

# The Road to Socialism is the A59: The Preston Model

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Martin O'Neill speaks to Councillor Matthew Brown about Community Wealth-Building and Alternative Economic Strategies in Preston.

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On 20 April 2016, Shadow Chancellor John McDonnell chose an employee-owned business in Preston, Lancashire as the venue for a speech that sketched a way in which the ideas of radical economic thinkers such as Mariana Mazzucato could stand behind a different vision of local economic development. The location was well-chosen, for just as 'the Cleveland Model' has come to stand for a more democratic and egalitarian approach to economic development in the United States, so the radical and imaginative policies being developed by the Labour council Preston have begun to be discussed as a 'Preston Model'. In a bleak era of accelerated inequality and government austerity, the emerging Preston Model shows that there is still impressive scope for action for local authorities committed to a fairer and more just society. One of the model's most impressive aspects is that, although it is a radical strategy for creating a democratic socialist economy, it proceeds by gradual steps. It can also call on straightforward and pragmatic arguments for mutual self-help, that can be compelling for the local community and which, as Peter Rankin, the council Leader puts it, can be presented as simple, sensible policy to even the most apolitical local stakeholders.

A couple of weeks ahead of John McDonnell's visit, *Renewal* Commissioning Editor Martin O'Neill travelled to Preston to meet with Councillor Matthew Brown, described by Peter Rankin as the 'visionary' thinker behind the Preston Model.

## Inequality & Austerity

*Martin O'Neill: I'd like to start off, before we discuss the community wealth-building strategies that you've been pursuing, with some general background. What would you say*

*have been the most pressing economic problems facing Preston? What's the economic context behind your efforts to create a more democratic economy?*

**Matthew Brown:** In Preston we have significant economic problems, but we're also very lucky. We have lots of place-based institutions like the university, lots of public sector workers, advanced manufacturing nearby. We're quite blessed in that respect, compared to other places in Lancashire. But the main problem, from my perspective, is the level of poverty. Although we're improving in the Index of Deprivation, there are still some extremely poor areas. Until recently, in one part of the city you could expect to live to eight-two, and in another only to sixty-six. For me, that was the main issue we wanted to address. To do what we could to create an economy that benefitted everyone.

*Martin O'Neill: The background of austerity from central government has curtailed the freedom of action that Labour councils might otherwise have had. Can you tell me about the level of cuts that Preston has faced, and about how alternative economic development strategies have helped you to deal with this background of austerity?*

**Matthew Brown:** These alternative strategies are emerging in other parts of Europe and the United States and have been very successful. I've always been supportive of them because I believe it's a better way to have a healthy society. But the cuts have made things much more difficult. Preston City Council's budget has gone down from over £30 million to just under £20 million, a huge cut. Our response has to be really creative. We have to ask ourselves: what are local politicians for? Because you're a city council, but also a lot of councillors are school governors, or on housing associations, or colleges, or universities, or hospital wards, or pension fund boards. If you look at the influence we have through all these institutions, that's a huge amount of money that we can influence. There's a huge amount of wealth still in our communities. We need to look holistically at the wealth and potential of our communities.

Labour councils need to wake up to the fact that the 2008 crisis was a crisis of the economic system, and respond accordingly. Vast quantities of public money were used to bail out the banks which were not properly regulated. They weren't under any real form of democratic control. That's the cause of austerity. The austerity program comes from the fact that we've got a dysfunctional system. At a local, regional, and national level, the Labour Party needs to begin to create alternative economic systems, to learn from the best thinking elsewhere in the world.

Some of the best examples are happening in American cities. A lot of our ideas are taken from the 'Cleveland Model,' where community wealth-building strategies are perhaps most advanced. But they're also happening all over. The political response

to austerity we've seen, with Jeremy Corbyn and also with Bernie Sanders, is inevitable. People will only tolerate for so long a multimillionaire class taking more and more and leaving ninety-nine per cent of people with less and less. Eventually, people wake up to it.

## Building Community Wealth

*Martin O'Neill: So you very much see the community wealth-building approach that you have here, the kind of initiative that Preston has taken, as the response to problems of austerity and a way of dealing with it. Can you just tell us more about the features of this community wealth-building approach? What kind of elements it has, how they fit together, and how it came about?*

**Matthew Brown:** It started in 2011 when I joined the council cabinet with responsibility for social justice. Since then we've been trying to put forward a community wealth-building agenda as a response to the systemic problem. That's behind everything we've been trying to do. We want to create a new economic system within Preston and Lancashire. In 2012, Ted Howard from the Democracy Collaborative in the United States came over to Preston. And since then we've had people like Richard Wilkinson, co-author of *The Spirit Level*, and people from the Mondragón Corporation.<sup>1</sup>

A lot of interest has been generated by these ideas, and we started building momentum. From 2013 we engaged CLES (the Centre for Local Economic Strategies), who've impressed me with the way they manage to deliver practically, and we've been working with them since. We have managed to get an amazing number of institutions involved. The Community Gateway Housing Association, with 6,000 social properties within Preston, the largest housing provider, which itself is a tenant-led co-operative; Preston College, Cardinal Newman College, two of the biggest Further Education colleges within Preston. We've got involvement from Lancashire County Council, which has a Lancashire-wide footprint and an annual spend of around £650 million on their Top 300 suppliers. We've got the Constabulary, with the support of the Labour Police and Crime Commissioner. Recently we managed to get the University of Central Lancashire, itself a big spender, committed to the project. We're meeting later this month with the Lancashire Teaching Hospitals. Blackburn with Darwen and Blackpool, which are unitary councils, are keen as well. They're beginning to bring their own place-based institutions in as well. What these institutions spend locally in Preston and Lancashire, is in the region of least £1.2 billion each year. Until we started this project they weren't looking at where they buy their

goods and services. Now they're looking at buying from local companies and creating community wealth.

Taking these institutions all together, that's a huge amount of public wealth. On top of that we're looking at other wealth-governing measures, including new cooperatives. We've got an employee-owned transport consultancy, called TAS [the site for John McDonnell's April 2016 speech – MO'N] which began about five years ago that employs about thirty people. And a growing number of other cooperatives and other democratic companies, alongside a new, citywide Credit Union. There's a new economic culture that's starting to emerge.

These institutions are all methods of democratising wealth. So far we have shifted at least £4m-£5m in public contracts back to the local economy. That's just the start. The next part is to create worker-owned businesses, where there are gaps in local suppliers with whom we'd like to do business. Beyond that we're looking at other ways to democratise the economy. The local government pension fund is already investing in the local economy, in student flats and other development – about, I think, £50m, which instead of going to outside shareholders is going to Preston. We want to look further at things like housing and potentially also at renewable energy, as a member of the Lancashire County Pension Fund, which is a huge amount of wealth consisting of £5.5 billion across Lancashire with the unions interested in investing in affordable housing which would benefit many of their members.

***Martin O'Neill:** When Ed Miliband was talking about redistribution, one of the under-developed planks of that agenda was thinking about how procurement spending could be used to further social justice.<sup>2</sup> Either making sure that it was only going to companies that paid a living wage, or that had apprenticeships, or that ticked off other kinds of requirements. When you look at the kind of spending that the local authority and these anchor institutions are doing, what features of companies that you spend money with are you most interested in? Are you mostly interested in locality, and keeping the money within the area, or are there other kinds of features of companies, like wage structure, employee voice, or apprenticeships, that are also very significant to your approach? What are you most interested in?*

**Matthew Brown:** That's a really good question. I see this as a wider ownership strategy. So whether that's Credit Unions, local government pension funds, the investments that we have as a city authority, procurement, workers co-ops, employee owned businesses, or local businesses as well because they tend to be family owned, it's trying to bring them all together in some kind of ownership strategy. That's my main vision for what we're trying to do. But on top of that, yes, it's equally as important to make sure that there is trade union representation in companies we

deal with, and that they pay the living wage, and where appropriate that they have apprenticeships.

We're getting a lot of these things within the contracts now. It's going to take further work. One thing we could look to is to potentially include in our social value policy the requirement that if you're going to do business with the council, there has to be some kind of employee involvement, so the employees would have a stake within the contractor company as a result of the contract. It's very challenging for some organisations to talk about democratising capital. It's difficult to get them into the mindset, but it can be done. I think people are seeing it's important now. It's like the living wage ten years ago. Very few Labour Councils supported it initially, and then it took off hugely. We're looking to replicate that kind of effect.

***Martin O'Neill:** I want to ask you a bit more about the examples in other places of things that have inspired your approach. You mentioned the Cleveland model, and the Mondragón cooperatives in Spain, and elsewhere you've mentioned the co-operative networks in Emilia-Romagna around Bologna. What is it about those examples that inspired the approach that you're pursuing here?*

**Matthew Brown:** One reason I've been inspired by these places is the way that, when the global financial crisis struck, these places were better protected from it, at least when compared to areas that are totally dominated by big multinationals. They really protected the communities by the way they restructured the economy at a local and regional level. It's not just Mondragón or Emilia-Romagna; you also see it with examples like the Bank of North Dakota. That's a publicly-owned state bank and it lends into local communities within North Dakota.<sup>3</sup> When the crash came, unemployment was kept extremely low, to a third of the national average. Its reserves remain within the state and it has contributed hundreds of millions of dollars in revenues to the state. These models do show that if there's a systemic problem, you can create alternatives within local communities, where the predominant way of doing things is one in which the community takes control of its own destiny through capturing the wealth and putting it under democratic control.

Also, if you go to Bologna in Italy, if you go to Mondragón in the Basque Country, the wage level is about twenty per cent or thirty per cent higher than in the rest of the country because they've found a way of capturing wealth and putting it in the hands of the people who produce it, the workers, instead of outside company owners who often come and go at a whim, taking that surplus out of the area.

There are important examples in the UK as well, such as the Bristol Pound, which is inspiring because it keeps wealth within local, independent businesses, and then the area becomes more creative, because chain stores often look the same in every

town, don't they? So many places are in danger of losing their distinct identity. But independent businesses tend to be family run, or run by two or three individuals, and they're always really creative because people really care about what they're doing; they want to express themselves.

The point I'm trying to get across with all of this is that we have a standard economic approach where a huge amount of wealth in our communities leaks out. But if you put it all together and link that to an ownership strategy, you really can get a culture going where you take control of your destiny as a local community, and build up wealth within local communities.

## Arguments for Community Wealth-Building: Community, Resilience, Equality

*Martin O'Neill: From what you've said, I can pick out three kinds of justifications for this kind of strategy to create a more democratic local economy. One you might almost call a kind of Blue Labour justification that worries about the homogenising effect of globalised capitalism: unless you can re-humanise the market economy you'll end up with very dull, homogenised communities, whereas if you want to assert local identity, you've got to find ways of localising economic life. Another justification might be just a quite hard-headed argument about economic resilience, and finding ways to reduce the vulnerability of local economies to fluctuations in the global economy. As you say, places like Cleveland or North Dakota or Emilia-Romagna weathered the most recent financial storms better than similar places that didn't have that kind of infrastructure, so there's a kind of stabilising, or resilience argument for this approach. And the third line of justification seems to be more to do with economic equality, and reducing economic inequality, and it's there in the point that Mondragón manages to capture a lot more economic value for its workers rather than it going to just to a separate group of capital owners. Here the argument is about spreading economic returns in a way that fits with a more egalitarian vision of the economy. Which of those strands do you think are most important: local identity, resilience, or a more egalitarian economic system?*

**Matthew Brown:** For me, it's the latter. It's going to sound like a very dramatic statement but I think over the next twenty or thirty years – and Ted Howard and a few others say this in America – we've got to move to a different system, bit by bit.<sup>4</sup> I think we've got to move beyond capitalism to a new system. It's not going to be the state running everything. It's going to be a devolved economy, a democratic economy, using all these different mechanisms and institutions to localise wealth.

It's probably going to take twenty or thirty years, but it's already happening, and it's

happening to our area. It's imperative because the old ways of doing things aren't going to work anymore. Even if you look at it on a practical level, it's just not going to happen because big businesses aren't investing, banks aren't lending. A huge amount of wealth is just not being invested at all. Within Preston we were promised a lot of outside investment, and when the crash came it didn't happen, and so these new ideas became a lot more appealing to people. What we're doing in Preston is new, and it's a response to a systemic crisis. Once Labour cities in other parts of the UK are all pursuing similar strategies, we're really going to get something moving here.

## Community Wealth and Labour's New Economic Thinking

*Martin O'Neill: Let me ask you about John McDonnell and the kind of direction that Labour's economic thinking is going. One of the most striking things that John McDonnell did very early on as Shadow Chancellor was to convene an Advisory Board that had lots of big names on it, Stiglitz and Piketty, Pettifor and Wren-Lewis and so on. And there's been a series of seminars on Labour's new economic thinking. How do you see the kinds of things you're doing here fitting with that kind of more fundamental rethinking of Labour's economic approach? How would you like it to influence the thinking on economic strategies that Labour will be doing nationally in the years to come?*

**Matthew Brown:** I think that many of John McDonnell's critics just thought that he would be saying, 'We're going to nationalise eighty per cent of the economy', following a very traditional left-wing economic agenda, but he's not done that. Instead, there's been a very creative response to our economic situation, and I think it's quite similar to the stuff we're trying to come up with here. The centralised state by itself can't lead to the kind of social outcomes we want. We've got to have a mixture of ownership models, whether that's cooperatives, employee-owned businesses, whatever, that we want to move towards a genuinely socialist economy. We've got to take an approach that's democratic and that devolves power. Looking back on the post-war nationalisations, a lot of industries were nationalised – and quite rightly so – but that didn't put them in the control of the people who worked within them and the communities who were served by them. So not that much really changed. These industries had to be under state control, but the levers of power were not with the people who ran them at the local level. It was not particularly democratic. Public ownership should be about devolving things to the local level, and involving the people actually working in these businesses and industries, and service users, as well as the people you vote for.<sup>5</sup> I think that's really important.

*Martin O'Neill: I'd like to ask about the kind of constraints that you're under. I suppose one set of constraints are political – the regulation that restricts what you can do as a*

*council. Could you tell me a bit about that? Are there limits to how much you can use your procurement spending to pursue social justice ends? Because I think there's a perception that Labour councils are highly constrained with regard to procurement spending. And in what way is the overall framework under which councils have to act stopping them from doing some of the things you might want to do?*

**Matthew Brown:** It's not as difficult as you might think. A lot of it's about changing the culture, and realising what's possible. You can't say, 'Well, we directly favour a local organisation,' but you can create conditions in which they can actually compete and win these contracts. So that's what we've been doing. And the reason why the model in Preston and Lancashire is getting so much interest is because we're the only place – apart from possibly Belfast, I think – in which it's not just us as an authority doing it, it's also many other public sector bodies.

It's known as 'sticky capital' in America, so it's what going to stick and what's not going to leave, so you might have a McDonalds, or Caffè Nero, or whatever, for twenty or thirty years and it might go, but you're always going to have a university, a hospital, a city authority. Our university's been here for 300 years, in one form or another. And you've got to let most of the wealth that's within it benefit the people.

It's not all bad. We have social value legislation now. What's also interesting is that our community wealth-building project is now receiving funding from the European Union. So these ideas are even going across Europe. There's this misconception that within European contracts and procurement laws, all the rest of it, we just can't do anything, but we can do a lot more than you'd think.

*Martin O'Neill: I'm interested to know more about the further horizon of this strategy, what the future vision looks like. You mentioned that the council has started to be involved in setting up cooperatives, and that when you as a council, as well as anchor institutions, are spending, you'd like there to be lots of cooperative partners, and worker-owned businesses, and you'd like there to be a plurality of different kinds of economic enterprises that you could contract with. Presumably a significant problem is that there's just not always that kind of diversity of enterprises out there. So I take it that part of your role is to try and create conditions for that to develop. Could you say a bit about that? What can the council do to help to create the partners with which you would then want to deal?*

**Matthew Brown:** Yes, there's a number of things we want to do in the future. I'll go to the cooperatives last, if you don't mind. We already have a living wage culture, obviously, and a new Credit Union. We're going to be advertising it to 6,000 social housing tenants within Preston. We'll hopefully get a significant chunk of that, so we want to grow the amount of people who are members of a Credit Union in



Preston. We already have some workplace Credit Unions as well as our citywide Credit Unions and a successful Community Development Financial Institution (CDFI). You go to Glasgow, and about thirty per cent of the city are members of Credit Unions. Imagine the wealth being localised through that.

**Martin O'Neill:** *There's a strong culture in Northern Ireland as well, going right back to the work of John Hume and others in the 1960s...*

**Matthew Brown:** Yes, and in the U.S. as well. So that's one thing we want to do. We also want to look at how we can find productive local investments for the local government pension fund, and we've got this investment already of about £50 million within the Preston economy and want to go further with that. We do have a number of cooperatives, but we've also got a lot of charities, community interest companies, and social enterprises who would have liked to have been cooperatives but where there were barriers to setting up on those terms, so they became a social enterprise, a charity, or a CIC, but they're operating on cooperative principles, and one or two of them actually consider themselves to be cooperatives.<sup>6</sup> So we're looking at getting more of these together and trying to form some kind of Mondragón-style infrastructure. If we link those efforts together with the procurement of place-based institutions, we're developing the infrastructure where we can have a more democratic economy. So I think you're getting my thread now: there's all this wealth which is localised, and when you create new opportunities to localise and democratise that wealth, then you really are creating the economy where the community decide on their own economic destiny. For me it's really just common sense.

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## Further Reading

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## Notes

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