

Mapping COVID: PSIRU working papers for PSI August 2020

## Economic recovery into a better world

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*The Public Services International Research Unit (PSIRU) investigates the impact of privatisation and liberalisation on public services, with a specific focus on water, energy, waste management, health and social care sectors. Other research topics include the function and structure of public services, the strategies of multinational companies and influence of international finance institutions on public services. PSIRU is based in the Business Faculty, University of Greenwich, London, UK*

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## **1. The pandemic and the world economy**

### **A. The necessity of a new world**

Covid19 has brought some strong lessons about the economy, most obviously the key role of the state in managing the economy and sustaining citizens and businesses. It has also demonstrated the central importance of public services to our lives, and forced a recognition of the 'essential' nature of public service labour, producing services fundamental to life, by contrast with business activity thrown up by the market.

At the same time private sector has failed badly. The cumulative privatisation by outsourcing has been exposed as inflexible, incompetent, and exploitative of precarious workers, and the [global 'just-in-time' supply chains have proved fatally unable to deliver necessary supplies](#) of PPE and ventilators for public health services, and have also failed in the wider economy. While commercial banks have failed to provide loans to keep small businesses afloat, governments have done so by provision of guarantees.

The pandemic has also changed the outlook for the future. As countries start to emerge from lockdown, the outlook for both employment and provision of public services is problematic. For employment, many existing businesses have already cut jobs and do not expect to recover to the pre-Covid position – for example airlines, airplane manufacture, and hospitality – and governments have started winding down the economic support for workers. Initial government responses focus on infrastructure projects, which provide a short-term stimulus, but this increases government expenditure, and creates additional pressure on the other great post-Covid problem of finance for public services.

Orthodox governments and international institutions have been insisting on austerity policies for the last 10 years, while the response to Covid19 has created a great surge in public spending as well as a fall in tax revenues, a conflict which has to be resolved. Following the huge shock of Covid 19 to the world economy, the massive transformation implied by the climate emergency and the 'green new deal' now seems both more necessary and more feasible.

This is especially clear in relation to unemployment. The pandemic has affected many sectors, businesses have taken short-term decisions to cut more jobs, and there is no sign of market led growth in employment. The ILO estimates that about 14% of working hours have been lost, globally, during the pandemic, and the IMF forecast that [the global economy as a whole will shrink by 4.9% in 2020](#).

Consumer spending fell sharply under pandemic measures, which reduced outings for shopping, restaurants and cafes, sporting and cultural events, hotel bookings, and air travel. [Visits to cafes and restaurants and events](#) have almost recovered to pre-Covid levels in Japan and major EU countries – Sweden is actually at a higher level – but these outings are still below normal in the UK and Brazil by over 30%, in the USA and Spain by over 15%, and in India still 61% below normal.

### **B. An open economic debate**

The structure of the economy is now necessarily [open for debate and political decision](#) to a far greater extent than for many years. Two contributions co-authored by well-known economists are worth quoting.

- Dani Rodrik and Stefanie Stantcheva argue that dealing with the economic problems in the wake of Covid19 must involve [reorganising production](#):

“requires a different strategy that tackles the creation of good jobs directly. The onus should be on firms to internalize the economic and social spillovers they cause. Hence, the productive sector must be at the heart of the new strategy. Put bluntly, we must change what we produce, how we produce it, and who gets a say in these decisions.”

- A similar approach is taken by Albena Azmanova & James Galbraith, based on political action for [the common good](#), based on universal services, so that families have secure housing, good healthcare and education, and jobs will be based accordingly

“in this world, millions will be hired and trained to provide the public health services – temperature monitoring, contact tracing, sanitization – that is necessary to keep the virus at bay and to confront successors as they arise. Millions more will be put to work in crucial services, maintaining the supply chains for food and other essentials, in conditions that are as safe as possible, and paid a living wage. In this world, there will be strategic direction toward social and environmental goals, led by a state determined and able to ensure that key sectors and companies serve the public... The economics are possible; as Keynes wrote, what we can actually do, we can afford.”

Other academics, social movements, unions and NGOs have also argued that we should not attempt to recreate the previous structures, which have failed to deliver employment or development. The Korean union KPTU has raised a direct demand for a government role as ‘employer of last resort’: “The COVID-19 crisis must be made into [an opportunity to strengthen public services](#) and reinforce their public function....To respond to the jobs crisis, the government must act as the [‘employer of last resort’](#),” which echoes the role played in India by the MNREGA work guarantee programme. Eurodad argued that “it is vital that the World Bank embraces [a people-centred approach to development finance](#) that builds resilience and strengthens public systems”.

The development of new academic work attacking the systems of controls on public deficits, notably Modern Monetary Theory (MMT) and its leading creator Stephanie Kelton, has also seriously undermined the orthodoxy of the last 40 years. Kelton’s book ‘The Deficit Myth and the Birth of the People’s Economy’ appeared at the height of the pandemic in June 2020, of which a LSE reviewer wrote:

“This book is a triumph, shifting normative grounds of government spending [away from the false and unproductive idea that deficits are irresponsible](#) and ruinous towards the productive political activity of deciding which spending programmes should be prioritised.”

It is also worth noting the assessments from the perspective of global finance capital, which expect some fundamental economic restructuring:

Standard and Poor (S&P), the leading global credit ratings agency, has warned that the fall in output combined with increased debt ["threatens corporate solvency"](#), and that “national and international fragmentation could intensify as low income populations are suffering disproportionately, [exacerbating inequalities and social tensions](#), while the disruption of critical supply chains revives economic nationalism”. But they also expect recovery to be led by a green new deal:

“The crisis could present an opportunity for governments to support the recovery through infrastructure investment, [supporting a green, digital, and more sustainable economy](#)”.

Analysts at [Macquarie](#), the Australian bank and private equity investor, offered perhaps the most apocalyptic view of a radical change in political economy:

[“conventional capitalism is dying, or at least mutating into something that will be closer to a version of communism... \[leading to\] effective nationalisation of capital, universal income guarantees, and deep changes in work practice...we are drowning in capital, and the objective is no longer efficient utilisation, but rather ensuring that it does not freeze but remains liquid”](#)

It notes that the conventional models of a private sector driven economy are no longer applicable:

“Today’s economic and industrial strategies are built around concepts of a monetary world and [the ultimate primacy of the private sector](#), and its ability to navigate well-defined business and capital market cycles. Alas, [the world has already moved far away from these principles.](#)”

## **2. Recovery into a better world: the human economy**

### **A. Employment in a neoliberal world**

Most discussions of economic policy and the mechanism for producing jobs operate with a simple model of capitalist business activity. On this model, investors respond to market forces by investing in innovative technology to supply a market, in competition with rivals doing the same, and in the process employ people. The art of economic policy is thus to encourage investors to do this, by providing incentives and removing restrictions, including democratic processes, so that investors have an incentive to use all available labour to maximise returns, which then increases the government’s tax revenues. Firms then have an incentive to re-invest this fresh capital, and employ more workers to obtain further returns, and so on the process maximises the number of people employed.

This model never reflected reality, but it definitely does not reflect the reality of the globalised and liberalised world economy. Returns are extracted into offshore tax havens rather than re-invested. The largest firms on the planet protect monopoly or at worst oligopoly positions. Jobs are casualised and scattered across global supply chains, in which migrant workers are used as cheap, exploitable and disposable labour. The inequality of incomes between workers and investors is not generally accepted as legitimate. Even the better paid permanent jobs are often seen as socially useless or worse, even by those who do them, for example in financial services or corporate hospitality.

Public sector employment should be a stable exception to this process, but is seen by orthodox economists and institutions such as the IMF as an unproductive burden on the economy, to be minimised by reducing the role of the government and/or privatising and outsourcing as much as possible of public services. This enables investors to move into the area of public services and start making ‘rentier’ returns without entrepreneurial risk. So instead of services being delivered by workers directly employed and paid by the public sector, contractors get paid by governments and then employ workers to deliver services in a way which provides a return to the company. As direct employment shrinks, the proportion of spending going on procurement increases, and the profits extracted are further maximised by political processes of networking, bargaining, campaigning. In a

globalised economy the privatised jobs may end up wherever in the world best suits the contractor: instead of using local or national producers to supply the needs of local public services, suppliers set up global chains. Thus the services created by public collective decisions are milked by investors, so less money and fewer jobs remain local.

The net result is that jobs are not created by the mechanisms of global capitalism, and the same mechanisms are now eroding employment in public services. This is not a credible or sustainable basis for an economic recovery or employment policy.

## **B. The human economy: a public creation**

We can regain some control and maximise quality local jobs by asserting control over the employment patterns in those large areas of the economy which we have already decisively shaped by our own collective decisions.

Much economic activity is driven not by a market of individual consumers demanding goods which are then supplied by competitive firms. It is rather driven by collective, political decisions about what we want to produce to achieve our collective public goals. Much of what we do, including what private companies do, is a direct consequence of these big collective decisions.

The biggest established parts of this are the public services – healthcare, education, public transport, communications, water, energy, housing, social care, culture, etc. But there are other big areas of public policy which are not public services in the formal sense.

- The most striking example is the now global commitment to address climate change by reducing emissions. This public good has been agreed despite undermining the vested interests of some of the most powerful corporations in the world, including oil companies, car manufacturers, and the energy companies using coal and oil-fired power stations.
- Another example, which is also based on environmental objectives, has been the regulation of waste management in order to reduce pollution and encourage recycling through the ‘circular economy’. Partly as a result of the regulation, [there are well over 1 million jobs in Europe](#) in this sector.
- The food chain is another example where public policy shapes the sector at all stages, from subsidies and guaranteed purchase schemes for farmers to food hygiene regulation and inspection of factories and shops.

The fastest growing area of government activity since the millennium has been in support for business and economy. This has been the overriding objective of the massive state intervention under Covid19, as it was in the global financial crisis of 2008. While such rescues are obviously in the interests of investors and businesses themselves, the public interest justifications centre on the employment ‘created’ by private businesses, and the value to the public of what those businesses produce. These justifications effectively treat ‘capitalism as a public service’ – but it then has to be judged in terms of whether it is delivering those objectives. Since it is certainly failing to deliver the employment objective, we have to find better ways of delivering the employment we want.

The suggested title for this huge part of economic activity is ‘the human economy’. It might be called the ‘public economy’, but that is usually restricted by economists to actual public services. Academics at the University of Manchester and elsewhere have developed the concept of the ‘foundational economy, which covers broadly similar areas, but defined by the ‘essential’ economic nature of the activity. So the ‘human economy’ is here defined as all economic activity which is

driven by collective public decisions as to what needs to be done, which may evolve over time, and is a political and democratic process rather than a market or investment process.

### **C. Reclaiming the human economy**

Because this part of the economy is defined by our collective decisions, and in principle subject to democratic decision-making, we can seek to directly affect employment within it. Moreover, because this part of the economy is more 'essential' or 'foundational', it will provide more stable and long-term employment. Regardless of what the 'market', or the current globalised system of production might throw up, the human economy will persist because we want it to.

Under the present system, privatisation is effectively colonising much of the public sector. It is not doing so through market mechanisms, but by the systemic political capture of the power of the state – not only in developing countries, but in rich ones too. The UK government actually [designates 35 large companies who hold billions of pounds in government contracts as 'strategic suppliers'](#), and appoints 'crown representatives' to ensure continuous liaison with them. This is an intrinsically corrupt and inefficient system which, an LSE academic warns: "[bears an uncanny resemblance to Soviet state-owned enterprises...](#) From the taxpayer's point of view, the contemporary outsourcing architecture is [even] *more* dysfunctional in framing corporate incentives than the Soviet system."

Exercising democratic control over the human economy will in effect reclaim our economy. We would remove that flow of public money from these companies, and instead say simply that local people are expected to be key, or essential, or strategic workers in delivering these public goods. We can directly seek to maximise local employment opportunities through exerting control over this huge area of economic activity which we have created and shaped by our collective decision – the human economy.

This would not entail generalised state planning of the economy as a whole. The reclaimed human economy can leave completely open how much and what production of goods and services is developed by private businesses and investors. Private capital can be free to innovate and invest and compete in production of goods or services for markets. We should still hope for and encourage global and local capital to make some investments which bring additional economic activity to that which we have created through the 'human economy'. One of the functions of national and local government should be to encourage local and global capital to make such investments, using development banks and local savings to support this.

But all such activity should be regulated to ensure it does not undermine the public goods and objectives which we decide to pursue through our human economy. Firms should observe labour, human rights, safety and environmental standards, financial transparency rules, and pay taxes to finance the 'human economy', the infrastructure from which they reap so much benefit. It is incorrect to claim that capital will not invest under such regulations, they simply change the parameters for investment decisions.

### **D. Employment**

There are at least six objectives for employment which can be addressed using this approach.

- creating and maintaining more sustainable jobs for local people
- safe work for all (in agriculture, factories, hospitals, transport, schools, offices, concerts)
- providing decent pay, hours and security (sick pay, pensions) for workers
- ensure equal access to employment for women and ethnic minorities
- ensuring equal civic and employment rights to migrant workers

- entry to employment for young people (including e.g. the potential for 'national service' in a public service, rather than armed forces) continued training and development

### **E. Public finances: deficits, debts, and taxation**

The huge government response to the pandemic has involved a great surge in the level of government spending, and there has been a simultaneous fall in GDP, so it is certain that public spending as a % of GDP has risen to much higher levels in all countries.

Governments have had to work out how to finance this spending. Higher taxation would undermine the reflationary objective of the spending, and so a big leap in government deficits has occurred. Formal borrowing has been used but builds much greater debt. There has therefore been a dramatic shift to using the power of governments to 'print money', a return to an old Keynesian approach now known as [Modern Monetary Theory](#) (see above).

This has completely destabilised the controls on government borrowing that have been used by the IMF, the EU and governments worldwide over the last 40 years to impose savage restrictions on public spending and public services. These rules are entirely arbitrary figures, not justified by empirical evidence.

And now they have been suspended. The EU suspended its restrictions on debt and deficits in national budgets in March 2020, and has announced that "[they will not apply again until 2022 at the earliest](#)". Many other countries have done the same.

All this has been done to enable maximum state support for businesses, but we should beware of a repeat of 2008-2010. After the financial crash of 2008, governments of the world adopted big boosts in spending in 2009 to protect economies, with the full encouragement of the IMF, and with notable success. Then the IMF, alarmed at the rise in government spending, sharply changed policy and insisted on years of austerity to reduce spending and deficits. The only element of public spending which was encouraged to continue was infrastructure projects which were handed to the private sector through PPPs.

This should not happen again. There are three things which are important to maintain under economic recovery.

- **the suspensions of debt and deficit rules should be maintained and made permanent in the economic recovery**
- **the tax avoidance by international business over the last 40 years should be ended**
- **the higher levels of public spending should be supported as quite normal and sustainable**

## **3. The human economy in practice**

### **A. Layers of production**

To optimise the number and quality of jobs, different methods and principles can be used for four different layers in the human economy. These are:

- The provision of public services
- The role of the public sector in the supply chain
- The use of procurement rules to create better quality and more local jobs



- Conditions attached to wider licensing and subsidy and sponsorship

**Table/chart 1. Human economy sectors and layers**

	Layer 1	Layer 2	Layer 3	Layer 4
	Direct service provision	Potential public sector production	Procurement conditions	Wider licensing, subsidy, conditions
<b>Healthcare</b>	x	Drugs, PPE, beds, construction, IT	Local sourcing, fair wages etc	
<b>Education</b>	x		Local sourcing, fair wages etc	
<b>Energy (Green New Deal)</b>	x	Construction, manufacture	Local sourcing, fair wages etc	
<b>Environment</b>				Subsidies
<b>Social care</b>	x	Public sector care	Fair wages	Local sourcing
<b>Housing</b>	x	Construction, manufacture	Rent and building regulation	Rent regulation, fair wages, building, environmental and social standards
<b>Transport</b>	x	Construction, manufacture	Local sourcing, fair wages etc	fair wages, environmental and social standards
<b>Communications</b>	x	Fibre networks, public postal online sales, construction, manufacture	Local sourcing, fair wages etc	fair wages, environmental and social standards
<b>Food supply</b>				
- <b>Agriculture</b>		Public land, farms		Subsidies, fair wages, environmental and social standards
- <b>manufacturing</b>				hygiene, local sourcing
- <b>distribution</b>				hygiene, local sourcing
<b>Finance</b>	x	Post office bank		Payment of taxes, financing local business
<b>Clothing and textiles</b>			Environmental and social standards	Health and safety, fair wages
<b>Waste management</b>	x	Sorting equipment		circular economy

For any given level of public spending, this approach can create more local, sustainable jobs. Eliminating privatisation would reclaim the profits currently extracted by the companies, so it can instead be spent on employment (thus also improving labour’s share of income in the economy overall). Procurement and licensing conditions for use of local labour and resources would retain more jobs and income locally for any given level of expenditure, so less public money would be extracted into global corporations. All of these measures, including licensing and regulatory conditions, would boost the local economy through greater income and expenditure

**Table/chart 2. Layers and factors retaining more local jobs and value**

	Reclaiming of distributed profits (de-privatisation)	Relocating production to local area	Improves local earnings and spending
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Direct service provision	x	x	x
Public sector supply	x	x	x
Procurement conditions		x	x
Licensing etc conditions			x

## B. Public services

The pandemic has shown the importance and vulnerability of a number of public services.

**Table/chart 3. Public service issues in recovery**

	Pandemic impact	System and capacity	workers	Supply chains
Healthcare: general	Inequality, displacement of healthcare for other illnesses	Need epidemic capacity Damage of outsourcing	Essential, need for PPE, H&S, sick pay, protect migrants	Developing, making and distributing vaccines
Healthcare: public health	Need for PPE, TTT, local	Need epidemic plan, inc. extra capacity. strong local capacity, coordinated data. Damage of outsourcing	Essential, Need for public workforce	Making and distributing PPE, tests, analyses
Education	Lost schooling, inequality, home tuition, safe re-opening.	Need equality focus/BLM, universal access, need for online technology	Essential, Need for H&S	Meals for children Public online education media
Public transport	Inequality, over-crowding/virus risk, climate issue to reduce car use.	Integrated public systems, replace cars, New H&S systems for public and workers, to	Essential, Need for H&S, sick pay,	Design/manufacture of bus/train/station. Car-charging networks
Care homes	Main sites of deaths, inequality	Need public systems, equality focus, H&S for relatives, resources, standards	Essential, Need for H&S, sick pay, decent pay, protect migrants	Need for PPE, tests and testing,
Housing and accommodation	Inequality, overcrowding in poor homes, migrant hostels, Insanitary slum environments	Need public service to eliminate slum housing	Essential, H&S, sick pay. Migrant accommodation	Public capacity
Prisons	Inequality, over-crowding, weak healthcare	Reduce imprisonment, Damage of outsourcing	Need for PPE, H&S, sick pay, protect migrants	
Waste	Public health issue	Recycling	Essential, H&S, sick pay, migrants	Recycling, circular economy
Water, energy, telecoms	Affordability key, excess charging for private profits	Need for universal public hold connections Damage of privatisation	Essential, H&S, sick pay,	Public ownership of networks
Post				public alternative to Amazon
Food			Migrants and conditions	Agriculture, distribution, processing
Construction				Public capacity, not projects

### C. Base layer: direct provision of public services

The base layer is the provision of public services themselves. In sectors such as health, education, public transport, water and sanitation, and much of the work of central government this is relatively simply defined.

***The basic default principle should be that these services should be provided by directly employed workers.*** The corollary is that the private sector should be excluded/expelled from the basic level of service provision.

Until the neo-liberal experiment of the last 40 years that would not have been contentious. That experiment has confirmed that private capital treats these services as securitised sources of rentier income, positively resists financing investment with risk capital/equity, has perverse incentives to underperform, resists democratic control or accountability, minimises competition, games regulation, [has no efficiency advantage](#), and has alarming incentives for corruption.

This would provide a significant increase in the quantity and quality of local jobs.

- This is the most effective way of keeping jobs and spending in the local economy, because direct employment is invariably local.
- money currently lost to dividends can finance extra local jobs and better conditions
- work which contractors currently carry out globally would be brought back
- workers with precarious jobs with contractors e.g. cleaners, become securely employed

### 4. Public sector production in supply chains

The second layer of the human economy is the extension of direct public sector production and delivery into the supply chains of the services. The simple general principle is that ***for all supply chains to public services there should always be the possibility of doing the work by public sector entities instead of relying on the private sector.***

Decades of empirical evidence from all over the world shows repeatedly that [the private sector is not intrinsically more efficient](#), so there is no eternal law of economics that any particular activity should be the exclusive preserve of contractors. As Ha-Joon Chang has pointed out, the public sector has played a key role historically in many sectors. There is infinite potential for public sector production.

The advantages of constantly exploring the potential for public sector production include:

- Enabling development and manufacture of simple large-scale affordable technology instead of depending on markets where firms prefer [expensive patent technology for rich clients](#)
- efficiency and reliability savings over market processes, especially where there is a need for excess capacity for 'peaks', such as epidemics
- Providing a benchmark for private sector proposals, and capacity for managing any contracts
- Providing a fair wages baseline for private companies

### A. Healthcare supplies: pharmaceuticals, ventilators, PPE, vaccines,

The pandemic has already shown the importance to health services in particular of the reliable and efficient production and distribution of a number of goods and services, and the failure of the market to deliver these. These include ventilators, PPE for workers, test kits, the process of tracking and tracing, creation of apps, laboratory analysis, vaccines.

It is widely recognised – [including in the USA](#) and [the UK](#) - that there is a case for establishing new public sector drug companies to develop, produce and distribute new antibiotics and other drugs needed for treatment of widespread diseases, [‘to fix the broken antibiotics market’](#) because the private pharmaceutical multinationals fail to do so.

Even before Covid19 it was recognised that private drugs companies do not ensure sufficient capacity for vaccine production, so public sector capacity is needed. One unlikely result is that the UK government [has now invested over \\$200million](#) in two new public sector [vaccine production facilities](#), wholly owned by 3 universities. It is now important to ensure that any viable vaccine against Covid19 should be manufactured at scale to ensure rapid worldwide availability, and [the WHO has taken an initiative to pool demand for this](#). This is in effect procurement, but it does not preclude procurement from public sector production facilities, and may stimulate the creation of such facilities.

The ventilator shortage during the pandemic arose partly because of: “our reliance on market forces to allocate resources for innovation, we now [only produce ventilators that are expensive, immobile, proprietary, highly technical, and difficult to use](#)”. Public sector development and production is the clearest solution: the US government tried to procure development of a simpler model, but the private companies blocked it. University researchers have already done so: engineers at UCL in London [re-designed and developed a new simpler breathing aid](#) in less than a week, and released the entire specification for free global use. They have been [“inundated with requests”](#).

[An IMF](#) paper in July 2020 argues that there is a need for a universal testing and isolation policy for Covid19 on a huge routine scale, economically justified even if it costs. But private oligopolies will avoid developing capacity for public needs, and so:

“Only with the large resources and coordinating ability of the state could both public and private resources be combined for a common goal. There is a need for coordinating among different actors of the production value chain, overcoming administrative and regulatory hurdles, [considering the social benefits rather than the narrow profits of firms](#), enforcing accountability for the support received, deciding on the best production technology, etc. [This critical moment requires the leading hand of the state.](#)”

The IMF leaves open whether the state will deliver by procurement or by direct production, but clearly allows for the possibility of either, and argues for its developmental advantages:

“state intervention to [ramp up production ...on a global level to achieve a scale and speed the market alone would fail to provide](#)...the state can coordinate the production across value chains, and direct both public and private resources towards the production of necessary products. In the case of developing countries, international financial institutions can step up and provide financial support for this endeavour. Building the extra capacity for tests will also make mass-production of a vaccine easier once it is developed. Furthermore, in the case of developing countries, this strategy can [help ramp-up manufacturing capacity and employment, and improve technological know-how.](#)”

## **B. Construction: capacity not just projects**

Currently governments announce expenditure on ‘shovel-ready’ infrastructure projects, spent by giving contracts and sub-contracts) to private firms for limited periods of time. This provides a

continual stream of business for the private construction multinationals, from which substantial profits are extracted, and sub-contracts for supplies allocated anywhere around the world.

But from the perspective of the human economy, there is a continual stream of construction work which needs to be carried out across a whole range of sectors – housing, rail, energy etc. Public sector construction bodies should be established to ensure a core of public sector expertise. This would deliver the public benefits of an enduring reliable capacity to build infrastructure, a stable employment base, and the expertise to evaluate, monitor and manage any private contracts awarded contracts after tenders, and a real benchmark against which to judge the cost, quality and honesty of contractors.

This is not just an abstract possibility, it has been historical reality. For example, the public sector in the UK used to have substantial construction divisions which carried out much of the post-war re-building of infrastructure and housing. This included construction and engineering divisions of the [energy, water, rail](#) and telecoms utilities - which were rapidly closed down after privatisation; [building divisions of local councils](#),<sup>1</sup> which built much council housing and many local roads and employed up to 200,000 workers, before they were run-down by the [ending of council house-building](#), and the outsourcing of work via compulsory tendering; and the Property Services Agency of [central government](#) , which in 1977 employed 30,000 building workers and 20,000 technical and professional staff - architects, civil, mechanical and electrical engineers, quantity surveyors, building surveyors, estate surveyors, technicians – until it was broken up and privatised, ending up as part of [Carillion](#) (which ended up collapsing as the biggest bankruptcy in British history, and many thousands of its staff were transferred back to the public sector).

### **C. IT and audit**

Many countries depend on the same small group of IT multinational companies for developing and running the IT systems which are central to all public services and large organisations. In some cases, such as the UK, there was a deliberate policy to wind down government IT capacity in the 1980s through outsourcing and PPPs. This has led which led to critical and expensive disasters by multinationals in relation to taxes, national insurance, NHS records, etc - yet the same companies have been [put in charge of NHS procurement systems](#).

Direct public sector IT workers would provide capacity for direct provision, monitoring and training.

The same is true with audit: former public sector audit institutions have been run down, and the ‘big four’ audit/consultancy companies PwC, EY, Deloitte and KPMG now audit public bodies as well as private corporations such as banks. But [a string of scandals suggest they aren’t fit for purpose](#) , and re-establishing public sector capacity would provide again a pool of trained and trusted expertise.

## **5. The wider human economy: contracts and subsidies**

### **A. Conditions and employment**

Beyond the direct provision of public services, and public sector production in the supply chain, the human economy includes a huge range of activity supported by public finance for public objectives. through licenses, subsidies, grants, tax relief, and other measures.

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<sup>1</sup> [Building by Direct Labour: the significance of Direct Labour Organisations \(DLOs\) in the provision of public housing in the UK 1890-1980](#) L Clarke 2015 Proceedings of the First Conference of the Construction History Society

The third level is that of procurement. Even with direct provision of services, and expanded public sector production in the supply chains, there will be many goods and services bought from private sector firms.

The fourth level covers all that government activity to regulate and incentivise and support private and non-profit economic activity. This includes the rescue of firms by governments during the financial crisis, and the Covid pandemic, usually on the basis that jobs will be preserved. It also includes huge programmes and areas such as the green economy, the circular economy, which are examined in the next section.

Mazzucato and others have argued that rescues of firms should be [conditional assistance rather than 'free-lunch bailouts'](#), and applied a similar argument to state-financed R&D. Such conditions should be based on the democratic objectives of the human economy, not simply seeking a share in future profits, and they should be an integral part of all regulation and incentives. They should be framed to ensure that contractors or supported firms operate so as to contribute to these aims, in particular employment.

Alongside these conditions, the state itself should develop programmes providing the right to employment, following the example of India's MGNREGA, linked to production of public goods, and a system for employing all young people.

There are

#### **B. Labour: fair wages clauses**

**The most powerful form of condition for government contracts is a 'Fair wages' clause in all contracts, [as specified in ILO 94](#), , i.e. that all suppliers (and their sub-contractors) must employ workers on pay and conditions equivalent to those negotiated for government employees.** This both ensures that contractors do not compete by undercutting pay and conditions, and radiates the good quality of negotiated conditions into other parts of the economy. Historically, such clauses have played an important role in formalising employment.

#### **C. Labour: protecting migrant workers**

The protection of migrant workers should be ensured through the development of legislation and international regulation. One part of the process is ensuring that they have human rights and civic rights to public services etc. : the UN 1990 convention on migrant workers attempts this, but it is the [least ratified](#) of the UN's human rights conventions. The UN convention includes the right to [organise in unions](#), and this has recently been encouraged by the WB and ILO as part of a report into [sanitation workers](#), whose status and conditions are as precarious as those of migrant workers. Many migrant workers are international, which makes organisation more complex, but this is similar to the status of seafarers, with whom they share other problems including accommodation and poor workplace conditions. For seafarers, the problem has been addressed by the [Maritime Labour Convention 2006](#), which sets out rights and standards for pay and conditions, workplace conditions, accommodation, and welfare provision, access to social security. It also gives their international trade union confederation, the ITF "[direct access and contact to seafarers around the world, through its right to inspect the ships and the working and living conditions](#)" through a global network of [140 full-time union officials](#). This should become a model for migrant workers.

**International union confederations should be given rights to contact migrant workers in any workplace, and in any sector, with the right to inspect workplace conditions, accommodation, health and safety, and pay and conditions, and develop union organisation.**

**D. Labour: national service in the human economy**

Employment for young people is an especially crucial as they start life. The labour market does not guarantee work, and is less likely to do so under the pandemic and afterwards.

The framework of the human economy provides the possibility however of providing every young person with up to a year of employment in one or more sectors, during the course of which they gain experience of work, training, and exploration of possibilities. Everyone on the programme should receive the same pay and conditions. It would also have the advantage of developing an understanding of the common collective values in the objectives, and provide an equal introduction to the world of work across diverse groups. In that sense, it could function as a form of national service but serving in public services, not the armed forces.

**All young people should be provided with a year/6 months employment in the human economy.**

**E. Labour: guaranteed employment scheme**

In parallel, schemes such as [India's employment guarantee \(MNREGA\)](#) could be introduced, guaranteeing 100/200 days employment per year on local development schemes determined by local communities themselves. The MGNREGA employs around 50 million workers, half of whom are women, and has proved [of great value under Covid19](#) in creating jobs for the poorest.

**Countries should create guaranteed employment schemes, based on employment in delivering local public goods and services as determined by local democratic institutions.**

**F. Local economy**

**Contract specifications and evaluation processes should include conditions which maximise the chances of local companies winning and employing local people.** The advantage is not just in the money which remains locally, but in the creation of a local private sector with increased capacity and diversity. It disadvantages international capital to the benefit of local people and businesses.

This approach has been used on a massive scale by many governments for decades, in relation to arms production.<sup>2</sup> It can also, and more usefully, be used to support and build capacity for producing all contributions to public services and public policies such as the green economy.

Where work is put out to tender, evaluation criteria should give substantial weighting to local firms for all kinds of work. Many municipalities in the EU and USA have pursued this policy: in the UK [Preston council](#) re-captured £4million per year for the local economy in this way. In London, TFL applies 'supplier diversity requirements' on major contracts, such as the East London rail redevelopment, to ensure that smaller suppliers led by minority ethnic groups, by women and

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<sup>2</sup> Over the last decade the UK government spent [over £6billion on commissioning two aircraft carriers](#), which has sustained 11000 jobs in shipyards in Rosyth and elsewhere. Such large contracts could be awarded locally without open tendering because the EU treaty article 346 provides [a comprehensive get-out clause](#) for anything connected with armaments, including exemption from procurement tendering rules.

disabled people receive a significant proportion of subcontracts. It organised meetings with usual contractors to explain the rationale.

## **6. Green new deal: renewable energy, public transport, food chains**

### **A. Possibility and necessity of a green new deal**

The development of the green economy is in any case essential to deal with the climate emergency, and experience of lockdowns under Covid19 policies have shown both the possibilities and the need for action.

The green economy depends on public investment and direction, and is now a central part of the human economy, driven by democratically agreed objectives. It involves governments subsidising, commissioning, or building through the public sector, new installations of solar or wind power generation to replace actual or planned coal-fired generation, developing public transport, cycling, electric vehicles, insulated homes.

It is thus a perfect vehicle for an economic recovery programme. Across the world it is now being promoted as a 'Green new deal' (GND), an economic recovery programme similar to the 'New Deal' in 1930s USA.

The early stages of lockdown showed that with a drastic decline in production and global connectivity, especially air and car travel, carbon emissions can be dramatically decreased. It also highlighted the importance of public green spaces, and the inequality between those with gardens and those without, many urban residents in the world live without green spaces in their neighbourhood.<sup>i</sup>

Economic re-opening, however, necessarily leads to a rise in pollution: "Pollution, a measure largely associated with industrial emissions, has dropped during the lockdowns but it is [beginning to rise again](#) as economies reopen." In some cities, including Beijing, Guangzhou and Shanghai in China, Oslo and Ljubljana in Europe, pollution measured by NO<sub>2</sub> was already [higher at the end of July than it was before the pandemic](#), while others including Lisbon, Paris, Bucharest and Mumbai remain below previous levels. China reported a significant increase in car sales as soon as the lockdown was loosened.<sup>ii</sup>

Several pandemic recovery programmes already aim to not only facilitate economic recovery but to also challenge climate change.<sup>iii</sup> The European Commission announced its commitment to the Green Deal and putting the climate crisis at the core of the pandemic economic recovery<sup>iv</sup> – but at the same time European airlines have applied for €12.8bn in government support without any environmental conditions.<sup>v</sup>

Additionally, some governments have linked bailouts to green goals. For example, France is pressurising Air France to halve its overall carbon-dioxide emissions per passenger-kilometre by 2030.<sup>vi</sup>

### **B. Public transport, electric cars and bicycles**

A recent study showed that that 10 million additional jobs could be created worldwide - if 50 per cent of all vehicles manufactured were electric.<sup>vii</sup> It is thus welcoming news that Germany doubled the subsidy for electric vehicles to €6,000 as part of €130bn stimulus package that features at least €40bn climate-related spending.<sup>viii</sup>



Cities across the world have tried to incentivise cycling, new bike lanes have been built in cities, such as from **Milan, Italy** and **Mexico City, Mexico** streets have been closed in **New York, US** and **Bogotá, Colombia** for bicycle use.<sup>ix</sup> **Paris, France** declared the strategy of “tactical urbanism” to re-engineer city to meet the new needs of the Covid-19 era. Among various measures it put resources into incentivising cycling. The city and national government committed €20m on a package to encourage cyclists, including creating 50km of temporary cycle lanes along major commuting routes, €50 handouts to repair old bikes, and free cycling lessons.<sup>x</sup>

## Annexe: original ToR

Economy: a public future

- Review of experience across world, identifying issues including:
  - o Key econ issues: livelihoods/income/work, essential services/public finance
  - o Dependence of people on public services for health and income security too
  - o Dependence also of business on state support
  - o Massive impact on debt and monetary policy
- Progressive thinking on post-crisis economic policy
  - o Globally e.g. PSI, TNI, Ortiz, TUED etc
  - o Nationally and regionally
- Restructure economy around foundation of public services and public goods
  - o Reject and reverse austerity, strengthen tax revenues, deliver debt relief
  - o Establishing/developing public services and priorities inc climate change
- develop local/regional/national systems for supplying and supporting key services and goals
  - o Public service delivery by direct public employment: replace outsourcing of services
  - o Locally sourced supplies so e.g. PPE kit, beds, not via global markets and dealers
  - o system is responsive to democratically identified needs
  - o provides stable core employment and good conditions
    - inc in private sector, via 'fair wages' mechanisms (ILO 94)
- Means breaking/stretching trade liberalisation rules and treaties but
  - o is actually happening with ISDS clauses and international treaties
  - o EU procurement rules creatively interpreted and e.g. can be ignored if re defence

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<sup>i</sup> <https://www.tandfonline.com/doi/pdf/10.1080/14649357.2020.1781445?needAccess=true>

<sup>ii</sup> <https://www.ft.com/content/34e5759f-107c-4e8b-a372-7096d599c9fd>

<sup>iii</sup> <http://www.oecd.org/coronavirus/policy-responses/covid-19-and-the-low-carbon-transition-impacts-and-possible-policy-responses-749738fc/>

<sup>iv</sup> <https://euobserver.com/green-deal/148162>

<sup>v</sup> <https://www.transportenvironment.org/press/polluting-european-airlines-seek-€128bn-and-counting-bailouts>

<sup>vi</sup> <https://www.flightglobal.com/strategy/french-government-sets-green-conditions-for-air-france-bailout/138160.article>

<sup>vii</sup> <https://thepep.unece.org/sites/default/files/2020-05/THEPEP%20-%20Green%20jobs%20in%20transport.pdf>

<sup>viii</sup> <https://www.businessgreen.com/news/4016109/green-recovery-germany-unveils-plans-eur40bn-climate-spending-surge>

<sup>ix</sup> <https://www.theguardian.com/environment/2020/may/18/a-new-normal-how-coronavirus-will-transform-transport-in-britains-cities>

<sup>x</sup> <https://www.ft.com/content/09f183f3-57d9-45b6-bf75-d4e43390f467>