

<sup>1</sup> The triangle device was developed by Ian McGrady, CEO of the Edsential community interest company as part of an action research PhD project.

#### **4. Focus on how households will pay for the massive cost of renewing foundational reliance systems (bracket the productivist rhetoric about the opportunity of the green industrial revolution)**

The green transition means costs and inconvenience. The renewal of foundational reliance systems – like water and sewerage or the electricity grid – will be hugely expensive. Inconvenience is inevitable given anarchic provision of new reliance systems like charging points for battery electric vehicles. Some (maybe many) car owning households will not have an affordable, accessible charge point. The key issue for the political management of green transition is managing all this so that inconvenience is minimized, and costs are equitably distributed. Any kind of transition strategy will be stalled if it imposes a large burden on low-income households.

The naive response is that the problem can be solved by bringing in private capital which is of course readily available. The problem is that private capital adds a claimant because equity or bonds have to be serviced with interest or dividend payments out of a limited revenue fund dependent on bill paying firms and households. There can then be problems of revenue deficiency. In the UK the classic example is privatized water. Up to 2023, bills were kept low for households, so that the revenue barely covered cost of operations and investment was low. The only way the water companies could find funds for distribution to shareholders and bond holders was through taking out more debt. Now, after public outcry about sewerage discharge into rivers and onto beaches, capital expenditure has to rise in the next regulatory period and (with or without borrowing) household bills will have to rise.

The problem with higher bills is then the regressive and arbitrary basis for utility charging and the narrow base of the tax system. 60% of English and Welsh households have metered water bills which are not related to income and the rest have unmetered bills which are not related to consumption. Energy bills are powerfully influenced by the energy efficiency of the house which a low-income tenant cannot change. Hence the need for tax reform, shifting away from a 1940s style system based on individual income and sales taxes. We need to collect data on household income (not individual income) so low-income households can have lower utility bills and households in the higher income deciles pay more because they can afford to do so. More generally, the tax base needs to be broadened to at least include taxes on wealth inheritance. This makes sense when the UK stock of wealth is now 7 times as large as national income and twice as unequally distributed, partly because so much inherited wealth comes from unearned gains on property.

In the context of this discussion of who pays and how, the economic and political rhetoric about the opportunity of green industrial revolution is profoundly unhelpful. The green industrial revolution will be led by private firms eager to claim public grants and tax concessions to do (more profitably) much of what they would do anyway. Just transition demands for good jobs to replace those that are lost will be frustrated if employers get the chance to recompose skills, with workers on insecure contracts. Here, as more generally in the service economy, what we need is political support which creates pro-union frameworks for organization by muscular trade unionism prepared to strike to claim improved pay and conditions.

## Conclusion

In conclusion, foundational economy provides a different answer to the question “how can we construct an economics consistent with the biological and physical limits to growth”. It should now be clear that foundational economy is not an adjunct to mainstream economics or a reform movement within economics. Foundational economy is an alternative concerned practically with improved household liveability on the demand side and increasing the stock of responsible firms on the supply side. Only on this basis can we create a space for collectively getting on with all the things that rightly matter at different scales from managing nature and climate emergency to attending choir practice next Tuesday night. From this foundational perspective, the idea of “the economy” understood by a discourse called “economics” is in the 2020s as much part of the problem as part of the solution.

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### SUGGESTED CITATION:

Luca Calafati and Karel Williams, “Liveability within planetary limits”, *real-world economics review*, issue no. 106, December 2023, pp. 173–179, <http://www.paecon.net/PAEReview/issue106/CalafatiWilliams106>

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