

## CONSULTATION PAPER - THE BARE NECESSITIES

How community and co-operative approaches to energy, utilities, food, fuel and transport can help address the cost of living crisis, weak consumer power and market failure.

### MAKING MARKETS WORK FOR CITIZENS

The cost of our basic daily essentials is too high. Electricity bills, heating, transport and other living costs have risen and show no sign of coming down. These markets are failing and despite their efforts, successive governments' policies have failed to make these critical markets work for the people of this country. Consumer power is negligible in these markets despite the rationale for opening up utilities and railways to market forces.

One reason why these markets aren't working is because they are dominated by a handful of giant companies – like the 'Big 6' in energy and the 'Big 4' supermarkets – and barriers to entry too high. For those who believe free markets are the best way to keep people fed and warm, this isn't at all what they had in mind.

Our providers of life's essentials are too big to succeed, never mind too big to fail. We have a distorted economy and an unbalanced concentration of economic power, leading to market abuse. Instead of a diverse range of medium sized business - which we see in Germany or in the economic textbooks - we have instead an 'egg timer' economy with a few big players controlling the flow of power. No wonder that belts are tightening.

In *energy*, the big 6 dominate both retail and wholesale markets, meaning there isn't really a functioning market at all between those who generate energy and those who sell it. These six companies control 98% of the retail market and switching rates remain low<sup>1</sup>. The proportion of our disposable income which is spent on gas has doubled in the ten years since 2003<sup>2</sup>. Since 2010 alone, household energy bills have gone up by more than £300 a year<sup>3</sup>.

In *transport*, the cost of using public transport has risen faster than people's incomes<sup>4</sup>, while the vast majority of services are privately owned by profit-seeking businesses. So it's no surprise that people think price rises are going towards profits to shareholders rather than being invested in service improvements, or that almost two thirds of UK adults (63%) believe that train companies should be passenger-owned, either in part or in full<sup>5</sup>. Rail passengers have no choice over which operator they use. This is no market and we have no power.

In *food*, with large and increasing numbers of people forced to go to food banks, it is clear that some people have been priced out of the food market altogether. While we have a limited choice between supermarkets, competition does at least keep some food prices down. But the power of the big 4 supermarkets is not good for farmers. And neither in the long run is it good for us as the separation of people from food production and our reliance on industrial food chains means that food we can trust to be healthy, ethical and sustainable is unaffordable for most.

Economists warned us of these oligopolies, the dangers of price fixing, cartels, barriers to entry and too much 'vertical integration' where companies control both ends of the market. They also warn us of the dangerous side-effects of dysfunctional markets, such as social inequality or environmental damage, which competition law ignores and government struggles to mitigate effectively through expensive subsidies and complex regulation. There are

<sup>1</sup> <http://www.bbc.co.uk/news/business-25018828>

<sup>2</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/172923/130326 - Price and Bill Impacts Report Final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/172923/130326_-_Price_and_Bill_Impacts_Report_Final.pdf)

<sup>3</sup> <http://www.telegraph.co.uk/finance/personalfinance/consumertips/household-bills/10043967/How-energy-bills-have-soared.html>

<sup>4</sup> <http://www.jrf.org.uk/media-centre/minimum-cost-living-soars>

<sup>5</sup> <http://www.uk.coop/rail>



similar problems in childcare, housing and care homes, which the Social Economy Alliance will be exploring in more detail under our other work streams.

In addition, each of these markets depends not only on demand and supply for a product or service, but also on some '*infrastructure*', such as a grid or network that enables demand and supply to meet each other, and products and services to flow. The ownership of this crucial infrastructure is too often opaque, anonymous, anti-democratic or has fallen into private and remote hands. Finally, prices in many of these markets are too high because of unnecessarily high demand, pushed up by waste and inefficient models of consumption. If our politicians believe in markets, they need to learn from both theory and practice and start making these markets work for us.



## THE SOCIAL ECONOMY SOLUTION

This is about a market failure and a political opportunity. Short-term deals with the big providers or short-term price caps are not long-term solutions. But a future government could transform the balance of power in these markets, extending greater choice to voters as consumers, increasing competition, diversifying ownership and rebalancing critical markets. The next Government could hand people the power to deliver their own solutions and, in energy for example, turn the big 6 into the big 6,000 or 60,000.

This is a 21st century approach beyond 20th century arguments between big business and big government, neither of which hold the answer. Instead of expecting pseudo markets to somehow deliver or resorting to ad-hoc intervention by the state, the next government could open up these markets so people themselves can bring balance to market forces and make them work for all of us.

Social, co-operative, mutual and community owned enterprises are the key to the problem, sidestepping the struggle between statist intervention and private profiteering through real people power. This is good old fashioned entrepreneurship grounded in a genuine connection and commitment to the community. These models are flourishing, against the odds, and slowly building a greater diversity of 'Challenger' providers, who can keep the markets honest and make them work for us. Through their responsibility to their owners and their social and environmental ethos of 'internalising' negative side-effects, mass community-based entrepreneurship can also reduce the need for overly complex regulation or overly detailed tender specifications and the contradictions and perverse incentives which they bring.

In *energy*, this means more community-led renewables, co-operative ownership of supply and transmission, and people acting to generate, save, buy and sell energy together. Individuals and communities can be empowered and engaged as market actors for the benefit of society and the planet.

In *transport*, this means greater community, co-operative and mutual ownership of rail franchises and bus services, breaking apart private oligopolies, giving passengers a voice in the market and the running of the services upon which they rely.

In *food*, this means more community-supported agricultural co-operatives, urban agriculture and community-owned farms which can connect people with food production, reduce their reliance on complex food chains and increase the supply of food we can trust to be healthy, ethical and sustainable. This can strengthen British agriculture, making us less reliant on food imports and reduce our exposure to global inflationary pressures and speculative fluctuations.

The infrastructure of these markets can also be more open, democratic and participative. Rather than conventional state or private models, 'multi-stakeholder' common ownership models with asset and mission locks can safeguard community interests, hand market actors more power, resolve conflicting incentives and improve the functioning of crucial infrastructure, such as rail network or the electricity grid. These models can be applied to both existing and new infrastructure through, for example, community buy-outs, community finance initiatives and public-social partnerships. Network Rail, for example, could be governed jointly by the rail operators, the tax payer and passenger groups in a mutual model, creating more incentives to co-operate more effectively.

Finally, social, co-operative and community enterprises can also help reduce unnecessary demand and pressures on these markets, bringing prices down, increasing domestic energy efficiency and addressing fuel poverty, for example. Collective co-operative and social enterprise models are emerging to increase take up of the Green Deal and pull down the cost of retrofitting, upgrading the energy efficiency of virtually the most fuel inefficient housing stock in Europe.

Where David Cameron and Vince Cable have called for more responsible and popular capitalism, and where Ed Miliband describes a model of 'pre-distribution' where businesses deliver greater social justice, the urgent first step is simply to make markets work properly for the people of this country. A more social economy can help keep the lights on, the cupboards full, the wheels turning and make our money go further.



## WHAT CAN GOVERNMENT DO?

1. There needs to be a new, stronger model for competition policy, rooted in an understanding of markets in practice and more decisive and timely in terms of action to correct market weaknesses. Competition policy should be strengthened to recognise the value of a diversity of suppliers, including co-operative and social enterprise, with regulators' remit extended to encourage competition and diversity, for example of ownership and size. Regulators should take faster and more decisive action in network markets characterised by high barriers to entry, such as energy and transport. The equivalent of a 'Glass-Steagall Act' for energy markets, for example, would break up the vertical integration of the wholesale and retail markets - allowing a move from the Big 6 to a Big 60,000 energy suppliers. In financial markets, Parliamentary Commission on Banking Standards recommendation that the regulators create "better functioning and more diverse banking markets" and this should apply equally to food, transport, communications and other sectors.
2. Competition economics that underpins policy action should recognise the role of social and environmental externalities in distorting patterns of competition, such as the social costs of carbon emissions, rather than assume that these can be set aside, or costed at zero. There needs to be an extension of the Social Value Act to the mandate of market regulators, in line with all the major parties' commitment to environmental and social value in procurement. The Social Value Act, which places a duty on public budget-holders to take into account wider social and environmental value when spending public money, should also apply to regulation, reducing negative externalities which put pressure on public finances elsewhere or further down the line.
3. The next Government must clear the path for social economy 'Challengers' across a range of sectors, including support for the development of consumer-owned energy retail co-operatives, for example. The Government should aim for German levels of community ownership in energy, Italian levels of local food suppliers and retailers, Swiss levels of diversity in transport services. A range of policies could deliver this, working with potential emerging Challengers such as housing associations, existing social enterprises and co-operatives, schools and hospitals, for example. Partnerships with existing providers can also encourage new market entrants through a shared ownership obligation (or *Community Right to Own*) placed on all proposed new (energy, supermarket and transport) developments whereby local communities are offered the opportunity to own part of the new enterprise. Barriers to entry should be torn down, including the administrative burden placed on community projects, the need for advice and support services, greater access to appropriate finance beyond the relatively tiny £15m rural community energy fund, more appropriate planning rules, fairer grid access in energy and the use of FIT to create appropriate incentives.
4. New and existing *infrastructure* of these critical markets should be made more open through new models of community buy-outs, community financed infrastructure and public-social partnerships. Network Rail, the National Grid and the water network and new sewer systems should all be under consideration for mutual ownership or governance by a partnership of customers, the taxpayer and service providers. The feasibility or planning stage of infrastructure development (energy, water, road, rail, etc.) must consider the case for asset and mission-locked social, co-operative and mutual models rather than only conventional public and private partnerships. The new Community Right to Own should also apply to critical infrastructure.
5. The Government can help reducing demand for critical services and unnecessary waste by supporting collective, social and co-operative approaches to retrofitting, food, fuel and transport networks, sharing schemes, collaborative consumption and consumer co-operatives.



## QUESTIONS FOR CONSULTATION

1. Which of these proposals do you agree with?
2. Which of these proposals don't you agree with?
3. Which of these proposals are the most important?
4. What have we missed? Which proposals would you like to add?
5. Which proposals need further work or refinement?
6. Do you have any evidence to support or refute any claims made in this paper?
7. Is there any evidence or examples from other contexts which can inform the proposals put forward in this paper?

