Tackling the systemic causes of poverty

A New Economics approach to reducing poverty

by Anna Coote, Tony Greenham, Helen Kersley, Rachel Laurence

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It proposes a systemic approach which values and shares human and natural resources, with markets that serve the interests of society and the environment. It argues that:

- poverty should be tackled through universal childcare, a decent wage structure, and taxation;
- the financial system should be managed so it does not increase inequality;
- the distribution of power is as important as the distribution of financial resources;
- strong local economies are needed, linking national and local resources, institutions and strategies.
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1 Background

Using the definition of poverty developed by JRF, we take poverty to mean ‘When a person’s resources (mainly their material resources) are not sufficient to meet their minimum needs (including social participation)’. The multi-dimensional approach that we suggest for combating poverty reflects the complexity of poverty dynamics. Our paper is not comprehensive, but reflects areas of expertise at NEF.

We propose a systemic approach to poverty, which addresses the underlying causes, rather than just the symptoms of poverty. This begins by acknowledging the need to tackle severe contemporary problems, most notably widening social inequalities, accelerating threats to the natural environment and accumulations of power by wealthy elites. These are not issues to be tackled separately. They are profoundly linked and interdependent. We must therefore seek to change systems and structures over the medium and long term, rather than simply looking for technical solutions to immediate problems within policy silos.

Our analysis rests on an understanding of bounded human and natural resources. These are the assets embedded in people’s lives and relationships and the diverse products and features of the natural environment. In Karl Polanyi’s terms, they are ‘fictitious commodities’ (Polanyi, 2001) and in Nancy Fraser’s they are ‘conditions of possibility’ (Fraser, 2014) for the functioning of capitalist markets. In conventional economics, they are treated as saleable items, valued only as inputs to production. We maintain that they must be valued and nurtured as shared goods, so that they are able to flourish in the short, medium and longer term.

Our proposed systemic approach involves not only recognising the interdependence of social, environmental and economic resources and relationships, and how they impact upon poverty, but also calls for the development of markets that serve the interests of society and environment, rather than the other way around, and shifting investment and action upstream to prevent harm wherever possible.
2 Introduction

We propose a systemic approach to poverty, which tackles the underlying causes, rather than just the symptoms, of poverty. This involves: recognising the interdependence of social, environmental and economic resources and relationships, and how they impact upon poverty; developing markets that serve the interests of society and environment, rather than the other way around; and shifting investment and action upstream to prevent harm wherever possible.

We offer the following observations:

- **Economic inequality**: Poverty is a distributional issue which requires us to address economic inequality at its root. This involves tackling the reinforcing drivers of inequality through universal childcare, good jobs based on decent wages and conditions, and tax policy.

- **Money and banking**: More equal distribution of financial resources across different socio-economic groups and regions is essential, including universal access to fair and affordable banking services and credit. It is vital to curb the tendency of the financial system to increase inequality through ‘rent extraction’, speculation, tax avoidance and the concentration of wealth.

- **Power and time**: Anti-poverty strategies must pay attention to power, recognising critical autonomy as a basic human need. The distribution of control over decisions, and of paid and unpaid time, and control over time, is as important as the distribution of financial resource.

- **Build strong local economies**: Strong local economies are needed, linking national and local resources, institutions and strategies.
3 Take a systemic approach

Poverty cannot be eliminated without addressing the systems and structures that cause and perpetuate it. A systemic approach means recognising the interdependence of society, environment and economy: how they depend on and influence each other, and how they can have mutually beneficial or cumulatively destructive effects. Thus all strategies, including those seeking to eliminate poverty, must recognise that natural resources cannot be replaced and should give high priority to promoting environmental sustainability. Conversely, strategies to reduce greenhouse gas (GHG) emissions and safeguard the natural environment must be designed so that distributional impacts are addressed and they contribute to the aim of eliminating poverty.

Globalisation and capitalism are neither natural nor immutable. Markets can and must be managed differently if the aim is not just to mitigate poverty in piecemeal or temporary ways, but to eliminate it. It is possible to use the power of governments – local, national and transnational – to develop ways of regulating markets in the long-term interests of society and the natural environment. It is also possible to build on the ingenuity of non-government organisations and individuals to develop alternative models.

Central to a systemic approach is an imperative to prevent harm rather than deal with its consequences. This involves shifting investment and action to address the underlying causes of poverty (and other forms of harm to society, environment and economy) earlier in the system. This goes against the grain of current patterns of public spending, as well as the philosophy of many charitable organisations, which tend to focus on helping the neediest, or building the ‘resilience’ of poor communities, so that they are better able to cope with their poverty. Early (upstream) prevention is essential to tackle the problem at root and stop it recurring in current or future generations. It is therefore important to understand the underlying causes of poverty – which can be found, for example, in the structures of the economy, in patterns of employment and consumption, in the education system, in housing policy and neighbourhood planning, and in the ways all these things – and more – influence human agency as well as the character of relationships in families and between social groups.

It is important to be aware of different levels of prevention: primary, secondary and tertiary (or ‘upstream’, ‘midstream’ and ‘downstream’). Early action at mid-stream level, where individuals and groups have already been identified as at risk or vulnerable, may have some short-term impact but will not help to eliminate poverty in the longer term unless the primary (upstream) causes are also addressed.

This analysis shapes our understanding of how to address poverty and economic inequalities, by looking upstream to identify and tackle the root causes.
Address economic inequalities

The way society is organised and resources allocated makes poverty a distributional issue. The roots of poverty lie in our economic structures, which determine wages, living costs and access to services, from housing to welfare support. The experience of poverty, in the UK and elsewhere, is relative to societal norms. It cannot be separated from inequality.

Economic inequality has been found to undermine people’s ability to escape poverty by limiting equality of opportunity and restricting social mobility, thereby reinforcing the impact of economic advantage (Savage, 2011; UNDP, 2013). Research has shown that the accumulation of money and influence at the top of the income scale distorts policy in ways that are less sympathetic to redistribution to those on low incomes (Stiglitz, 2012). For example, the amount of tax paid by high-income groups has declined dramatically over recent years (Kersley and Shaheen, 2014). This reinforces the need to make economic and social systems more equal from the beginning rather than relying on redistribution after the fact.

Options for using economic growth to reduce poverty can be compromised by the ways in which inequality interacts with and undermines economic activity and growth; this is not least because failure to exploit talent reduces economic capacity, affecting innovation, tax revenues and growth (OECD, 2012). According to the OECD, ‘the single biggest impact on growth is the widening gap between the lower middle class and poor households compared to the rest of society’ (Cingano, 2014). In addition, the effectiveness of poverty reduction initiatives has been found to be undermined by economic inequality. By contrast, small changes in income distribution can have a relatively large effect on poverty with important consequences for the design of effective policy (Ortiz and Cummins, 2011).

From this perspective the New Economics Foundation has worked with experts from across Europe to create a coherent policy for tackling major drivers of poverty and inequality. A review of evidence about the drivers behind economic inequality and its relationship to poverty reveals a strong focus in the literature on the capital and labour market impacts of globalisation and skills-biased technical change. But the role of the political economy has been underplayed. New explanations of rising inequality look to the impact of choices about resource use and management of the economy, from erosion of institutions such as trade unions and fair wage resolutions, to the capture of democratic institutions (including the tax system) by elites.

To put the drivers of poverty and inequality in context when considering policy, NEF has built a model that helps connect the different factors and how they reinforce each other, in part reflecting the human lifecycle.

1. Initial conditions – the family circumstances you are born into.
2. Channels of influence in early life – your early years and formal education.
3. National economic framework that determines the distribution of income and wealth – your job opportunities, rewards from work and access to material assets.
4. Political system and redistribution – your engagement in the political system and with the redistribution mechanisms of tax on the one hand and benefits on the other.
5. External influences – wider influences on the national economic framework, such as globalisation and technological change.

With each rotation of the cycle as each new generation is exposed to the outcomes from the previous one, the momentum driving economic inequality and its implications for poverty increases. The longer the cycle continues the more difficult and expensive it becomes to reverse it. Strategies are available, however, that can influence the cycle at different points to reduce inequalities. To
design and deliver them requires a strong, democratic institutional framework involving social partners (e.g. trade unions, civil society, policy-makers) and input from relevant departments of state, local institutions and government investment. Figure 1 indicates how they can contribute to a ‘virtuous cycle’ of change.

Within a broad mix of proposals, six major policy priorities stand out as ways of tackling poverty by reducing economic inequality:

- introduce universal, high-quality childcare, to overcome early disadvantage and enable parents to enter and stay in paid employment;
- invest in proactive industrial and labour market strategies to create good jobs for all with decent rates of pay and good prospects for progression;
- strengthen collective bargaining so that employees have a better chance of negotiating fair pay and working conditions;
- raise the wage floor, so that everyone in paid work is entitled to at least a living wage;
- improve career-based training and apprenticeships to enable people to improve their income over time;
- introduce fair and progressive taxation.

We address each of these in more detail below. Moreover, in general, there are three developments that are needed to underpin a successful policy agenda in this area:

- transform the prevailing political discourse about the labour market to recognise decent wages as the backbone of the economy and the role of strong, well-designed labour market institutions to support good jobs;
• make a political commitment to reducing economic inequality by 2020, with the exact target determined through debate and modelling;
• establish a high-level commission on inequality bringing together social partners to devise a fully detailed theory of change and a policy agenda to match.

Universal childcare

There is unequal access to high-quality childcare in the UK and this can both trigger and intensify deprivation and a range of income, gender, social and geographical inequalities. The current system depends on a low-paid, low-status, undervalued workforce which is predominantly female. High-quality childcare is especially beneficial for children from more deprived backgrounds and there is some evidence that it improves social mobility later in life (Esping-Anderson, 2005). Studies have demonstrated that shifting to funding provision directly, instead of market competition and demand-side subsidies, could achieve greater efficiency and equity for the same level of state funding (Aked et al., 2009; Ben-Galim and Lawton, 2014). But investment should be extended further to ensure affordability and high-quality for all (including training and paying staff to standards commensurate with quality). In pragmatic terms and following European models, for universal childcare to remain affordable to all who need it, contributions are likely to follow a sliding scale of family expenditure on childcare depending on circumstances, rising to a maximum capped at 15 per cent of family income.³

Investment in creating good jobs

Current government policy, which tightly weds job creation to economic growth, has resulted in unbalanced job growth – both in terms of wages and geography. Almost four out of five of the new jobs created in the UK between June 2010 and December 2012 were in low-paid sectors with more precarious conditions such as zero-hours contracts and jobs concentrated in London and the south-east (TUC, 2013). Between 2012 and 2013, the number of employees in London grew by 3 per cent, compared with 1.3 per cent in the rest of the country (ONS, 2014). Forecasts suggest that these patterns will intensify.⁴

An alternative approach sets out consciously to co-ordinate supply and demand in the labour market. This departs from a supply-side focus on reskilling workers, and invests in different types of jobs and skills mix, with the aim of creating enough good quality paid work for everyone. A job guarantee separates the question of whether there is enough work in the economy from the issue of whether there is valuable work to be done. It reflects a strong history of targeted job creation approaches which have socially productive effects (including Roosevelt’s New Deal) (Tcherneva, 2012). Of course it will be important to design opportunities carefully so that they are sustainable and efficiently integrated with the benefits system.

Direct public funding for new socially productive jobs would be combined with a state bank providing investment funds for good jobs in local areas and to sectors that need them (Seaford et al., 2013). Investment could support businesses either to create entirely new jobs, or to redesign existing jobs into good ones. Jobs that are low-paid and low-status in a UK context are respected and valued in other countries, including cleaning in Norway, retail in Germany and food processing in Denmark (Lloyd, 2014). How jobs are designed, and how they are supported by capital investment, can determine their quality and sustainability. In the UK we need to consider how best to implement a regional approach with the banking infrastructure that we have or that would best be created.

A statutory basis for collective voice at work

The erosion of labour market institutions, especially trade unions, has contributed substantially to the problems of low pay, in-work poverty and income inequality (Coats, 2013). It has led to a declining share of productivity gains being returned as wages rather than profit (Reed and Lansley,
As most economies, the UK included, are wage led, the balance of wage-share to profit-share in overall national income distribution is vital to economic prosperity (Onaran and Galanis, 2012).

A legal right to a collective voice for negotiation and decision-making at work could be enshrined in statute and promoted through best practice, ensuring the interests of employees are more evenly balanced with those of employers. It would promote collective solutions to the challenges of economic downturn, living standards crises and inequalities. Alongside other measures, such as mandatory publication of pay ratios, collective decision-making in the workplace could help ensure transparency in corporate matters and rein in excessive pay at the top. It could also help transform poor quality jobs into good ones by reforming management structures and creating common cause and fair reward structures across the workforce.

**Implementation of a strong wage floor**

In-work poverty is now becoming a bigger problem than out-of-work poverty (MacInnes et al., 2014). A stronger wage floor would actively mitigate a ‘race to the bottom’ in wage competition at the lowest end of the earnings distribution. The aim should be to achieve a minimum wage sufficient to make a living. In practice, and in line with existing measures of the poverty line, the minimum wage rate is equivalent to approximately 60 per cent of median wages. But the ambition should ultimately be greater than this and towards establishing the living wage as the norm, and as quickly as possible for profitable companies and the public sector, which could lead by example in pay and terms of employment, including a robust equal pay framework (Kersley et al., 2013). An increase in the minimum wage would have a relatively small impact on the wage bill of most employers, especially large ones. The interaction between wages and unemployment is not straightforward and there is scope to improve wages while avoiding adverse effects on employment.

Part-time working and low hourly pay rates are the characteristics of employment found to be most strongly associated with poverty. Low pay is the stronger predictor although the two factors overlap (Ray et al., 2014). One UK study estimated that around 4 million employees would benefit from earnings raised to the living wage by an average wage gain of 15 per cent (Riley, 2013). The extent of a net income gain would be significant for households not claiming benefits. However, for households in receipt of full benefit entitlements the increase is considerably lower. With the introduction of Universal Credit households receiving benefits would gain more than before from a living wage (Ray et al., 2014).

**Building skills and progression pathways**

This is about improving and extending workforce planning, career-based training, high-quality management and provision of apprenticeships. Non-graduates are increasingly funnelled into low-paid jobs with few career progression opportunities (Shaheen and Seaford, 2012). More broadly, poor opportunities reflect poor investment in training and development both for new starters and incumbent employees. The focus on skills currently tends to focus on workers’ readiness to be competitive in an increasingly high-tech world, which ignores other important skills, such as caring for and managing people.

A pooled approach to training and career progression, backed by strategic public investment as suggested above, offers a way of achieving benefits for workers, businesses and the economy. At a sectoral or industrial level, businesses would have the opportunity to establish quality frameworks and share best practice (Devins et al., 2014; Kersley et al., 2013). It would reduce the risk of a firm investing in staff only to lose them to a competitor without recouping the benefit of their investment. There are already examples of cooperative approaches, such as the training academy for construction skills in the East Midlands, and the Sector Skills Councils for finance and legal services. The challenge is to take these initiatives into other important sectors, particularly more services as the service sector accounts for 85 per cent of employment in the UK (Jones, 2013).
Fair and progressive taxation

This involves introducing further tiers of direct taxation, starting with an immediate increase in rates at the top of the earnings distribution to 50 per cent on incomes above £50,000, and reform of indirect taxation to reduce the uneven burden on less well-off households.

Design of the tax system is vulnerable to capture by wealthy elites who not only have opportunities to build influential networks but also, having more resources at their disposal, can create strong lobbying power (Stiglitz, 2012). This capture has tended to strengthen the pressure for tax cuts. Certainly, top marginal tax rates in most OECD countries have declined considerably in recent decades (Förster et al., 2014). Recent polling suggests that 96 per cent of the public would like to see a more progressive tax system (Power and Stacey, 2014). Tax rates up to 80 per cent were applied in the US and the UK until the 1970s. Evidence that taxing more progressively does not impact negatively on national income counters the narrative that higher taxes will dampen growth, and makes higher marginal rates a legitimate option for policy-makers again (Saez and Picketty, 2013).
5 Reform money and banking

Our current money and banking system is inherently a cause of poverty and injustice for a number of reasons:

- the centralised structure of the banking sector, concentrated in London, contributes to regional inequalities and lost opportunities for economic development;
- continuing exclusion of some communities from access to fair and affordable banking services and credit entrenches existing patterns of poverty;
- monetary systems based on bank debt widen inequalities because the additional aggregate bank interest required in such a system flows from poor to rich;
- in contrast, reciprocal exchange systems based on time help those who can’t afford services and products. Greater equality is embedded in such systems, where everyone has time and everyone’s time is valued equally;
- the tendency of credit creation to cause asset bubbles and offer opportunities for seeking economic rents (explained further below) also redistributes wealth upwards.

All money and banking systems are socially constructed and can be changed. The key features of the UK system are that the money supply is created by private banks (Ryan-Collins et al., 2011); the banking system is dominated by a small number of very large national and international shareholder owned banks, whose primary purpose is to maximise profits; and there is very little social purpose in banking regulation (Prieg and Greenham, 2012).

Reducing regional variations and financial exclusion

Regional variations will always exist, but economic structures should reinforce convergence rather than divergence. Access to affordable banking services, online and offline, and to fair and affordable credit, are essential for citizens to participate fully in the economy, and manage the ups and downs of income and expenditure (Mitton, 2008).

The UK has the highest regional economic inequalities in the EU (Meadway, 2013). It also has one of the most concentrated banking sectors of any larger economy, with almost no local or regional banks and a lack of diversity of ownership (Seaford et al., 2013). The only significant non shareholder banks in the UK are building societies which are restricted to personal savings and mortgages, unlike co-operatives elsewhere that offer a broad range of banking services including to small businesses. The credit union sector is small and highly restricted in the UK compared with most other countries (Prieg and Greenham, 2012).

Evidence from other economies suggests that local stakeholder banks perform better at supporting small and medium-sized enterprises (SMEs) to generate local wealth. By having an explicit tie to a geographic region they maintain investment in regional economies, resisting the pull towards international financial centres. By having an explicit social mission, they also reinvest more of their profits back into the local area, supporting local charities and social enterprises, and seek to serve all customers regardless of their financial status or likely profitability for the bank (Prieg and Greenham, 2012). In contrast, UK shareholder banks have no incentive to sign-up loss-making low-income customers, or partner with the few local community banks that exist. As a result the proportion of households unable to meet an unexpected, but necessary, financial expense has risen from 26.6 per cent in 2007 to 36.6 per cent in 2011 (ONS, 2013) creating conditions for predatory behaviour by high-cost credit providers and rising debt distress.
Fostering reciprocal exchange

A fundamental function of money is to act as a medium of exchange; it embodies our mutual dependence, or at least it should. A reformed system should recognise that everyone has something to offer, even if the current market system places no value on it.

The abstract form of money which predominates in the modern era carries little sense of being a token which allows us to exchange our labour or resources for another’s. Money becomes an object in its own right, to be accumulated by each individual. Indeed, the hoarding of money, otherwise referred to as ‘saving’, is considered virtuous. In a system with no checks and balances against inequality, and one which increasingly has a ‘winner takes all’ ethic to enterprise, earnings and inherited wealth and economic advantage, this can lead to a small section of society accumulating huge claims against the future labour of others – a situation that creates a kind of debt bondage.

In contrast, when time is used as a unit of currency, our mutual dependency becomes transparent. As Timebanking UK puts it:

“Equality is enshrined in every timebanking exchange through the principle of an hour for an hour. Because an hour to every human being is equally valuable, and everybody has something to give, timebanking can help some of the most marginalised people feel a sense of self worth and belonging”.

Everyone’s time is valued the same. An hour of caring is worth an hour of expert tax advice. One person can only earn time credits if another is willing to spend them. Such systems do not allow individuals to build up excessive ‘savings’ because this prevents exchanges and denies income to others. Rather, community currencies based on reciprocal exchange can be an effective means of tackling poverty and social exclusion (Gregory, 2013).

Encouraging financial stability

Recessions and depressions hit the poor hard (Padley and Hirsch, 2013) which is why financial stability is so important. The tendency of the system to create high levels of consumer credit, leading to inevitable busts, was dramatically illustrated by the financial crisis, but actual regulatory reform has been timid in comparison to changes enacted after the Wall Street Crash of 1929. The importance of the quantity and allocation of credit in determining economic outcomes has been recognised (Buttonwood, 2014) but there is little recognition that ensuring that credit is ‘socially useful’ requires both changes to regulation and more radical reconfiguration of banking institutions.

Eliminating economic rent

Economic rents are unearned income arising from the control of access to resources – including not only land, but other resources which can be artificially restricted to generate rent. Money is a source of economic rent for those who can create it and control access to using it. Systems that create and concentrate economic rents have an inbuilt tendency to widen inequality (Dabla-Norris and Wade, 2001). Profits from speculative trading and investment banking are out of all proportion to the economic value created. From high frequency traders to opaque charges on pension schemes, the financial system arguably serves more to extract wealth from the rest of the economy than to generate it. The strong incentives within the banking system to lend for asset speculation, and property purchase in particular, hands windfall profits to the asset rich (Martin et al., 2014).

Bank deposits, which account for 97 per cent of the money supply, are simply IOUs from banks, created by banks when they make loans or buy assets. Consequently, the supply of money that we all use in the economy is ‘borrowed into existence’ at interest, from the banking system. This system embeds high levels of debt in the economy. Although the total debt will initially equal the money
issued against it, in an economy with income inequality bank deposits will be accumulated by the wealthiest, leaving the debt with mid- and lower-income households. The interest paid on debts, and received on bank deposits, will therefore flow from the poor to rich (Creutz, 2010), creating a self-reinforcing dynamic of widening inequality.

Key reforms to build a socially just banking system

The money and banking system is set up in ways that both worsen poverty and create major barriers to tackling it. Fortunately there is no shortage of viable policies for systemic reform on three broad fronts: regulation, banking institutions and monetary reform.

• Regulation. Since the crisis there has been some curbing of financial speculation and attempts to improve financial stability. Key areas yet to be addressed are:
  - full implementation of the Financial Transactions Tax to discourage short-term speculative trading;
  - capital controls to prevent destabilising financial flows across borders and the hiding of wealth in tax havens;
  - credit guidance to favour lending to real economy investment rather than to asset bubbles and speculation;
  - social obligations on banks to recognise that basic payment services and credit services are utility functions to which all citizens deserve access.

• Banking institutions. We need greater diversity in ownership, mission, services and geographical location. The UK has one of the least diverse banking industries, and lacks a significant stakeholder banking sector. There are a number of ways to change this:
  - transform RBS into a network of local stakeholder banks based on the successful German savings banks;
  - provide active assistance, including low-cost and long-term capital, to create new co-operative banks and scale up credit unions into a commercially viable sector able to compete with banks;
  - extend the scope and scale of public banks to explicitly include anti-poverty objectives – for example the Green Investment Bank should provide cheaper finance for schemes to update houses to tackle fuel poverty and create apprenticeships for people not in education, employment or training (NEETs); the proposed British Business Bank should have an explicit mandate to support investment that addresses regional economic disparities, and should recognise the social and economic benefits of job creation in the most deprived areas of the UK through lower funding costs and loan guarantees for businesses investing there.

• Monetary reform. The area of fastest growing interest within financial reform is reforming the money system itself, for which there is a wealth of theory, evidence and practice to draw on:
  - return the power to create money from banks to the state, by ending the system whereby banks hold reserves that are lower in value than their total customer deposits, and introducing sovereign (actual) money issued free of interest by the central bank. IMF research into such a reform in the USA concluded it would be greatly beneficial on a number of counts, including the complete eradication of the US national debt.
  - set up reciprocal exchange currencies. All money is ultimately credit – a promise to redeem for goods and services in the future. Instead of relying on expensive bank credit, businesses can finance their exchanges through mutual credit offered without interest. Such schemes already operate all over the world, with a thriving US industry and a Swiss system, the WIR, which has been operating since 1934 and has more than 60,000 business members.
  - support timebanks. The principal of mutual credit can be extended to people and the skills and time they have to offer. Too often such skills are undervalued or even ignored by the market system, but timebanks can draw marginalised and economically excluded people back into
confidence-boosting mutual exchanges within their community. When used to help organise the co-production of public services between providers and citizens, understanding that people in such circumstances are potential assets rather than liabilities can be enriching for both individuals and society.
6 Pay attention to power and time

Lack of power is a both a cause and an effect of poverty and ill-health. The two conditions can be mutually reinforcing, with extremely negative effects. Power tends to accumulate with those who are asset rich, shaping decisions in favour of elites, leading to further accumulation of resources in the hands of the powerful (Coote, 2015). Strategies for redistributing and sharing power are crucial for tackling inequality and poverty.

The concept of power is subject to wideranging debate and interpretation (see for example Foucault, 1980; Galbraith, 1983). It is exercised through many channels and we focus on two: control over decisions and actions that affect people’s everyday lives and circumstances, and the distribution of paid and unpaid time. The two are linked, because the distribution of time can affect degrees of control over decisions: people who are time poor may have little or no opportunity to participate in decision-making. Meanwhile those with little control over decisions that affect them may be unable to control how they use their time.

Control over decisions and actions

It must be recognised that people have different degrees of capacity to take control over their lives and circumstances. It is therefore important to develop a clear understanding of control, of what is needed to exercise control, and of how control can be fostered more equally across society, both for individuals and for groups.6

NEF has begun this work by deconstructing the concept of control and mapping its necessary components (Hough, 2014). Our findings suggest, in a nutshell, that control rests on having:

- **power to influence decisions that affect your life** having a valued role in decision-making, not just a place in decision-making structures;
- **knowledge, skills, confidence, and time** to make the best use of opportunities to exercise control (without developing these attributes, attempts to ‘give’ people control can be meaningless, as NEF has argued elsewhere (Coote, 2010);
- **support – including practical and emotional assistance** to overcome social or structural problems that undermine our ability to take control.

There is a body of research that suggests a range of potential benefits derived from individual and collective control, all of which are relevant to this discussion. They include more effective services and interventions, improved social and material circumstances, a greater sense of control and self-efficacy (at both individual and community level), and improved health and reduced health inequalities. The more control a community has, the more empowered it becomes, and the more these outcomes are maximised (Popay, 2010). At an individual level, the extent to which people participate in their communities and how far this brings more control over their lives will have ‘the potential to contribute to their psychosocial wellbeing and, as a result, to other health outcomes’ (Marmot, 2010, pp. 126).

Conditions of control are relatively under-theorised and poorly understood. NEF has developed a ‘model of life control’ to help understand the conditions of control, how it is exercised, and possible outcomes (Coote, 2015).
Control may be exercised individually or collectively. Enhancing control on both fronts is important for tackling poverty and inequality. Understanding what control means to people, what constitutes control and how it is exercised, is a first step towards opening up opportunities for people to take control over what happens in their own lives and neighbourhoods. But opening up opportunities is never enough. Special efforts will have to be made to include groups and individuals who are currently marginalised and/or time poor. Often, this means providing practical support while letting people do things their own way, on their own terms, to identify their needs and decide how to meet them.

Our proposals for enhancing control over decisions and actions include:

- **Recognise that people have assets, not just problems.** This is a well-established argument in favour of asset-based development (see for example Glasgow Centre for Population Health, 2011). If anti-poverty strategies begin by acknowledging that people have valuable strengths and assets, regardless of their access to money and other material resources, this will help to build awareness, confidence and self-esteem, which in turn will enable people to take more control over their lives, as well as improving their well-being. Building on uncommodified human and social assets can help to create more and better measures to address poverty and inequality, even at times when public funds are scarce.

- **Make co-production the standard way of getting things done.** Co-production is a form of asset-based development that seeks to create equal and reciprocal partnerships between professionals and other service workers on one hand, and people who use services on the other (Boyle et al., 2011). Together they identify needs, design activities to meet needs and, where possible, deliver those activities. People who use services have valuable wisdom and experience, which can help to develop activities that meet their actual, rather than perceived needs. This approach requires a substantial change in the way professionals see themselves and their ‘clients’ and how they behave – from experts and providers to brokers and facilitators. Co-production has been found to produce better outcomes without additional expenditure, to prevent needs arising and to increase individual and collective control. NEF is working with local authorities and other public bodies to embed co-production in the process of commissioning services (Slay and Penny, 2014). There are caveats. First, strategies to promote co-production must go hand in hand with strategies to promote greater social and economic equality, and to support those who may be economically disadvantaged and feeling powerless, so that they can participate on equal terms. A second, related point is that co-production takes time, so it is important that those who are time poor are enabled to engage on equal terms with others.

- **Foster solidarity within and between groups.** Tackling poverty depends on collective action, through NGOs and community groups and through the state. That is why solidarity is important – defined as feelings of mutual sympathy and shared responsibility between different groups in society. In fact there’s a strong base of public opinion in favour of acting together for the good of society as a whole (European Social Survey, 2012; YouGov, 2013; NatCen, 2013). However, this tends to be obliterated by the dominant political narrative, which favours individualism, competition and choice, with minimal
state interference. For anti-poverty strategies to succeed, it will be necessary to reinvigorate a
shared commitment to collective action – through groups, movements and organisations – and
importantly through the state – and to build enduring habits of democratic participation (Coote,
2014).

Distribution of time

While everyone has the same number of hours in the day, people have vastly different degrees of
control over their time. Some are time poor as well as income poor, especially people with caring
responsibilities or with disabilities. Some feel they have too much time on their hands because they
can’t get a paid job. In spite of the influx of women into the labour market, paid and unpaid time is
still distributed unequally between women and men.

NEF proposes a slow but steady move towards shorter and more flexible hours of paid work for men
and women, aiming for 30 hours as the new standard working week – a four-day week, or the
equivalent number of hours spread across the year. This way, what is now called part-time becomes
the new full-time, for men and women. It is a redistribution of paid and unpaid time.

The evidence suggests that a general move towards shorter hours of paid work would bring a range
of benefits to the environment and the economy as well as to society (Coote and Franklin, 2013;
Coote et al., 2010). Countries with shorter average paid working hours tend to have stronger
economies as well as lower greenhouse gas emissions (Schor, 2013). Reducing working hours across
the board would help to distribute paid work more evenly and – in the future – manage a
sustainable economy that is not growing.

It would release time for people to be parents, carers, friends, neighbours. It would give fathers as
well as mothers more time to spend time with their children, and thereby help to tackle an
underlying cause of gender inequality. It would open up opportunities for lifelong learning; leave
more time for democratic practice and community based action; and transform the prospects for
older people – making it easier to stay in paid employment for longer, gradually reducing hours over
a decade or more. All these things could help to reduce inequalities and poverty, always provided
they are accompanied by an offensive against low pay, as NEF has argued elsewhere (Coote, 2015).

We suggest a gradual approach, changing attitudes and practice gradually over a decade or more,
rather than a one-off piece of legislation. Possible measures include:

• each new cohort of young people coming into the labour market should work a 30 hour week, so
  that with each year the numbers increase until there is a critical mass;
• older workers could reduce their working week by one hour a year so, for example if they are
  working 40 hours at 55, they’d be on a 30 hour week by 65, and a 20 hour week by 75; the
  transition to retirement is gradual, flexible and extended;
• stronger regulation to ensure that employers have fewer grounds for refusing workers’ request s for
  shorter hours;
• discrimination on grounds of hours worked should be against the law;
• the UK could start by reversing policy on the European working time directives;
• tackling low hourly rates of pay: a common argument is that people on low incomes cannot afford to
cut their hours, but no-one should have to work long hours in order to make ends meet, so the
move towards shorter hours needs a parallel offensive against low pay. By way of illustration, a living
wage calculated on the basis of a 40 hour week at £7.85 an hour would need to rise, over time, to
the equivalent of £10.46 an hour (in today’s terms), to bring the requirements of a living wage into
line with a new standard 30 hour week (Coote, 2015).
7 Build strong local economies

By ‘strengthening local economies’, we mean to ensure that a good balance exists in any given place of economic activity which ensures:

- equitable access to resources by local communities, including ensuring access to affordable goods and resources;
- an equitable share of wealth and job creation for local communities, including ensuring that profits generated through local economic activities are not syphoned off from the local community through supply chains and patterns of investment that exclude local businesses;
- that the local environment is nurtured, which involves maximising opportunities for local economic development presented by environmental objectives such as updating homes to improve energy efficiency, as well as placing safeguards on local resources such as land and water to avoid a loss in quality of life for local residents.

That said we do not assume that ‘buying locally’ or favouring small-scale businesses over larger ones will always be the best way to generate local wealth and prosperity.

From NEF’s perspective, the concept of the local economy has two complementary meanings. It is understood as a system of relationships, markets and distribution mechanisms which can perform, more or less effectively, to contribute to the national economy, and to channelling locally and nationally produced wealth into the assets or spending power of individuals. It is also understood as a collection of impacts, by the wider national and international economy, on local people and businesses, which determine how individuals participate in the economy by buying things, working for local organisations, providing unpaid care, renting or buying property, contributing to local decisions, and so on. Both are useful. The first tends to form the basis of economic growth strategies, while the second is easier to align with policies for tackling financial, social and economic exclusion.

Where the ultimate aim is to eliminate poverty, the link between any attempt to strengthen a local economy, and efforts to eliminate or reduce poverty and inequality, centres on three questions:

- How can people be supported to participate in ways that generate a better standard of living for them, with more voice and power?
- How can the local economic systems and structures be better shaped to meet – and indeed to prioritise – the needs of local people, sustainably?
- How can wider economic systems and structures, whose impacts on the local economy determine people’s day to day experience, be changed at the appropriate scale?

Much of NEF’s work in this field has focused on: how to nurture a local economy to keep money circulating locally, generating maximum benefit for local residents; how to enable local residents to participate as well as possible as ‘co-producers’ within the local economic system; and how to channel investment so that it brings optimal benefits for local residents (Lewis and Ward, 2002). Our current analysis focuses on how local and national economic factors impact on individuals and interact at local level. For example, we examine the relationship between where you live, where your childcare is, how much it costs, where you might be able to get a job, how much it pays for how many hours, what the transport links are like and how much they cost, where you can afford to shop locally on your work–childcare–home route within the time available during a commute, etc.
LM3 and ‘Plugging the Leaks’

NEF’s work on local economies has developed strategies that can contribute to the reduction of poverty. One is LM3 methodology, developed as a simple and understandable way of measuring local economic impact. It enables individuals and organisations to map the way in which spending circulates within their local economy, and how far it benefits different stakeholders as it is spent. It uses a local multiplier analysis and can be part of a process to maximise the impact of local spending power on the local economy. This helps local areas to benefit much more efficiently from money which flows through their place-based economy, and can dramatically increase the amount of sustainable income available to support the creation of local jobs and wealth (Sacks, 2002).

NEF’s ‘Plugging the Leaks’ framework and toolkit sets the LM3 methodology alongside several other tools and processes to help people re-generate their local economy from within, taking advantage of the resources that a community already possesses (Lewis and Ward, 2002). As an example of how this can work, one community identified a lack of job and business opportunities in their area, as well as a lack of affordable, healthy food. When they applied the Plugging the Leaks methodology through a peer research project, they discovered that a substantial amount of money was being spent by residents on takeaway food from outside the neighbourhood. This prompted a community based initiative to set up a new local business supplying good quality, affordable takeaways to the local community, ensuring that it was local residents, rather than an outside company, that benefited from the profits of local spending.

Nurturing local businesses

NEF has explored and tested interventions to support local businesses to be set up and nurtured to ensure that local residents derive the maximum prosperity from them – not just looking at employment, but also at community ownership of profits and assets. A programme called BizFizz was developed by NEF with the Civic Trust in 2001 to support entrepreneurs, focusing on start-ups, micro and small enterprises in areas experiencing economic disadvantage. It succeeded in generating sustainable local enterprise with a high long-term survival rate. Our experience suggests that this kind of approach to nurturing and growing small-scale enterprise is key to enabling communities with low access to financial resources and capacity to participate more actively in their local economy and generate more wealth from local opportunities (Boyle et al., 2010).

Aligning public spending with poverty reduction strategies

Our recent work with Haringey council took a strategic approach to the challenge of living within environmental limits while reducing inequality. Partnering with NEF, Haringey set up a Carbon Commission which ran from 2011–2012 and sought to develop a strategy to support the growth of green industry in the borough through the creation of a low-carbon enterprise district, and ensuring enterprise and job opportunities were created locally. Developing innovative enterprise models that retain wealth in the borough was taken as a core aim of the commission (Cox, 2012). (A similar approach worth noting is the Evergreen Co-operative model in Cleveland, Ohio, where employee-owned, for-profit businesses have been supported in a deprived area to meet the demand of local ‘anchor institutions’, such as a hospital or university, which had previously been buying services and goods from outside the local area).

Understanding local dynamics

Building wealth within a community can help to tackle poverty, provided that all community members, especially those who are relatively poor and powerless, are able to tap into that local wealth sustainably and effectively. Our experience suggests that it is useful to focus not only on how...
money flows around local communities, but also on the dynamic interplay between individuals’ behaviour and the systems within which they operate. Each aspect of the economy which shapes an individual’s experience is in turn shaped by a combination of local, regional and national systems and structures. These may include the type of housing they live in, the shops in their high street, the cost of their utility bills, the location and quality of their public services, and their access to jobs and transport. All these factors must be well understood and taken fully into account in order to strengthen local economies.

As the figure below indicates, the ability of individuals and communities to shape and drive any particular element of the economy depends on: the scale at which that economic element operates; communities’ access to decision-making structures; their access to knowledge and understanding of how the economy functions; and levels of transparency and knowledge-sharing by stakeholders. Crucially, this perspective shifts the focus towards upstream determinants of poverty, rather than focusing solely on the behaviour or condition of the individual.

Figure 3: Scales of influence

An important lesson emerging from this analysis is that any intervention aimed at developing the local economic infrastructure will have greater impact if it gives priority to supporting local residents to participate and to derive maximum benefit. Another learning point is that the intervention should pay attention to how local economic relations could do more to support this participation.
The latter point is, in our experience, often omitted from the design of interventions. For example, a school breakfast club may be seeking to target poverty, health and nutritional issues and may be generating excellent outcomes for children and families involved. If the club also bought from a locally based business employing local residents, it would generate even more impact. If it bought its supplies from a business in which local residents had a profit-sharing stake, it would further extend the benefits. And if that business in turn used other local supply chains, it could add even more positive impact.

**Recommendations for strengthening local economies**

- Policy interventions tackling poverty with a primary focus on supporting individuals should consider opportunities to contribute in the long term to the local economy through buying from locally owned businesses, where possible setting up and supporting more locally distributive ownership structures, and embedding better working conditions in any business generated through the intervention.
- Policy interventions tackling poverty with a primary focus on regenerating the local economy should consider how to enable local people to access any new opportunities created, to share in new profits generated, and to have greater voice in, and access to, decision-making.
- Local poverty must be understood in the context of the interconnected impact of regional, national and international economic structures at local level.
Conclusion

Tackling poverty requires a systemic approach to distributing social, environmental and economic resources. It is important to tackle the upstream causes of poverty rather than just the symptoms. Inequality is a cause as well as an effect of poverty. We recommend:

- To reduce inequality: universal childcare; investment in creating good jobs; a statutory basis for collective voice at work; a strong wage floor; improving skills and progression pathways; a more progressive tax system.

- To improve access to resources: reform money and banking with stronger regulation to discourage short-term speculative trading, to prevent financial flows to tax havens, to encourage investment in the real economy and to oblige banks to provide basic services and credit to all; reform RBS to create a network of stakeholder banks, new co-operatives and scaled-up credit unions, and extended scope and scale for public banks; return power to create money to the state; setup reciprocal exchange currencies; promote time banking.

- To distribute power and time: make co-production the standard way of getting things done; move towards shorter, more flexible hours of paid work and redistribute paid and unpaid time between women and men.

- To strengthen local economies: Promote opportunities for individuals to contribute in the long term to the local economy through buying from locally owned businesses, where possible setting up and supporting more locally distributive ownership structures, and embedding better working conditions in any business generated through the intervention; build capacity of local people to access any new opportunities created, to share in new profits generated, and to have a greater voice in decision-making.

2. For a review see Shaheen F. (2011) Ten reasons to care about economic inequality. London: NEF.

3. There was agreement on this among European experts at the roundtable discussion organised by NEF 9th December 2013.


5. See www.timebanking.org/about/what-are-the-benefits-of-timebanks

6. While power can be understood as a capacity to make things happen to people or things, control is the capacity to exercise power or to limit or influence the way it is used. See for example Dean, H. (2012) Social policy, Cambridge: Polity Press, pp.70.

7. See write-up of Plugging the Leaks project at Marsh Farm at www.marshfarmoutreach.org.uk/about-marsh-farm-outreach/plugging-the-economic-leaks/

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