

# The Productive State

**A Framework for Manchesterism**

 **MAINSTREAM**

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# Executive Summary

Britain faces a compounding crisis — of living costs, economic performance, and public finances — that grinds on without resolution. The causes run deeper than bad luck or the business cycle, as austerity, ageing infrastructure, a cumbersome planning system, global energy shocks, and the long tail of Brexit have all contributed to stagnation. These connect through a single failure: the inability to build, invest and provide necessities at the scale required. Yet a central source of the problem has remained conspicuously absent from mainstream debate: the privatisation of essential services that transferred responsibility from public providers mandated to meet social needs to private actors with a mandate for profitability alone. The retrenchment of public control has created an economy that extracts where it should invest, fragments where it should coordinate, and prices for profit where it should provide for use.

So far, the government's responses have ameliorated but not resolved the underlying problem. Welfare transfers treat the symptoms of price rises in housing and energy without curing the supply-side disease. Planning reform clears the ground for construction without laying plans to build anything. Regulation enforces inconsistent discipline on sectors that require transformational change.

None of these solutions change the structural features of the privatisation settlement that has made the essentials of a dignified life so expensive and so scarce. After their implementation, capital will still be allocated toward private returns rather than public needs, essential infrastructure will still face a structural bias against long-term investment, private decision-making across systems whose value lies in integration will remain fragmented by narrow interests, and a higher cost of capital will continue to lock in a regressive privatisation premium that ordinary people pay to access essential services and which redistributes income upwards from everyday bill-payers to financial investors.

These outcomes are not evidence that markets have malfunctioned, but rather that they are the wrong tool for the job in sectors that produce the essentials for a dignified life. As long as the state relies on private provision, it will remain deeply entangled in these dysfunctional markets. The question is whether that entanglement can turn into proactive engagement — through public production to align price with social and economic need — or if it will remain reactive, chasing solutions through the cumulative tangle of transfers, bailouts, and emergency interventions that move the consequences of private under-provision onto the public purse.

Solving this problem requires an approach that transcends the dichotomy of private market provision and welfare state redistribution. A third pillar of political economy is needed: The Productive State. The Productive State intervenes on the supply side by investing public money into public assets for public provision of the essentials required

for a dignified life. Where the market coordinates and the welfare state redistributes, the Productive State produces — directly owning and operating capital in essential sectors, participating in markets as builder and provider rather than regulator or redistributor, scaling the capacity that society needs, stabilising the prices that households and firms depend on, and pursuing the goals that profitability does not reward. The Productive State does this with a toolkit that reasserts national economic sovereignty by directly engaging in public investment, provision, ownership, and coordination of and between essential sectors.

Markets do real and vital work to generate prosperity — aggregating information, rewarding innovation, enabling genuine competition. The Productive State approach targets the specific domains where markets have demonstrably failed: where productivity is exhausted and profit is rent extraction; where prices are systemically significant and threaten macroeconomic stability; and where private capital chronically underinvests. The vehicle for change is the public corporation. Operationally independent, commercially mandated, and borrowing in its own name, public corporations are able to deliver patient investment at lower cost, price fairly, and can eliminate the privatisation premium. This is how Britain built the National Grid, how the postwar nationalised industries financed a generation of megaprojects that modernised the country, and how peer economies today maintain essential infrastructure stocks larger and at lower cost than Britain without sovereign borrowing implications.

Beyond providing a handle on the cost of living crisis, the Productive State toolkit promises sovereignty advantages that markets systematically underweight, and which the current geopolitical moment has made newly urgent: the ability to insulate households and firms from global price shocks, to maintain domestic productive capacity in critical supply chains, and to prevent the acquisition of essential infrastructure by foreign capital. Public corporations can prioritise resilience over financial return — holding excess capacity, maintaining strategic reserves, sustaining provision through disruption — in ways that private providers, always accountable to shareholders, cannot.

The right comparison is not what the Productive State will cost relative to the status quo, but rather to the costs already imposed by inaction: a crisis of affordability, an exposed and fragile economy whose capacity is rundown, and a fiscal escalator where welfare transfers chase rising prices caused by private provision that government is not permitted to reduce at source.

Andy Burnham's Greater Manchester programme — the Bee Network, expanded council housing, the Good Growth Fund — has begun to show what the logic of public control produces in practice: lower fares, more routes, restored connectivity to communities the market

had written off, and the fastest-growing city economy in Britain. Manchesterism recognises public control of essentials is central to a successful affordability agenda and represents fiscal prudence in action. The Productive State scales that logic nationally: energy and water under national public corporations, housing and transport at city-region scale, care and local services through municipal providers.

The destination is a three-tier economy of abundance, security, and stability — a decommodified foundation of essentials provided as rights, a stabilised market middle where competition thrives within bounds, and an innovation frontier enabled by the security the foundation provides. This is why the Productive State is pro-enterprise: by securing the basics and reducing systemic risk, it lowers costs, crowds in investment, and gives firms the stable platform they need to compete, innovate, and grow, while providing security for labour, which is the condition of its genuine freedom.

Regaining public control of essentials delivers more than cheaper bills and fiscal prudence. It is a starting point for creating the institutional basis for a more inclusive, resilient and democratic society, one in which belonging is built through the things we experience in common rather than divided by what we can afford. Building shared abundance will weaken the bonds of necessity, dilute the constraints of scarcity, and expand the capacity of ordinary people.

The diagnosis has been available for nearly a century. The institutional forms to support it are taking shape and the right political leadership is emerging. What Manchesterism now needs is the architecture that consolidates the case and shows how the Productive State can deliver meaningful change at national scale. This essay attempts to build it.

# A Complementary Demand Side Strategy

The Productive State framework addresses long-term structural reform, but the immediate crisis demands a sequenced response that manages near-term inflation pressures, the living standards squeeze, and persistent demand weakness.

We are halfway through the worst decade for living standards on modern record. If incomes grew in line with the average ten-year period since the 1960s (when modern income data began), households would expect to be around £10,000 a year better off by 2029 than they were in 2019, after housing costs. As things stand, the latest OBR forecasts – which do not yet take account of the latest economic impacts from conflict in the Middle East – imply incomes will be less than £200 higher at the end of the 2020s than they were at the start. This would be an economic record without modern precedent. The picture gets worse when you zoom into the current parliament. The OBR forecast has 2026 as the high point for disposable incomes, with the average family seeing a fall of £500 a year between 2026 and 2029 - all before the spillover effects from the latest conflict in the Middle East, which the Bank of England expects will cost the economy at least one percentage point in GDP.

The UK's two-decade growth malaise reflects not just supply-side dysfunction but an underlying demand deficiency, driven by demographic ageing and worsened by active policy choices like austerity. This has created persistent downward pressure on demand and growth. The 2020s supply shocks temporarily obscured this structural drag, but as those shocks fade, the underlying weakness persists. The OBR doubled its forecast of the output gap in March 2026, while the Bank of England has signalled concern about unexpected demand deficiency.

A central part of the solution to Britain's economic woes requires deliberately raising demand so the economy runs closer to full potential, catalysing higher firm investment and productivity.

Two constraints shape action in the short-term. First, the Middle East conflict is expected to push inflation to 4–6% over the next twelve months through import costs. Any immediate fiscal stimulus risks strengthening second-round effects and prompting Bank of England rate hikes, making demand expansion self-defeating. The MPC is currently holding rates only because underlying demand weakness may subdue these effects—a fragile equilibrium.

Second, historically high government borrowing costs require careful bond market management. A careful and measured demand-led growth strategy can be self-financing through higher GDP and tax receipts, but bond markets may excessively mark up rates on new debt if they perceive unconstrained spending. The progressive government's challenge is to avoid an upwards mis-pricing of debt, due to a failure to communicate the coherence and limits of

macroeconomic strategy.

These constraints are all the more serious given the British economy is an open, financialised economy, with a twin trade and fiscal deficit, sharply exposed to global headwinds. The correct strategy therefore operates in two phases:

First, a fully tax-funded (zero new borrowing) cost of living relief agenda. An initial package should focus on mechanically lowering inflation through direct intervention in energy, housing and transport pricing. By targeting the prices that drive inflation, this approach helps the Bank of England keep rates low while addressing immediate pressures. This should be tax-funded to manage bond market risk. Crucially, it demonstrates fiscal discipline to markets - remaining within the fiscal rules - while delivering meaningful relief to households. The Centre for the Analysis of Tax, for example, argues comprehensive reform of capital gains tax that is currently complex, inefficient and unfair would raise an additional £14bn in total revenues, whilst simultaneously taking over 100,000 people out of CGT altogether. This could deliver immediate and effective relief by:

Making energy affordable by taking all remaining levies off household and business energy bills and introducing new lower pricing on an essential minimum level of consumption. Above that level, the market price will remain, ensuring the competition works effectively and those consuming excessively continue to pay.

Bearing down on the cost of a home by introducing an emergency brake on housing rents, so they cannot aggressively outpace either inflation or earnings. Alongside this the government should look at the taxation of landlords, to reduce the burden on those with the thinnest profits and those most exposed to high interest rates, to ensure they have the support they need to shoulder a period of lower rent increases.

Keeping the price of transport low by introducing a fully subsidised national cap on bus fares, with even lower pricing for the under-25s, to ensure we can all continue to get to work, get to education and stay connected.

Once the inflation shock passes or if the economy enters recession, a medium-term demand side strategy could deploy deeper cost of living measures and income transfers to raise demand and close the output gap. This needs to be accompanied by careful bond market management through two mechanisms:

First, strict adherence to the current fiscal rules for the remainder of this parliament. Rules can be reformed later, but this can only be done from a position of strength in the economy and public finances.

Second, "fiscal forward guidance"—communicating both the limits to demand-led intervention (for example, policy ends or slows at a certain output gap level) and the government's reaction function (intended effects, monitoring metrics, and how policy adjusts if the economy evolves differently across scenarios). This gives markets certainty about the path for fiscal policy across multiple Budgets.

This two-stage macroeconomic strategy complements the Productive State framework's longer-term agenda. Phase One interventions—particularly in energy, housing and transport—create political space and macro viability for the decade-long institutional reconstruction of essential sectors that is required. Phase Two demand expansion ensures the economy runs hot enough to support the higher private sector investment the Productive State complements, while ensuring borrowing to investment in income-generating, productivity-enhancing assets. Neither the immediate crisis response nor the long-term reconstruction can succeed in isolation: both require a sophisticated understanding of how fiscal policy, monetary conditions, and institutional capacity interact over different time horizons.

# Part One: The Problem

## Introduction: A crisis without end?

Almost two thirds of the public believe the cost of living crisis will never end. That sentiment is not undue pessimism. It is a sober assessment of an economy that routinely produces exactly this outcome. For millions of households, the basic non-negotiable expenses of life — rent, energy bills, water charges, transport fares, the cost of care — now consume so large a share of their income that insecurity has become a permanent condition. The experience is degrading and exhausting, and breeds a sense of pervasive unfairness and constant frustration matched only by the inability of the political class to fix problems that have become obvious.

This crisis grinds away more than just the material welfare of ordinary people; it wears down the basic democratic expectation that public institutions can identify the needs of the public they govern and act to meet them. Over time, this damage moves from overstretched budgets and insecure households to the erosion of national sovereignty, as foundational infrastructure weakens under the control of investors whose obligations are only to profit. At every level, the pressure of the cost of living crisis corrodes economic dynamism: demand weakens as incomes are squeezed, productive capacity is lost as underinvestment becomes a chronic condition and the country's growth potential is run down. This pressure creates a fiscal escalator: rising prices drag public spending upwards without addressing the underlying causes, while undermining the political settlement which guarantees the welfare state itself.

Britain's cost of living crisis has no single origin, but it does have an underlying structure. Austerity hollowed out the state's capacity to act. Brexit disrupted trade and labour supply. Global energy shocks exposed the fragility of a fossil-fuel-dependent economy. A veto-laden planning system inhibited development. All of these problems are linked by a structural condition that remains conspicuously absent from mainstream diagnoses: the four-decade long retreat of public control over essential sectors and the transfer of foundational infrastructure to private owners whose interests align with profit instead of social need.

The scale of privatisation represented a unique experiment: no other G7 country privatised as deeply as Britain. In fact, since the 1980s, the only advanced economies that experienced a faster and deeper decline in gross public wealth than Britain were those affected by the "shock therapy" of the oligarchic and corrupt post-Soviet transition. The result is a national infrastructure whose ownership map is less a record of investment than a roll call of acquisition: assets built very often by British households through their bills, a national endowment of past collective effort, now held by entities whose obligations run elsewhere.

The project of privatisation put private capital in charge of organising essential sectors like energy, water, housing, transport, and care, and left private markets to coordinate them, extending the architecture of extraction into domains previously organised around public provision, social insurance, and decommodification.

Yet the features of that architecture clash with the needs of essential sectors. An essential sector is one that produces non-negotiable goods and services for a dignified life – people cannot opt out of buying essentials without facing severe consequences – and which constitutes a substantial and largely fixed share of household budgets, meaning price increases fall hardest on those least able to absorb them. Investments to support these essential sectors typically have long payback periods, modest returns or hard to capture positive externalities, high coordination requirements, and produce a social value that substantially exceeds their private profitability.

Under privatisation, the profit imperative directs capital toward what is merely profitable rather than what is actually necessary to provide ordinary people with affordable essentials. Private capital is reluctant to invest in these essential sectors at the scale society requires, in reservoirs, housing, long-run grid investment, transport infrastructure and more, primarily because those assets fail to clear private hurdle rates — the internal return threshold below which firms will not commit capital regardless of social value. The failure to build essential infrastructure at the necessary scale comes from the structural logic of private investment decisions. There are simply more things that society needs than private capital will build.

Investors' preference for liquidity constrains these essential investment decisions further. Finance is short; infrastructure is long. What Avner Offer calls the payback boundary — the temporal outer limit beyond which private capital cannot break even, given prevailing interest rates and return requirements — structurally excludes the investments Britain most urgently needs. Any project whose payback period exceeds that credit horizon cannot be financed by private capital alone, regardless of its social value. Essential infrastructure falls beyond it almost by definition, but the exclusion zone has widened rather than narrowed in recent years. As interest rates rise, the payback boundary shrinks, meaning the range of projects viable for private finance shrinks precisely when the need for long-horizon investment is most acute.

The fragmentation that came along with privatisation has also shrunk the field of viable private investments by fracturing industrial coordination. Where vertically integrated systems once internalised the coordination benefits of aligned investment decisions, privatisation has disaggregated them into separately owned and operated components — divorcing tracks from trains or generation from transmission. The result is higher transaction costs at more

corporate interfaces in the absence of any actor with both the incentive and authority to optimise the whole. Elaborate regulatory machinery attempts to approximate from outside what integration had previously made straightforward from within.

Historically private capital has overcome the time horizon problem in only two ways: speculative manias and government franchising (or some variant of subsidy, concession, guarantee, derisking, or legal fortress). The former is a rush to secure anticipated super-profits, often culminating in costly crashes. In these instances fixed assets often eventually enter public ownership by emergency rescue – this is not patient but exuberant capital. The latter presupposes the coordinating and protective power of the state, involves competition for rather than in the market, and is often fraught with rigid and incomplete contracts, informational asymmetry and moral hazard. The failures of this approach are not restricted to the kind of non-revenue-generating categories in which the failed PFI experiment has become notorious, but also in revenue-generating sectors like train operator franchising.

The orthodox alternative to public investment in essential sectors— attempts to "unlock pension capital" — has failed for reasons Brett Christophers identifies. While pension funds nominally hold long-term liabilities matching infrastructure's maturity profiles, individual investors and fund managers still require exit opportunities within much shorter horizons. The typical intermediary vehicles are "closed-end funds" terminating within 7-12 years, by which point all stakes must be liquidated. The traditional "2 and 20" fee structures both allow these financial intermediaries to extract a large chunk of the upside at the expense of pension beneficiaries while also insulating those intermediaries from downside risk (an insulation legally entrenched by the SPV form), creating perverse incentives for risky financial engineering. The result is impatient capital after all, tempted to boost "internal rate of return" metrics through quick exit, accelerated dividend extraction, underinvestment and asset stripping. Australian fund Macquarie's calamitous stewardship of Thames Water is a particularly extreme but instructive example.

The higher cost of private capital relative to public investment provides the final investment constraint created by privatisation. The higher cost of borrowing, the equity return requirement, and the financial complexity costs described in detail below embed a privatisation premium in every bill and fare — a regressive levy people must pay to access basic necessities that redistributes income upward from households to investors.

The result of all these constraints layered onto once-public essentials by privatisation? Private owners sweating assets instead of building them while prioritising financial over physical engineering. As a result, essential goods have become too expensive and scarce, subject to volatile and poorly coordinated market forces. Regulatory reform and

welfare transfers, however ambitious, cannot adequately resolve dynamics that privatisation has made structural.

Despite this, privatisation was not an economic experiment that failed. In the upward transfer of wealth and power, it was a political project that worked as intended. The beneficiaries of that transfer — the shareholders and bondholders of privatised utilities, the financial institutions that structure and refinance their debt, the investors whose returns depend on the continuation of the privatisation premium — have interests in the maintenance of a failing status quo. Indeed, there is a clear desire to expand this dynamic, for example among certain fragments of the tech sector. An alternative settlement requires building a broad political coalition whose interests are aligned with public provision and whose power can overcome that resistance: households with more money and less pressure at the end of the week, businesses with cheaper core inputs, communities with restored pride and prosperity. The institutional design and economic argument in what follows serve that political project, one that requires a theory of change as well as a set of policies. But the project also requires naming its opponents clearly and recognising their opposition is a rational defence of a settlement that works well for incumbents.

## The cost of private provision

Privatisation was designed to solve the problems of a different era. As new challenges have emerged, policymakers have responded with patch fixes in sector after privatised essential sector that have accumulated into an unwieldy and incoherent mess — systems far removed from what their architects envisaged. Government interference, through departments, regulators, and quangos, is more extensive than ever, yet because ownership remains private, must always act at arm's length: wide-reaching in scope, weak in control. The result provides the worst of both worlds: price distortions, excess profits, regressive distributional impacts, and chronic underinvestment, matched to cumbersome but ineffective public oversight — a mutating state-market hybrid that promises certainty to investors and transformative change to society, while delivering only one half of the bargain.

Yet, above all, the original promise of privatisation was that it would deliver lower consumer costs. From water to electricity to transport, the opposite happened. Why?

As with many economic questions, the answer begins with investment. Many of the privatised essential sectors are extremely capital-intensive — projects require upfront financing for which investors must be compensated over time. This cost of capital ends up as a very significant portion of total project costs, meaning that even a percentage point difference in interest rates makes a substantial difference to end prices. The Resolution Foundation calculates that a

10% cost of capital ends up comprising 49% of lifetime project costs for an offshore wind farm. Nuclear power plants and energy, water and rail network infrastructures are more capital-intensive still.

The higher cost of private financing for Britain's past and future essential infrastructure investment pipeline runs into the hundreds of billions, money that, were these investments public, would never have been paid. The choice between public and private financing of essential infrastructure is then, over any realistic time horizon, a choice about how much wealth is transferred from bill-payers to bondholders for no additional physical output. That premium cannot be wholly regulated away or streamlined by planning reform, nor can competition compensate for it given the market structure of these sectors — being either natural monopolies or often sectors ill-suited to quasi-competition. Indeed the threat of competition may increase the risk premium for investors.

There are three enduring sources of this higher cost of capital. First, a higher cost of borrowing: private lenders price in a possibility of default that does not exist for sovereign borrowers, elevating the cost of debt — typically one to two percentage points above the gilt rate. Second, an equity return requirement: shareholders demand a risk-adjusted return of typically eight to twelve per cent for regulated utilities (consistent with Ofwat and Ofgem's WACC determinations), compared with the three to four-and-a-half per cent on the fixed interest stock issued by the British Electrical Authority during 1948–55. Third, financial complexity costs: private infrastructure financing typically involves layers of holding companies, special purpose vehicles, and structuring fees absent from direct public borrowing. These are not incidental financing arrangements but rather another mechanism through which value is extracted, with every layer representing a cost that flows through to higher household bills.

These inescapable and consequential extra costs are paid by a captive public in the form of a privatisation premium. Twenty-eight per cent of the typical water bill in England goes to debt servicing, against ten per cent for publicly owned Scottish Water. Nearly a quarter of the typical electricity bill in 2024/25 was estimated to be corporate profit. Since the mid-1990s, privatised transport, energy, and water companies have paid out close to £200 billion (in today's prices) in dividends while delivering lower investment rates than their publicly owned predecessors.

The international evidence sharpens the domestic picture. Ofwat's own benchmarking against European comparators consistently shows privatised utilities delivering worse service at higher cost than publicly owned equivalents on the continent. OECD infrastructure investment data shows Britain near the bottom of comparable economies for public infrastructure stock relative to GDP. Energy price comparisons show households and businesses in countries with substantial public

energy ownership — France, Germany's municipal utilities, the Nordic systems — paying systematically lower bills. Britain's essential sectors cost more than comparable alternatives not because they deliver more, but because they are organised to extract more. Working people pay the price.

A recent cross-European assessment by the New Economics Foundation confirms the pattern at scale: across EU member states, private infrastructure provision has consistently underperformed public and alternative models on cost, social outcomes, and delivery pace, with the investment shortfall across European economies now running at an estimated €366 billion per year. The evidence suggests the problem is deeper than Britain's regulatory design; it is structural to the private finance model wherever it has been applied.

The higher prices this model produces are not an accident of market structure. They are, as Brett Christophers has documented, the predictable consequence of strategies undertaken by the private actors who now own Britain's essential infrastructure to meet the requirements of their business model. The asset managers, infrastructure funds, and private equity vehicles that acquired privatised utilities did not buy them to invest. They bought them because stable, inflation-linked, monopoly returns with minimal capital expenditure is precisely the asset class they were seeking.

The regulated asset base — designed to attract patient capital — was systematically converted into an extraction vehicle. The mechanism, analysed in detail by Christophers, is consistent across sectors: exploit the difference between the cost of debt and weighted *average* cost of capital presumed by the regulator by borrowing against the RAB at rates implicitly underwritten by the state's inability to allow essential services to fail, load the debt into holding company structures to extract equity, distribute the proceeds as dividends, defer maintenance investment, and present the resulting shortfall to the regulator as a problem requiring higher consumer bills to solve.

Adult social care shows the same dynamics operating through the labour market rather than the balance sheet. The average annual cost of residential care in England now exceeds £50,000 — depleting the savings of all but the wealthiest before local authority funding kicks in, and even then, is funded by local authorities at rates care providers argue are below the cost of decent provision. The sector employs around 1.6 million people, the majority on or near minimum wage, with high turnover and insecure contracts. This is the labour market consequence of a business model that compresses the one variable cost it can control. Billions in public money flows through the sector annually via local authority contracts, while quality remains uneven and the workforce crisis deepens. The financial extraction layer sitting between public funding and care delivery is a privatisation premium by another name: resources redirected from workforce and provision

toward investors, with weak public control over quality, coverage, or the business model that determines both.

The logic underpinning privatisation held that competitive pressure would keep costs in check. In sectors where genuine market competition could take root - typically not utilities - something like that story played out. Unbundling and liberalising electricity generation did prices fall during the 1990s, alongside an investment boom in combined-cycle gas turbines - the “dash for gas” - aided by the technology’s low capital-intensity and short payback periods (as well as the existing gas pipeline infrastructure inherited from the CEGB). But the bulk of Britain's privatised essential services are natural monopolies, like energy or water networks, where consumers simply absorb the cost of a more expensive private capital structure. What looks like market failure is actually the predictable result of assigning markets tasks they cannot perform. Yet vertical disintegration also brought fragmentation, introducing transaction costs that vertically integrated organisations never had to bear.

Splitting trains, tracks, and operators into separate entities paralysed rail electrification and sent diesel procurement soaring: costs, benefits, risks, and returns could not be meaningfully apportioned across three newly disaggregated subsectors. Rolling stock companies leasing fleets to service operators on short-term franchise contracts had every reason to avoid investing in trains designed to last four decades. Electricity transmission operators face an analogous dysfunction with new generation capacity — producing a connection queue bloated with speculative applications and, in the absence of locational pricing, the farcical outcome where wind farms located where returns rather than system needs dictated are paid to curtail output because the grid lacks the capacity to move their power to where it is actually needed. All this friction at the joints between what was once whole adds to costs and creates delays.

Privatising natural monopolies required regulatory innovations to artificially simulate the discipline of market competition where it cannot exist, but for all their sophistication and elegance (from RAB to RPI-X to RIIO), these frameworks have yielded worse results than the direct option of public ownership. Water companies have offloaded sewage treatment assets and allowed ageing pipe networks to deteriorate; energy networks have routinely underspent their infrastructure replacement allowances, pocketing a share of the difference as margin. Regulation in these cases is slow to react to changing circumstances and priorities not because bureaucracies are inherently sclerotic but because private capital demands regulatory *certainty*. This is stability as stasis, not as resilience.

A privatisation premium is now embedded at the heart of Britain's essential sectors. It falls hardest on those least able to absorb it: poorer households spend a far larger share of income on essentials,

making every price increase regressive by construction. And it operates as a society-wide mechanism of upward redistribution — structural, compulsory, and permanent — from ordinary households and businesses to shareholders and bondholders. But the privatisation premium is not merely a class phenomenon in the aggregate. It has a gender and a racial dimension. Women perform the majority of unpaid care work that inadequate and expensive care provision forces onto families — the privatisation of care is in part the privatisation of women's time. Racialised communities are disproportionately concentrated in insecure, low-paid work in the sectors most exposed to the cost of living crisis: energy, food, transport, social care. They face reinforcing disadvantages in housing markets shaped by discrimination as well as price. The privatisation premium falls unequally across the population and hardest on those with least power to escape it.

The privatisation of essential infrastructure is more than a domestic economic problem or a question of justice. It is a strategic one, which cuts to the heart of live debates about sovereignty in an increasingly geopolitically unstable world. Over four decades, ownership of Britain's water networks, energy grids, transport systems, and critical supply chains has been progressively transferred to overseas capital — sovereign wealth funds, foreign state-owned enterprises, infrastructure funds domiciled in jurisdictions beyond meaningful democratic accountability. In an era of weaponised interdependence — where access to energy, critical minerals, and essential supply chains has become a tool of geopolitical pressure — this is more than a question of who captures the returns. It is a fundamental issue of who controls the foundational conditions of national economic life.

## The fiscal escalator

The privatisation premium squeezes more than household budgets. It puts upward pressure on public spending. Welfare transfers chase a problem whose supply-side causes remain intact. Each pound of housing benefit flows through the household into the pocket of the landlord to pay rising rent. Support for energy bills protects the consumer but funds profit margins that remain in place as prices rise. The state ameliorates without ever being permitted to cure directly. The fiscal escalator is not caused by excessive public ambition. It is caused by the compounding cost of private failure and market scarcity in the wake of retreating public provision.

The scale of the problem is visible in two recent examples. Energy support spending reached around £40 billion in 2022–23 — the cost of cushioning the consequences of a price shock the state had no mechanism to prevent at source. Public ownership would not have eliminated that shock, but a publicly owned strategic reserve (whether a gas buffer stock like Rough, which Centrica closed, or removing gas generators from the wholesale market) could have weakened the

transmission mechanism that converted a wholesale price surge into a fiscal liability of tremendous scale. It would progressively reduce ongoing exposure to such liabilities by anchoring prices rather than after-the-fact responding to their consequences. Housing benefit for 2025–26, meanwhile, is forecast at around £37 billion, “tak[ing] the strain” of the removal of regulated and controlled rents, to borrow Sir George Young’s approving phrase. By comparison, a mere £5 billion or so in capital investment in council and social housing — a ratio that reflects the removal of private rent controls, the privatisation of council housing stock and the cost of the fiscal escalator powered, in part, by its absence.

The housing construction numbers tell a similar historical story. In the postwar decades after 1945, Britain built between 100,000 and 200,000 council homes a year, financed through a combination of borrowing and pay-as-you-go, and priced to make housing accessible to ordinary working incomes. Housing benefit was negligible because housing was affordable, in part because it was publicly provided and financed at public cost of capital, while the private rental sector was smaller and rents controlled. Right to Buy converted the accumulated wealth of the public housing stock into private equity, encouraged by discounts averaging 44% of market value, while preventing reinvestment in replacement. Council stock fell from roughly 5.5 million homes in 1980 to 1.7 million today, and housing benefit duly expanded to subsidise the private landlords who replaced upwards of 40% of it. Every pound of housing benefit is the fiscal half-life of a council home that was sold and not replaced.

The backward-looking cost of private failure in essential sectors is matched by an equally serious forward-looking one. The full UK investment pipeline for the energy transition requires hundreds of billions in new generation, transmission, storage, and network infrastructure over the coming decades. Each year of private financing at eight to twelve per cent equity return requirements, plus higher borrowing costs, rather than at the three to five per cent available to a commercially independent public corporation, is a year of compounding excess cost that will be embedded in network charges, energy bills, and subsidy obligations for decades. Nor is this problem unique to the energy sector. Defaulting to private finance treats public investment as a burden while treating private extraction as free. Yet the New Economics Foundation’s recent cross-European analysis of what it has termed the private finance myth finds no systematic evidence that privately owned infrastructure is more cost-efficient, and documents the pace of privately financed build-out as dramatically below what social and environmental needs require. Locking in private financing for essential sectors will deliver less investment at a slower pace and higher cost.

The fiscal escalator and the investment shortfall are two sides of the same problem — the privatisation premium operating simultaneously

on the expenditure side and the investment side of the public finances. The fiscal case for public ownership is about recovering what has already been extracted, while avoiding the extraction that current policy is in the process of locking in. To take a pressing example: investment in social housing creates a tangible public asset with measurable fiscal returns through lower housing benefit costs, reduced homelessness expenditure, and improved market efficiency. Housing benefit is a recurring expenditure that rises with private rents and builds nothing. A framework based on public sector net worth — which accounts for both financial and non-financial assets against liabilities — would capture this distinction properly while retaining discipline.

The sequencing of action and investment must be managed carefully given the real and serious constraints Britain faces. But over any realistic timeframe, the fiscal logic supports preventative intervention. Public provision reduces the recurring liabilities it displaces, making it the more prudent path, properly accounted. Rebuilding Britain's systems of public provision is not the alternative to fiscal prudence. It is fiscal prudence.

## Why the current responses fall short

The government is aware of the existential threat the cost of living crisis poses — to its political survival, to the country's economic performance, and to the basic promise that democracy can improve people's lives. That awareness has produced three policy responses: redistribution of income, tighter regulation of utilities, and the removal of planning obstacles. Each responds to the symptoms of the problem while leaving a core driver of the compounding crisis intact — private ownership of essential sectors organised around private return rather than social need.

Income transfers through the welfare state are urgently needed to maintain minimum living standards as the price of basics rises. In a demand-deficient economy with a growing output gap, they should be pursued proactively. But demand-side tools cannot address supply-side dysfunction. When supply is controlled by private actors with structural market power — landlords who raise rents to meet whatever tenants can afford, energy companies who administer prices to incorporate rising profit margins, water utilities whose bills embed dividend extraction and debt servicing — increasing household purchasing power does not expand the supply of affordable housing or build new energy infrastructure. It redistributes resources upward. The transfer flows through the household into the pockets of the landlord, the utility shareholder, the private equity fund that owns the care home or water company. The public pays twice: through higher bills, and through the taxes needed to fund cost of living support. A floor under incomes in a market where essential prices are set by actors with structural power is a floor that rises with those prices. What is needed

is not only a higher floor under demand but a different structure of supply.

Tougher regulation faces a tension that sharpens the harder it is pushed. Regulators must attract private capital to fund the investment the country needs; too much pressure risks spooking investors, raising the cost of capital, and passing the increase directly to consumers. This reflects a bargaining position in which the government has preemptively ruled out its most powerful card — the credible threat of public alternatives. This is particularly ironic given that public investment has the lowest cost of capital, the exact quality regulators contort themselves to secure from private actors. Hence the ongoing saga of penalising Thames Water's environmental infractions without frightening away rescuers, or Ofgem's refusal to claw back networks' excess profits despite returns outstripping what markets deem warranted by their risk. The fundamental problem is ownership, not conduct. It is impossible to regulate away a problem created by ownership, nor discipline owners effectively after abandoning your strongest hand. The result is regulatory creep without resolution, both in terms of scope and in actual size of the regulator, requiring ever more elaborate bureaucracy to approximate outcomes that direct public ownership would make unnecessary.

Planning reform advocates correctly identify that Britain is not building enough on any metric — by historic comparisons, relative to existing need, or compared to peer economies today. We must build again. Ending costly gold-plating, reducing excessive veto points, and streamlining the consent process are all welcome steps forward, though a fragmented, outsourced planning system stripped of public capacity over recent decades is itself a major cause of delay and escalating cost. But ground-clearing is not construction.

The agenda correctly identifies what must be done — we need to build at a far greater scale — while having far less to say on who builds, how, and at what cost. It assumes that once obstacles are removed, private capital will naturally flow to fill the gap. But the assets Britain most urgently needs have characteristics that make them a poor match for private capital in any regulatory environment: long payback periods, modest returns, high coordination requirements, and social value that substantially exceeds private return. Planning reform can and should clear the road; indeed there is room to go further, for example moving from a discretionary to a zonal system. But the vehicle best suited to travel it to deliver essential goods and infrastructure — patient, coordinating, pricing for need rather than profit, deploying a lower cost of capital — remains public investment.

Labour's programme, on its own terms, is more serious than anything attempted in a generation. But because it stops short of reclaiming public control over essential sectors and operates within the constraints set by the privatisation settlement, the government cannot

resolve the structural drivers of the crises it is trying to address. Welfare transfers cushion without curing. Regulation disciplines without transforming. Planning reform clears without building. All three may each be necessary; but none is sufficient by itself. That is why the costs keep rising, the investment keeps falling short, and the fiscal escalator keeps climbing. What is required is more than reform at the margin. What is needed is a new pillar of political economy: the Productive State.

# **Part Two: Manchesterism and the Case for the Productive State**

## A third pillar: the Productive State

For decades, orthodox political economy has been organised around a binary: the market versus the welfare state. The market coordinates production and allocates resources through price signals. The welfare state redistributes outcomes and manages demand through taxation and transfers. This binary has structured debate across the political spectrum — the right wants more markets and a smaller welfare state; progressives want a bigger welfare state and better-regulated markets. The argument proceeds as though these two arrangements exhaust the possibilities.

But this dichotomy leaves something out. The welfare state is fundamentally demand-side: it puts money in people's pockets, smooths consumption over the life cycle, and provides safety nets against market failures. This is vital. What it does not address is supply — what gets produced, by whom, at what price, with what stability, over what time horizon. When supply itself is the problem — when essential goods are too expensive, too scarce, too volatile, too poorly coordinated — demand-side transfers cannot fix it. Demand-side policy can ameliorate the effects of supply-side dysfunction, but it cannot resolve its causes.

The construction of a third pillar of political economy, beyond the welfare state and market reform, is therefore the central task of reclaiming public control over the supply side. We call this idea the Productive State. The Productive State governs the supply side of the economy by investing public money into public assets for public provision of the essentials required for a dignified life. Not only as the rule-setter or redistributor but as an active investor, owner, and provider. The Productive State is the state that produces — directly owning and operating capital in systemically important sectors. And it is the state that creates conditions for economy-wide productivity and flourishing, stabilising the essential input prices on which all other economic activity depends, coordinating investment that market actors cannot, providing the infrastructure of shared prosperity.

The Productive State enables dynamism. When housing is affordable, workers can move to where opportunity is. When energy is cheap and stable, firms can compete on quality and ideas rather than on who can squeeze the most from input labour. When a public option for care is universally provided, parents — disproportionately mothers — can participate in economic life without bearing impossible costs. When the essentials are guaranteed, workers can take the risk of leaving poor employers, starting new enterprises, retraining for new sectors. The security of the foundation is what makes genuine risk-taking possible. Contrast this with the current arrangement, in which the privatisation premium imposes a hidden tax on enterprise and labour mobility alike, and where compulsion disciplines workers' autonomy. The Productive

State is not a call to return to the administered economy of the postwar settlement. It aims instead to build the institutional foundation that makes a genuinely innovative and competitive economy possible — one in which dynamism derives from genuine productivity rather than the exploitation of infrastructure monopolies or insecure labour markets.

The Productive State is not a proposal to crowd out entrepreneurship or plan consumer goods from the centre. Markets do real and irreplaceable work — aggregating information, rewarding innovation, enabling genuine competition. The Productive State targets the specific domains where markets have demonstrably failed. Telecommunication services, for example, with genuine substitutability and rapid technological change, is not one of them — liberalisation generated innovation and consumer choice the pre-privatisation monopoly did not provide. Water and energy networks are. The distinction is not ideological. It follows from the structure of the market and the nature of the good.

Four decades of received economic common sense have made the obvious sound contentious. Markets work where the conditions for their functioning are present: where buyers and sellers are roughly matched in power and information, where consumers can credibly walk away, where capital responds to genuine price signals and to scarcity rents by expanding supply, where the time horizon of investment matches the time horizon of return, where the consequences of failure fall on those who choose to participate. These conditions hold at best weakly in the essential sectors. Energy, water, housing, transport and care are domains of inelastic demand, captive consumption, natural monopoly, long investment horizons, externality, and existential need. Households cannot defer drinking water or heating in winter; the grid cannot be shopped around; a house is not a substitutable good; care is needed when it is needed. Under these conditions, market provision fails to produce competitive discipline; instead it generates rent extraction, under-investment, and the systematic transfer of risk to those least able to bear it.

This is not a market failure in the textbook sense, to be patched with regulation. These are instead sectors for which the market form is structurally inappropriate to their function. As a result of this dysfunction, the state will be involved in them either way — either proactively, through public production that aligns price and provision with social need, or reactively, through subsidies, transfers, bailouts, and emergency interventions that absorb the consequences of private under-provision at far higher cost. The choice presented to the government is not then whether to act, but when and how. The Productive State is the proactive response that explicitly seeks to recover control by ensuring that the essential infrastructure of the national economy is governed by institutions whose mandate runs to the public it serves.

There is a parallel here to macroprudential financial regulation, which works to minimise systemic risk across the entire financial system, identifying where failures cascade and vulnerabilities concentrate, where intervention prevents crisis rather than managing its aftermath. The Productive State is the macroprudential approach to supply-side management, identifying where the existing structure of ownership generates structural or systemic failures and intervening to correct them. The degree of public control should reflect the nature of the good and the structure of the market: deepest where natural monopoly and universal need converge, lighter where private participation can be disciplined by a credible public alternative.

The economic case — lower cost of capital, price stability, investment at scale — is where the argument for public provision is most contested and hence is the primary focus of this essay. But public production's comparative advantage operates on other planes that the market systematically underweights and that the current geopolitical moment makes newly urgent. The deepest of these is sovereignty, understood in three concrete registers. Price sovereignty: the ability to better insulate domestic households and firms from the transmission of global market shocks into bills and input costs, rather than passing them through intact as the current system does. Supply chain sovereignty: maintaining domestic productive capacity for the equipment, components, and materials on which the energy transition depends, rather than trading one geopolitical dependency — imported fossil fuels — for another in the form of imported capital and clean tech goods. And ownership sovereignty: ensuring that essential infrastructure is not progressively acquired by foreign capital whose interests lie elsewhere. In an era of weaponised interdependence, the optionality of the Productive State is a vital strategic asset.

The Productive State can address the multiple crises that converge on the present moment. The essentials of life consume ever-larger shares of household budgets partly because workers are paid too little, but also because these sectors are dominated by rent extraction, underinvestment, and dysfunction. The Productive State targets costs at source rather than compensating for them after the fact. Decades of underinvestment have left Britain's physical infrastructure inadequate. Public corporations provide the patient capital and long-horizon coordination that private actors will not. Decarbonisation is fundamentally a coordination problem requiring the rapid, synchronised turnover of the capital stock of major sectors within decades. The Productive State can invest and divest regardless of quarterly returns. In mature sectors where profit increasingly derives from rent rather than innovation, public provision can eliminate the extraction that burdens households and firms alike. And a politics that cannot improve living standards will continue to lose legitimacy. The Productive State rebuilds the capacity to deliver benefits that people can see and feel, renewing faith that wavers.

The Productive State approach builds on the achievements of progressive politics, but directs them towards a transformative destination. The welfare state is fundamentally a project of decommodification: protecting citizens from the full force of market dependency by ensuring that access to the basic conditions of life does not depend solely on the income they can command in the labour market.

The Productive State extends this strategy of decommodification to the supply side. Instead of working through transfers and income support, the Productive State approach pursues the production of essentials themselves, ensuring that the things people cannot do without are produced through institutions whose mandate is provision rather than extraction. Demand-side transfers can only do so much when the supply side they are purchasing from is structured around extraction. This is what it means to build a state that protects citizens on both sides of the ledger: to construct an institutional floor under the conditions of social life without reference to the market. The case for the Productive State is, in this sense, the case for completing the welfare state's unfinished business. Where social democracy managed the demand side of capitalism, leaving production to private ownership and market coordination, the Productive State approach seeks to extend democratic control to supply itself.

The ultimate goal of the Productive State approach is a three-tier economy — a decommodified foundation, a stabilised and thriving market middle, and an innovation frontier — in which the essentials of life are treated as rights rather than revenue streams, and society builds the abundance, security, and stability it currently lacks. Built sector by sector, moving from the state as market participant to direct producer of essential goods, it is a strategy that delivers social and economic benefits from day one while driving toward deeper economic transformation.

The arguments for the Productive State go beyond the purely economic or social to tell a deeper story of national renewal. Britain's greatest moments of social solidarity have been institutional — the NHS not only treated illness, it created a form of shared civic life in which every person was equally entitled to care regardless of income or background. That is why, as Aneurin Bevan famously said, 'it will last as long as there are folk left with the faith to fight for it.' The privatisation settlement has worked in the opposite direction, fragmenting provision by ability to pay and geography and shaping a country where life is increasingly divided by market position. The Productive State rebuilds the shared institutions through which common membership and the expansion of inclusion and freedom is made real.

This is the framework that Manchesterism has begun to articulate in practice. Andy Burnham's Greater Manchester programme rests

on a clear diagnosis: that the loss of public control over essential sectors is a core driver of the cost of living crisis, and that the retreat of public provision forces the government to subsidise indefinitely the consequences of private under-provision it is not permitted to directly cure, making Britain vulnerable to the judgement of the bond markets. The reversal of that dynamic is therefore both the agenda to make life affordable again and a serious fiscal sustainability plan. Public control of essentials reduces the cost of provision by eliminating the privatisation premium and lowering coordination costs, which in turn lowers the transfers required to make those essentials affordable — progressively deflating the permanent upward pressure on public spending. What Manchesterism needs now is the theoretical architecture that explains why this logic holds and how to build the institutions that can deliver it at national scale.

## The criteria for intervention

The Productive State does not intervene everywhere. The question is always functional: is private ownership generating the dynamic gains in essential sectors that justify its costs? The five criteria below are diagnostic rather than justificatory — they identify the structural conditions under which private ownership fails on its own terms, and which warrant consideration for public intervention.

Two categories of sector warrant Productive State intervention, overlapping but analytically distinct. The first comprises structurally lagging sectors where Baumol's cost disease applies: services involving direct human interaction that cannot be accelerated without destroying what makes them valuable. Care work, education, and healthcare require human presence, time, and relationship; their quality depends on exactly the things that resist productivity improvement. In these sectors profit serves little productive function — it cannot incentivise efficiency gains that are not available, focus on extraction, charging more for the same service or cutting quality to maintain margins. Public provision does not sacrifice innovation because private provision struggles to generate it.

The second category comprises sectors of public necessity regardless of their productivity characteristics — domains where private provision generates instability, underinvestment, or incompatibility with wider policy goals, even where technical progress continues. Energy remains technically dynamic, but its systemic importance means price volatility cascades through the whole economy and private provision struggles to coordinate the system-wide transformation that decarbonisation requires. Housing involves highly dynamic land and finance markets, but is highly prone to speculation and exclusion. Strategic manufacturing in semiconductors, pharmaceuticals, and critical components may be productive but leaves essential capacities exposed to geopolitical conditions beyond democratic control. In all these sectors, public ownership serves purposes private ownership

cannot: price stability, adequate investment, universal access, strategic coordination.

The union of these categories — structurally lagging sectors and sectors of public necessity — defines the scope of Productive State intervention. The five criteria that follow specify the diagnostic conditions within each category: the analytical tools that identify where intervention is warranted rather than merely desired.

First, productivity exhaustion. This is when an industry reaches its technical limits, where the fundamental innovations have been made and learning curves have flattened, when efficiency gains have been captured and profit no longer rewards innovation. It becomes rent extraction: a transfer from consumers to shareholders that serves no productive function. Pharmaceuticals whose patents expired decades ago, utilities whose technology has been stable for generations, infrastructure whose basic form was established in the last century — these sectors no longer need private ownership to incentivise dynamism because there is little dynamism left to incentivise.

England's water sector is the paradigm case. The core technology — pipes, treatment works, reservoirs, sewers — was largely built in the Victorian era and has been stable in its basic engineering form for over a century. There is no innovation frontier or learning in water distribution waiting to be unlocked by private ownership incentives. What private ownership has produced instead is financial innovation: the systematic loading of debt onto regulated asset bases, the construction of elaborate holding company structures to extract equity value, and the optimisation of dividend distribution rather than infrastructure maintenance. This is a sector where private ownership is not rewarding innovation but collecting a toll on Victorian infrastructure while deferring the investment required to keep it functional. The technology has not changed. The ownership has — and the ownership is the problem.

Adult social care illustrates the same dynamic at the intersection of productivity exhaustion and human need. Care work is resistant to genuine productivity improvement by its nature. The labour time required to provide attentive, dignified personal care cannot be compressed without degrading the care itself. What private providers have pursued in its place is financial productivity: staff-to-resident ratios stretched to the regulatory minimum, fifteen-minute home care visits replacing hour-long ones, agency labour replacing permanent staff, and sale-and-leaseback arrangements of care homes converting fixed capital into recurring financial cost. As the financial journalist Hettie O'Brien has recently argued, the private equity model of many of the largest operators in the sector applies the same financial engineering that asset managers applied to water utilities: investment withdrawn, quality degraded, costs passed to residents, families, and local authorities, with the state as backstop when the model fails. The

difference is that the assets at risk are not pipes but people.

Second, systemically significant prices. When the price of a good cascades through the entire economy, price volatility becomes a macroeconomic problem, not merely a sectoral one. Monetary policy struggles to stabilise prices it does not control, or does so by crushing demand that has more downsides than advantages. Think of how energy prices ripple through every supply chain and drive inflationary shocks, or when housing costs determine whether workers can afford to live where jobs are. Stabilising prices the whole economy depends on requires public participation at source in these systemically important sectors, through restructuring ownership and production, not after the fact through monetary tightening; this is particularly important at a historical moment when medium-to-long-term disinflation and price stabilisation is dependent on the capital-intensive investments that are the most disproportionate casualties of monetary tightening.

The UK energy price shock of 2021–23 demonstrated this clearly. A cost of living crisis that required tens of billions in emergency support in 2022–23, fourteen consecutive interest rate rises to contain inflation the monetary authorities could not address at source, while energy giants like Shell and BP whose assets sat at the top of the supply chain reaped record profits. Public ownership would not have prevented the external shock but it would have provided more flexibility in responding to the crisis, limiting the transfers from taxpayers to producers and preventing windfall profits from accruing, socialising the costs, and cushioning the direct effect on the economy. This capability is incredibly helpful for policymakers as it means they can better avoid major and potentially destabilising fiscal demands on the state as well as recession-inducing monetary tightening to escape supply-side driven inflationary spirals.

Third, investment withdrawal. When private capital substantially withdraws from productive investment in favour of financial extraction, the justification for private ownership of essentials erodes. Firms in core sectors follow this pattern, consistently using profits for share buybacks and distributions rather than focusing on capacity expansion and cost reduction. Capital that does not invest productively in these sectors has forfeited the social contract basis for capturing the returns it collects from a captive public. Where capital withdraws, the state must build.

Housing is an example of investment withdrawal from both public and private actors operating through a different mechanism. At the peak of the postwar council building programme, Britain completed over 200,000 social homes a year. Private housebuilders now complete around 100,000 annually against a stated government target of 300,000, and the gap is not explained by planning obstacles alone. The major housebuilders are highly profitable, in part by

deploying landbanking strategies, managed release of permissions, and disciplined volume control. Returns on equity in major listed housebuilding firms have consistently run at 15–20 per cent, substantially above the wider economy average, which is precisely why private capital remains in the sector — not to build at scale but to manage scarcity at margin. The fiscal consequences of that managed scarcity are documented in the preceding section. A network of regional public housing corporations, borrowing at public cost of capital and building on public land, would break the mechanism, not by excluding private builders but by removing their ability to manage supply for margin when a public alternative is building regardless.

Fourth, social need. When goods are essential for dignified human life — when their absence means you cannot work, keep warm, stay housed, or access care — leaving their provision to market allocation imposes unacceptable costs on those least able to bear them. Even efficient exclusion is unjust. The essentials of social reproduction cannot be optional purchases for those who can afford them.

The distributional reality gives this criterion its sharpest edge. The bottom income decile spends around three times the share of income on energy as the top, meaning energy price shocks are inevitably regressive. Fuel poverty affects around 13 per cent of English households — a figure that rose sharply through the price shock years and has not returned to pre-crisis levels. These are not the outcomes of an efficient market allocating goods to those who value them most. They are the outcomes of a market allocating non-optional goods to those who can afford them. Those who cannot are left to cold homes, overcrowded private rented accommodation, and the welfare system's expensive and imperfect compensation. The unavailability of warmth, shelter, clean water, and effective transport mobility is a social failure with direct, measurable, and compounding consequences.

Fifth, public policy goals. When explicit public objectives like decarbonisation, public health, regional development, and national security require intervention in production rather than merely redistribution of its proceeds, the state should become a producer to accomplish its purposes.

When Covid-19 arrived, Britain discovered that four decades of outsourcing had left it without domestic productive capacity for personal protective equipment, ventilators, or diagnostic testing at the scale an emergency required. The government spent billions on emergency contracts — many awarded without competitive tender to politically connected intermediaries — because the manufacturing capacity that would have made domestic procurement straightforward had been dissolved. The National Audit Office documented hundreds of millions in waste and fraud. Or the selling off of the gas Rough storage facility, a key piece of national energy infrastructure whose strategic value is being demonstrated as it is

now unavailable to buffer exactly the kind of supply shock British consumers are absorbing. When public policy goals require productive capacity, transfers cannot substitute for it. We need to build, and build in capacity and resilience.

These five criteria are not a fixed checklist but a set of diagnostic questions, each identifying a condition under which the case for private ownership fails on its own terms. A sector need not meet all five to warrant intervention; meeting any one is sufficient to establish that private ownership is serving private rather than social purposes. Taken together they describe most of Britain's essential sectors: technically mature, systemically price-important, subject to investment strike, essential for social reproduction, and targets of declared public objectives. The convergence of all five in the same sectors is a structural consequence of privatising the foundations of economic and social life.

They do not automatically extend to every sector where any one condition is present. Food distribution, for example, raises genuine questions about systemically significant prices and social need, but genuine competition in food retail, the diversity of supply chains, and the feasibility of public alternatives mean the intervention calculus differs significantly from network utilities. The primary targets where all five conditions converge are water and sewerage, energy networks, and rail infrastructure, alongside social housing and social care. These are the sectors where the structural case is clearest, the institutional forms most developed, and the sequencing of intervention most legible. The Productive State does not stop there — as the programme develops and institutional capacity grows, democratic determination will extend the scope — but these are the sectors where the argument is strongest and the programme should begin.

A note on language. "Nationalisation" is not the right word for what this essay proposes. The postwar model placed industries under direct ministerial control, funded through the Treasury, accountable upward to central government. The Productive State operates through public corporations with commercial independence, arm's-length governance, and their own balance sheets — closer to the interwar Central Electricity Board model or Scottish Water than to British Rail in its final years, or contemporary European state owned enterprises that balance commercial mandates against public service obligations. Public ownership with commercial mandate. The institutional form matters as much as the ownership change, with the form more pluralist and democratic than the post-war nationalisation model.

The projects of Greater Manchester already demonstrate several criteria in action. The Bee Network addresses systemically significant prices and social need: a public operator optimising for coverage rather than maximising bus fares serves communities the market had written off, at lower system cost. A renewed focus on a council

building programme addresses underinvestment and social need. The convergence of criteria in the same place is no coincidence — it is exactly what the analysis predicts, and it is why Manchesterism is the practical proof of concept for the Productive State.

**Table 1: Five criteria for intervention — sector applications**

Criterion	Condition	UK sectors affected	Public response
Productivity exhaustion	Technical limits reached; profit becomes rent not reward	Water networks, rail infrastructure, social care	Public ownership; eliminate rent extraction
Systemically important prices	Price volatility cascades through whole economy	Energy, housing, food, healthcare	Public production as price anchor
Investment strike	Private capital prefers financial extraction to capacity building	Energy transition, social housing, water infrastructure	Direct public investment
Social need	Essential for dignified life; exclusion is unjust regardless of efficiency	Housing, healthcare, energy, water, transport	Decommodification; universal provision
Public policy goal	Market cannot deliver democratically determined objective	Decarbonisation, industrial resilience, pandemic preparedness	State as producer and investor

*Note: sectors meeting some but not all five criteria, or where full public ownership is not yet feasible or necessary, are candidates for public market participation and price anchoring rather than comprehensive public provision.*

## The theoretical foundations of the Productive State

A rich political economy tradition has been naming the same structural pattern for over a century: the tendency of private ownership of

essentials, in conditions of maturity and financialisation, to extract where it should invest, fragment where it should coordinate, and price for return where it should provide. Understanding why requires going beneath the surface of individual market failures to the deeper logic of how private ownership works as a system.

The starting point is the ownership problem. Ownership determines investment — not primarily in the distributional sense of who captures returns, but in the structural sense of what the economy actually produces. Private owners invest where private returns justify it, over time horizons that financial markets reward. If something is socially necessary but privately unprofitable, or profitable only over horizons that financial markets cannot see, it does not get built. Society inherits whatever capital stock private calculation happens to generate. This is not a failure of individual firms. It is the structural logic of private ownership as a system. The composition of the economy — what exists to produce goods and services, at what scale, using what techniques — reflects the preferences and constraints of those who own capital. Change who owns, and you change what gets built.

Keynes understood this most clearly, and his contribution has been consistently misread. The dominant reading reduces him to a technician of aggregate demand: cut interest rates, increase public spending, restore full employment. But it misses what he considered the deeper problem. The socialisation of investment — the phrase is from the *General Theory* but the argument runs through his mature work — is not primarily about smoothing cyclical fluctuations. It is about controlling the future. Private investment is governed by animal spirits and by the short-termism of financial markets that price assets on the basis of what other investors will believe tomorrow rather than what those assets will produce over their productive lifetime. The result is chronic underinvestment in what matters most over the longest horizons, and a macroeconomic instability that monetary adjustment cannot permanently resolve. The socialisation of investment means the state taking direct responsibility for the investment decisions that private capital will not make: not as regulator adjusting incentives at the margins but as owner and investor, controlling the upstream variable that determines downstream economic life — affordable housing, abundant and cheap energy, reliable and low-cost transport networks. That is why Keynes called it socialisation rather than stimulus.

Polanyi established that the market was never a natural order waiting to be freed from interference — it was always a political project, constructed through law, property rights, contract enforcement, and deliberate institutional design. The state does not intervene in markets from outside; it constitutes them from within. Every market reflects a particular set of rules, and those rules were chosen by someone, for purposes, with consequences. Markets do not naturally emerge but are the product of sustained political programme. Forgetting this

lesson and treating the foundations of social life as pure commodities destroys the social fabric on which markets themselves depend. The Productive State is not then intervention from outside a self-regulating, spontaneous market order. It is a different answer to a question that was always political: whose interests do the rules serve, and what do they make possible?

Esping-Andersen gave that counter-movement to market instability its clearest institutional form in the concept of decommodification — the degree to which individuals can sustain a dignified life independently of market participation. The welfare state extended decommodification to aspects of labour markets, establishing that people should not starve or be without shelter because they could not find work or were too ill to take it. The Productive State extends decommodification to supply markets, to the essentials whose price and availability, left to private calculation, generates the crises evident in Britain today. In productivity-exhausted sectors, Baumol's cost disease and Mandel's analysis of rent converge on the same prediction: profit that cannot be justified by productive contribution becomes a toll on positional advantage, the ownership of assets others cannot do without. These rents exist. The question is who collects them and under what institutional governance.

Brett Christophers' forensic account of Britain's rentier economy documents this tendency at full force, where ownership of essential sectors appears less about productive stewardship and more about enabling asset holders to extract rents without corresponding contributions to output or innovation. The investment strike that JW Mason traces — capital managing its claims financially rather than building productive capacity — and Isabella Weber's account of how systemically significant prices controlled by private actors cascade shocks through the whole economy are the contemporary expressions of the structural logic Keynes identified. The lesson is live, not merely historical. When conflict in the Middle East in March 2026 sent gas and oil prices surging, the inflationary cascade through energy, transport, and food costs demonstrated again that monetary policy cannot stabilise prices it does not control. A state without a meaningful stake in the supply side can only ever cushion the consequences of price shocks, never prevent them.

The specifically British political economy tradition that complements these foundations is the foundational economy framework developed by Karel Williams, Julie Froud, Adam Leaver and colleagues at the Centre for Research on Socio-Cultural Change. Their empirical work identifies a category of economic activity — utilities, care, retail banking, food supply, local transport — characterised by what they call "providential obligation": the expectation, embedded in the social contract, that essential goods will be reliably provided to all regardless of market position. These sectors do not compete for consumers in the normal sense. Their goods are non-substitutable,

their infrastructure geographically fixed, their demand inelastic. Privatisation did not simply transfer ownership; it dissolved the providential obligation that had previously governed them and replaced it with shareholder primacy. The foundational economy framework names the problem the Productive State is designed to solve: not market failure in the conventional sense of a correctable externality, but the systematic application of market logic to sectors whose social function is becoming qualitatively incompatible with it.

Taken together, these insights describe a single structural condition rather than a collection of separate market failures. In mature financialised economies, the structural features of private ownership of essential sectors — the profit imperative, the liquidity preference, coordination frictions, and a higher cost of capital — systematically subordinate provision to extraction. The welfare state was the twentieth century's response, establishing floors under household incomes and decommodifying labour. But over the last 40 years it left the supply side untouched — and the structural condition it addressed on the demand side has no equivalent remedy as long as production of essentials remains privately organised for private return.

What happens to economies that refuse to address that supply-side gap is the question Keynes put most sharply, in his analysis of mercantilism and the long-run tendencies of mature capitalist economies. Advanced economies facing exhausted private investment opportunities and insufficient domestic demand have historically had three paths. External expansion — capturing markets abroad, running surpluses, exporting the insufficiency — the mercantilist route that generates geopolitical tension and eventually conflict. For much of the postwar period, Britain and the United States deferred the choice between the remaining two paths by exploiting their position at the centre of global oil markets and the dollar system, recycling energy rents and running deficits that the reserve currency made sustainable.

The window for that deferral is closing: the dollar system is under strain, energy geopolitics has fractured, and external expansion as a substitute for domestic investment is no longer available in the form it was. Which leaves stagnation — accepting chronically low investment, high unemployment, and slow growth as the structural price of private ownership's limits, managing the decline with transfers and monetary accommodation — or the third path: Keynes' "somewhat comprehensive socialisation of investment", building the productive capacity that private capital will not build, making economic security independent of external expansion or financial speculation.

The first path leads to the geopolitical instability accelerating around us — trade wars, supply chain weaponisation, great power competition over markets and resources. That path is now what the global far right is offering, drawing circles of belonging tighter, treating scarcity

as a weapon, and promising sovereignty through protectionism and external pressure. The second is the doom loop Britain has inhabited for decades: low growth, stark inequality, a fiscal escalator that deepens with every year of private under-provision. The Productive State is the third path. The intellectual case is not new. The institutional forms are taking shape. What is required now is the political will to act — and the movement to make transformation real. The Productive State is the supply-side completion of that project.

# **Part Three: Building the Productive State**

## Public provision works: the record of abundance

Britain has built essential infrastructure at scale before. The record is instructive not as nostalgia but as evidence that public provision works. Between the wars and in the postwar decades, a national electricity grid was built and then again upgraded, transport infrastructure was modernised, the entire gas network converted, reservoir capacity tripled, millions of council homes constructed, and electricity consumption per person increased faster than in any other European country. A focus on planning obstacles fails to ask who built it, and how. The answer matters, because it closes the space for the assumption that once planning barriers are removed, private capital will naturally do the work, and do it cost-effectively.

The work of the energy historian Arthur Downing refutes that claim in persuasive detail. Between 2000 and 2019, electricity prices for residential customers increased by 80%. By contrast, significant falls in electricity prices in British history both occurred under state or public ownership: the interwar period under the Central Electricity Board, and the postwar nationalised era. Private and fragmented provision produced the opposite — the dysfunctional London system of 1914, with its ten incompatible frequencies, ninety-three separate undertakings, and the highest energy prices and lowest electricity consumption per capita of any major Western city.

The CEB — a not-for-profit state-owned entity, established not by a socialist government but by Stanley Baldwin's Conservatives — built the first National Grid on time, under budget, in nine years. Municipal electricity firms, publicly owned by local authorities, were almost two-fifths more efficient than their private equivalents, selling more electricity at lower prices, raising capital just as effectively, and growing their market share from 30 to 70 per cent in two decades of explosive growth. The postwar nationalised energy industries financed a generation of transformative megaprojects — the supergrid, nuclear power, the conversion of the entire gas network, the bringing of LNG onshore — at a cost of capital that private financing could not have matched, keeping bills lower than private ownership would have permitted.

The model had its limits, and understanding them is important because they inform rather than refute the case for doing things differently now. Investment decisions were distorted not by the failure of public ownership as such but by specific governance failures: the use of postwar nationalised industries as instruments of incomes policy rather than commercial entities with clear mandates; Treasury pressure on borrowing that suppressed maintenance investment regardless of operational need; and ministerial direction of pricing and investment decisions that should have been

operationally independent. These are failures of institutional design, of accountability structures that were too thin and political insulation that was too weak, but they are precisely what the arm's-length public corporation model is designed to correct. The evidence is clear: when Britain built essential infrastructure at speed, scale, and cost-effectiveness, the institutions were public.

Where regulated asset bases have attracted private investment in Britain, they have done so at a financing premium. This is not an argument for the model, but evidence of its cost. Private capital will not invest in nuclear, long-run grid infrastructure, or sewerage on the scale or terms that social value requires, because these investments fail to clear internal hurdle rates. The dominant response to Britain's infrastructure deficit — deregulate planning, unblock private capital, build more — mistakes the symptom for the disease. Essential infrastructure is structurally filtered out by private capital's own decision rules. The Productive State exists precisely to supply what private hurdle rates structurally exclude.

The assets Britain most urgently needs to build now share the same structural characteristics as those it successfully built when public provision had a central role: capital-intensive, long-horizon, requiring system-level coordination, serving social needs that exceed private returns. The question is not whether to build. It is who builds, at what cost of capital, and through what institutional form. The Central Electricity Board, municipal electricity undertakings, the nationalised industries share the structural form that made their investment economics possible: the public corporation, operating with a clear mandate, borrowing against its own revenues, insulated from both Treasury short-termism and shareholder extraction. That form, redesigned to correct the governance failures the postwar experience exposed, and learning from contemporary best practice in Europe and beyond, is the institutional vehicle for the Productive State.

## **The Productive State deployed: design and governance**

The public corporation has an indispensable set of capacities for the provision of essential goods that are currently systematically underprovided.

The first structural advantage is patient capital backed by balance-sheet borrowing. A public corporation is not subject to quarterly earnings pressure and can operate with longer investment horizons than many private firms. While it remains exposed to refinancing conditions where it accesses capital markets, its mandate and ownership structure allow it to plan against twenty- and thirty-year payback periods more consistently than firms constrained by shareholder return expectations. It borrows in its own name, against its own revenue streams, and may benefit from an expectation of state

support which can lower financing costs, though this depends on market perceptions and institutional design. This can enable access to financing terms that are difficult for purely private entities to reproduce without comparable risk characteristics or credit support.

The second is the lower cost of capital. The lower cost of capital available to public corporations transforms the economics of essential infrastructure. In capital-intensive sectors where upfront investment costs dominate total project expenses, even a small percentage point difference in financing costs compounds into substantial savings over the multi-decade lifetimes of assets. A public corporation borrowing near gilt rates plus a modest margin avoids both the risk premium private lenders demand and the equity return requirements that regulated utilities must satisfy. This is a structural feature of the financing model, one that makes the privatisation premium compulsory and regressive by design. Public corporations eliminate it by removing the extraction layer that currently flows into lower bills. The savings are automatic, substantial, and permanent - which is precisely why comparable European infrastructure, financed publicly, delivers lower consumer prices for equivalent or superior service.

The third is system-level coordination. The corporation can hold the whole sector inside a single accountability structure, optimise the system as a system rather than negotiating across each disaggregated interface, and internalise the transaction costs the privatised model has externalised onto consumers and the regulator. The magnitude of these gains depends on sector characteristics and governance quality, as vertical integration can also introduce managerial and informational inefficiencies if not well designed.

The financing cost differential is significant. The public corporation can invest in Britain's foundational infrastructure at lower cost because it eliminates the equity return requirement and reduces the debt risk premium that private finance faces. The economic cost of risk reallocated: risks borne by private investors in market models are instead absorbed by the public sector balance sheet, and ultimately by taxpayers or users, but at a lower cost overall. Over time, households enjoy an ownership dividend of lower bills and less inequality — not through subsidies, but through the removal of the subsidy to private ownership that the public has been paying through its elevated bills.

Operating at national or municipal scale depending on the structure of the market, public corporations should match vertical integration with arm's-length independence from day-to-day ministerial control. Vertical integration does not mean the full sectoral stack must sit within a single entity, but reform should eliminate the interfaces where transaction costs are greatest and restore the internal coordination that fragmentation destroyed: a railway system where track, stock, and operators sit within one coherent unit, or an energy system in which grid, network, and generation investment are aligned internally. Arm's-

length independence means operational and investment decisions governed by a board with a clear public interest mandate and user, worker and citizen voice, insulated from electoral cycles — not as a concession to technocracy, but as protection against the short-termism that has repeatedly destroyed public institutional capacity. The 19th and early-20th century history of municipal enterprise demonstrates the model: thriving institutions dismantled not by economic failure but by political choice from Whitehall.

Independence and accountability are not in tension, but the relationship between them requires care. The weaknesses of nationalised industries stemmed partly from nominal independence being undermined by informal ministerial direction, and partly from accountability running upward to ministers rather than outward to the workers and communities the institutions served. The arm's-length model protects operational decisions from political interference; it should not insulate public corporations from genuine democratic participation in the goals they pursue. Operational and investment decisions — what to build, where, at what cost, on what timeline — should be governed by professional boards with clear public interest mandates.

The goals those decisions serve, and the communities they affect, require genuine voice: workers on boards, communities in planning processes, consumers with real rather than nominal power over how services are run. Transport for London, Scottish Water, and the BBC at its best have approximated this model, despite sustained attempts by hostile governments to undermine them. What distinguishes it from both ministerial direction and shareholder governance is where accountability runs: to the public interest rather than to electoral cycles or quarterly returns. Public corporations designed this way are not merely better delivery vehicles for essential services — they are institutions through which workers and communities gain direct experience of democratic power over the material conditions of their lives.

State capacity is crucial to this, as is a robust theory of the state. State capacity is not a natural endowment; it is a constructed capability, built through institutional investment and operational experience. The objection that the British state lacks the capacity to run public enterprises mistakes a contingent historical fact — states that have been hollowed out by decades of outsourcing lack capacity — for a necessary truth. State capacity is also one of the Productive State's products, not just one of its preconditions — every successful programme returns institutional knowledge to the state.

The capacity argument also runs both ways. The work needs capacity to be done, and the doing of the work generates capacity. The British state was originally an active instrument of the privatisation settlement, nor is it a neutral actor today. The revolving door between

regulators and regulated industries; the Treasury's structural conservatism about public borrowing; the legal and contractual frameworks that lock private returns into infrastructure regulation; the intellectual common sense, reproduced across Whitehall, that treats market mechanisms as the default and public alternatives as exceptional — these are not external obstacles to the Productive State but features of the internal apparatus that must be overcome. Designing arm's-length and devolved public corporations is partly a response to this: institutions insulated from the conservatism of Whitehall culture, governed by mandates that make public interest the explicit criterion.

This operational rebuilding has to be twinned with something more fundamental: restoring the state's capacity to render the economy legible to itself. The British state of the postwar era had begun working towards a national statistical apparatus that could show the economy in detail, identify where intervention was warranted, and design that intervention with the relevant specificity. That capacity has atrophied, creating an epistemic crisis which is a governance problem. A state that cannot see the economy cannot govern it. Given the criteria of intervention require analytical work to determine which sectors meet them, where the boundaries fall, and when conditions have shifted enough to revisit a judgement, rebuilding the state's own analytical capability is a necessary step for the Productive State's success.

**Table 2: Governance Architecture — Lessons from Postwar Nationalisation**

Governance dimension	Postwar failure mode	Proposed model
Accountability	Upward to ministers; communities and workers served had no real voice	Outward to workers, communities, and the publics served — not to electoral cycles or quarterly returns
Operational independence	Nominal independence routinely undermined by informal ministerial direction	Arm's-length board with clear public interest mandate; Board membership not through political appointment; operational and investment decisions insulated from political interference

Governance dimension	Postwar failure mode	Proposed model
Democratic voice	Weak; accountability ran to Whitehall rather than communities; no genuine worker or consumer participation	Workers on boards; communities with real voice in planning; consumers with substantive rather than nominal power over service design
Mandate	Implicit and subject to interference; public interest treated as occasional constraint on political objectives	Explicit public interest criterion as the governing standard — not a constraint on private return but the primary directive
Relationship to the state	Treasury conservatism, revolving doors, and Whitehall common sense reproduced inside public institutions	Devolved to city-regions and insulated from Treasury short-termism; designed to respond to pressure from below, not direction from above

## Beyond nationalisation: an ecosystem of democratic ownership

The public corporation is the primary vehicle for essential production network infrastructure — the sectors where national scale, patient capital, and arm's-length commercial independence are non-negotiable. But the Productive State is not reducible to the national public corporation.

The tradition this essay draws on understood that the problem with the postwar model was not public ownership as such but its specific institutional form — centralised, hierarchical, accountable upward to ministers rather than outward to the workers and communities it served. The alternative is not to abandon public ownership but to diversify its institutional expression. Municipal enterprise, community energy societies, housing co-operatives, not-for-profit care providers: these are not inferior substitutes for a "real" public corporation but expressions of the same underlying principle — production organised for provision and democratic accountability rather than for financial extraction.

The appropriate institutional form follows the nature of the good. Water networks and electricity transmission require a national public corporation because their value is inseparable from national-scale

coordination and their investment horizon exceeds what any municipal or co-operative balance sheet can support. But community energy co-operatives can be the vehicle for distributed generation; housing co-operatives and community land trusts can hold land permanently outside the speculative market; worker-led care providers can deliver services with better labour conditions and lower overhead than private equity chains. This is not a centralising agenda. Labour-intensive services like social care, childcare, or retrofit permit a plurality of organisational forms that should be embraced. Governing principle is what must be consistent across all these forms: provision over extraction, democratic accountability over shareholder primacy, high labour standards, long-term stewardship over short-term yield.

These are the institutional forms through which the Productive State becomes genuinely democratic rather than merely public — and why this essay is framed as an argument for Manchesterism rather than a blueprint for Whitehall. None of these mechanisms are novel; all exist somewhere in current British or comparable European practice, but in fragmentary and often token form. The Productive State requires their systematic application as constitutive features of public enterprise, not as add-ons. This is what makes Manchesterism a substantive democratic project: not the devolution of power as such, but the design of institutions through which devolved power is continuously held to account by those it governs in service of affordability and security.

## Three modes of public action: dealer, producer, decommodifier

The Productive State operates through three overlapping modes of public action. These are not stages on a linear path but mutually reinforcing registers of intervention that can operate simultaneously across different sectors.

*The dealer function:* the state enters markets as purchaser and reseller, building strategic reserves, buying when prices are low and releasing supply when they spike, stabilising prices through market participation rather than external controls. This delivers immediate benefits like reduced volatility, lower average prices, and supply security while building institutional knowledge ahead of deeper intervention. GB Energy, properly empowered with a genuine trading mandate and balance sheet to match, is the institutional starting point, acting not as a subsidy vehicle for private generation, but a public actor with the capacity to shape the market it operates in.

*The producer function:* backward integration from dealing into production, building or acquiring productive capacity and competing with private firms under different objectives. Public production disciplines private pricing — firms cannot sustain monopoly rents when a credible public alternative exists. In housing, this means a

network of regional public housing corporations operating at the scale of the postwar council programme, building on public land, and borrowing at public cost of capital to break the speculative land market's grip on supply. A developer that cannot sell at inflated margins when a public alternative is offering decent homes at cost-plus-modest-surplus cannot hold back land indefinitely. The public producer does not replace the private market; instead it changes the terms on which the private market operates.

*Decommodification*: the progressive move toward universal access as a social right, placing essentials beyond market allocation entirely, with every household entitled to provision sufficient to meet essential needs. In energy, this could mean a national energy guarantee — a free block of electricity and gas sufficient to heat a home, power essential appliances, and meet basic needs, provided as a social entitlement and funded through general taxation or public corporation surplus. The New Economics Foundation has modelled precisely this: a lifeline tariff covering around 80 per cent of typical household energy consumption at zero cost, with consumption above that threshold priced at cost-reflective rates. The effect is to treat the energy necessary for a dignified life as a public good rather than a commodity, eliminating fuel poverty by design rather than by subsidy. In housing, the equivalent is social housing with rent set to income rather than market rate — shelter as entitlement rather than commodity, and a floor beneath which no household can fall regardless of market conditions.

The focus of action follows the logic of productive linkages: energy first, because cheap, clean, public electricity creates forward linkages across every sector of the economy, providing a price anchor for the green transition; housing second, for its backward linkages into construction trades, materials, and local services, and its forward release of household income currently flowing to landlords.

### **Table 3: Three modes of public action**

Mode	Function	Mechanism	Sectoral example	Effect
1. Dealer	State enters markets as purchaser and reseller; builds strategic reserves	Market participation, buy when prices are low, release supply when they spike; stabilise prices from within the market	GB Energy with a genuine trading mandate and balance sheet to match	Reduced volatility; lower average prices; supply security; institutional knowledge ahead of deeper intervention
2. Producer	Backward integration from dealing into production; building or acquiring productive capacity	Compete with private firms under different objectives; discipline private pricing by offering credible public alternative	Network of regional public housing corporations; public energy generation undercutting monopoly rents	Breaks speculative market grip on supply; changes terms on which private market operates without replacing it
3. Decomm-difier	Progressive move toward universal access as a social right; essentials placed beyond market allocation	National entitlement funded through general taxation or public corporation surplus; lifeline provision to every household	National energy guarantee: free block of electricity and gas sufficient to heat a home and meet basic needs (NEF model)	Eliminates fuel poverty by design; treats essentials as public goods; breaks regressive per-unit pricing for poorest households

## Financing the Productive State

The standard response to the case for public ownership is not to contest the diagnosis of privatised failure but to question the prescription: where does the money come from, how does it interact

with the fiscal rules, how would bond markets react, and can a hollowed-out British state deliver what the argument requires? The financing argument has three distinct components that are routinely conflated. But first, we address the malfunction between fiscal and monetary institutions.

### **Improve macro coordination**

Our current macroeconomic framework compounds the privatisation settlement by constraining the public investment needed to undo it. The return of supply-driven inflation has triggered interest rate rises, raising the cost of acquiring, building and operating publicly owned infrastructure, while compounding the pressure of fiscal rules that limit the borrowing needed to fund that transition. Any fiscal expansion meanwhile risks the Bank of England tightening in response, further raising the cost of investment. The result is circular: every supply shock the welfare state absorbs raises the inflation the Bank tightens against, and every episode of monetary tightening raises the cost of the very investments that would bring the inflation down. Each round of the cycle leaves the country worse off than the round before, and a government with the full political will to act would likely find its ambitions undermined within it.

The Productive State's coordinating logic is to break the cycle at its supply-side origin. The case to the Bank is straightforward: public provision of essentials reduces the inflation rate hikes would otherwise target, takes supply-shock costs off the welfare state's balance sheet, and lowers the distributional damage rate hikes inflict on households. The Bank's instrument has been doing too much of the work because nothing else in the architecture has been doing enough. The coordination the Productive State asks for is alignment, not subordination — between tools, not authorities. The Bank retains its independence; what changes is the macroeconomic environment in which the instrument is deployed.

The case for fiscal-regulatory tools to do more of the work where they are more effective is grounded in what the MPC already knows. Bank publications regularly distinguish supply-driven from demand-driven contributions to inflation; the diagnostic exists, but the 2 per cent symmetric mandate gives the MPC no operational room to respond differently to the two. The architectural mismatch is the result. Where inflation is supply-driven, fiscal and regulatory instruments could prove more effective over the long run than rate hikes — buffer stocks and strategic reserves that stabilise essential commodity prices, antitrust enforcement that prevents firms from using supply shocks as cover for margin expansion, public investment in domestic productive capacity that reduces structural import dependency. And its balance sheet can be deployed more selectively: a dual interest rate regime, drawing on the precedent of the recent Term Funding Scheme, could offer cheaper credit to commercial banks lending to strategic sectors

while maintaining a higher rate elsewhere. Targeted, deflationary fiscal spending reduces the price pressures the Bank would otherwise respond to, allowing it to hold rates lower for longer; lower rates mean lower sovereign borrowing costs, reducing the fiscal cost of the transition to public ownership.

This realignment is not a technical refinement. It is a powerful tool for the structural transformation the privatisation settlement has made necessary. The current framework was designed for a regime that no longer exists — demand-driven inflation managed through interest rates, fiscal policy in a residual role, supply-side conditions left to private capital. The supply shocks of the 2020s, the structural inflation in essential sectors, and the welfare state's failure to keep pace with prices it is meant to absorb are the visible signs that the framework is the wrong fit for the country's structural conditions. Either the framework adapts, or the structural transformation does not happen, and the country continues to pay the privatisation premium and the fiscal escalator both.

### **Component one: how public corporations finance their ongoing operations and investment**

A public corporation with operational independence, a commercial mandate, and its own balance sheet is not a government department. It can borrow in its own name against its own revenue streams — as the Central Electricity Board did, raising capital at four to five per cent through fixed interest stock without a Treasury guarantee. Public corporations borrow through their own bond issuances — corporate-style bonds backed by the corporation's own revenue streams, carrying the implicit but not explicit backing of government, not gilts.

That implicit sovereign backing matters. Markets priced CEB debt cheaply in part because of it, and the formal absence of an explicit guarantee should not be taken to mean public corporations borrow in a vacuum. The mechanism is real, but so is the sovereign relationship that underpins it. Under ESA 2010 accounting rules, public corporations that operate as market producers and demonstrate sufficient commercial independence can be classified outside the general government sector. Where this classification applies, while their borrowing does contribute to headline measures such as public sector net borrowing or public sector net debt, it does not enter other measures such as general government debt. As a result, while well-designed public corporations can undertake investment that does not score directly against headline fiscal aggregates, the extent to which this is important depends on which fiscal aggregates the government is targeting. In continental Europe, it is common to target general government gross debt and it is relatively rare to target public sector aggregates. As a result, public corporations typically sit outside any fiscal rules.

The Netherlands operates this model at scale. As the economist Thomas Aubrey has documented, Dutch public corporations finance liabilities equivalent to nearly 80 per cent of GDP this way, against just 2 per cent in the UK, producing an infrastructure stock 35 per cent larger relative to GDP, and housing completions nearly double per thousand of population. The point is it is a realistic destination, not a template for rapid replication.

## **Component two: how existing privatised assets are acquired**

Where utilities are distressed, the special administration regime enables public ownership at restructured cost. The company enters administration, its debts are restructured, equity is extinguished or severely diluted, and it emerges under public ownership with a cleaned-up balance sheet. This is what happened to Railtrack, that emerged from the failure of privatisation as Network Rail. In such cases, regulated asset value (RAV) provides an important reference point, reflecting the regulator's assessment of the capital base on which returns are permitted. However, RAV is a regulatory construct rather than a definitive market valuation, and actual outcomes in restructuring or acquisition processes depend on creditor hierarchies, legal constraints, and negotiations. It may differ materially from market capitalisation, which incorporates expectations about future earnings, risk, and financing structures. Accordingly, while distress can create conditions for lower-cost acquisition, the extent of any discount is contingent and subject to negotiation rather than predetermined.

Where utilities are financially stable and solvent, acquiring ownership requires acquiring equity. RAV can serve as a benchmark in negotiations, as it reflects the regulated capital base of the underlying infrastructure. However, under UK law and international obligations, compulsory acquisition would typically require compensation based on fair market value, and acquiring assets materially below prevailing market valuations would likely require primary legislation and could face legal challenge. Market valuations include expectations of future earnings as well as asset values, and cannot be assumed to consist solely of financial engineering.

A tried and tested mechanism for acquisition is a bond-for-share exchange, in which shareholders exchange equity for government bonds. This approach was used in historical nationalisations and replaces a variable claim on future profits with a fixed-income claim on the state. From an accounting perspective, such transactions increase public sector liabilities while acquiring a financial asset; the net impact on fiscal aggregates depends on valuation, classification, and statistical treatment, and does not automatically result in a neutral balance sheet effect. Under measures such as Public Sector Net Financial Liabilities, assets and liabilities may partially offset, but this depends on how the acquired entity is valued and whether it is classified within or outside the public sector boundary.

Full ownership of solvent utilities requires building institutional capacity through the dealer function, pursuing distressed utilities through administration first, and creating the political and legislative conditions for bond-for-share acquisition over time. The pace and feasibility of such a programme would depend on legal constraints, market conditions, and fiscal considerations, rather than a single acquisition mechanism, but these are manageable challenges. Where immediate acquisition is not the priority, the dealer function disciplines private pricing without upfront purchase, changing competitive dynamics without requiring ownership of the assets. This is where a properly empowered GB Energy, for example, begins.

### **Component three: how acquisition interacts with fiscal rules**

Rachel Reeves' October 2024 switch from targeting PSND to PSNFL is a genuine improvement. PSNFL captures financial assets — equity stakes, loans — as well as liabilities, so a government equity stake in a private corporation nets off against the fiscal measure. That offset depends on valuation, and whether the equity stake was large enough to reclassify the corporation as within the public sector. PSNFL still excludes physical assets — water pipes, electricity networks, housing stock. As a result, investment in or acquisition of physical infrastructure is not fully recognised on the public balance sheet within the fiscal rules. A pound spent acquiring a water network scores identically against the fiscal rules as a pound of housing benefit, even though one creates a productive asset generating revenue for decades and the other is a recurring liability.

Compared to PSND, PSNFL permits greater public investment by expanding the scope of line items included in the target measure. An alternative response would have been to narrow the sectoral scope, following the example of European countries who target general government gross debt (and exclude public corporations from their targeting). Barring that alternative there is still room to complete the journey that PSNFL began, by further expanding the line item scope to include the full asset side of the balance sheet rather than just one half of it.

A full net worth framework — which the ONS already calculates as Public Sector Net Worth — would show the acquisition as what it is: a swap, not expenditure. Such measures capture both financial and non-financial assets, though they are not currently used as binding fiscal targets. The case for moving to this framework is analytically correct and IMF-endorsed. The fiscal cost in the early years is the interest differential on acquisition financing and the working capital of new institutions — not the face value of the assets, and not the £200 billion the private sector has extracted in dividends since the mid-1990s while delivering lower investment than public predecessors.

A programme of this scale also faces real resource constraints

that the fiscal arithmetic does not capture. Simultaneously scaling entities such as Great British Energy, a public water corporation, and a public housebuilder means competing for the same engineers, construction workers, grid connection capacity, and materials. The binding constraint in a fully activated programme is not simply access to finance, but the capacity of the domestic capital goods and construction sectors to absorb increased demand without generating inflation or displacing private investment. This is a standard macroeconomic constraint on large-scale investment programmes and requires sequencing and prioritisation. The dealer function and distressed-asset route are valuable precisely because they allow institutional and supply-side capacity to be built before full-scale acquisition occurs simultaneously.

There is also gilt rate risk. The financing case is often assessed against current sovereign borrowing costs, but these are not fixed. A sustained expansion of public investment may affect gilt yields depending on scale, timing, and market conditions. Empirical evidence suggests that yields respond to a combination of factors including issuance volume, macroeconomic expectations, and policy credibility, rather than fiscal expansion alone. The argument that a well-designed programme is manageable — and that the counterfactual of persistently higher private financing costs may be less efficient — is defensible, but it rests on programme design and credibility, not accounting treatment alone.

Even if the fiscal rules classified public corporations as outside headline debt measures, this does not necessarily mean bond markets will ignore them. Markets may treat large, revenue-backed public entities as carrying some degree of implicit sovereign support, particularly at scale. The extent to which this affects sovereign risk premia depends on perceptions of contingent liabilities and overall fiscal sustainability. The distinction between formal fiscal scoring and market pricing is therefore real and must be managed.

Any strategy must have a credible plan for engaging with bond markets, which price volume, duration, and policy credibility. The September 2022 UK mini-budget crisis is often cited as a cautionary episode. Its causes were multiple, including liability-driven investment dynamics and market structure, alongside fiscal announcements. The broader lesson is not that fiscal expansion in itself triggers instability, but that poorly signalled or weakly anchored policy can interact with financial structures in destabilising ways (and blocking the OBR from costing the policy meant poor signalling was a feature not a bug). Subsequent movements in long-dated gilt yields, including episodes without financial instability, reinforce the point that markets respond to issuance scale and credibility regardless of policy intent.

A Productive State financing programme therefore has to be sized and sequenced in line with economic and market capacity, rather than relying on its composition alone to reassure investors. Public

corporations borrowing against identifiable revenue streams can help structure issuance in a way that aligns financing with cash flows, but this does not remove the need for overall fiscal coherence and transparent oversight. The role of the Office for Budget Responsibility in providing independent assessment is central to maintaining credibility.

A structured public investment programme — sequenced over time, delivered through institutions with clear mandates and revenue streams, and transparently integrated into the fiscal framework — reads differently from unfunded or poorly specified fiscal expansions. Historical experience supports this. Postwar nationalisations used government debt as compensation, allowing investors to transition into sovereign assets without significant disruption. More recently, the renationalisation of EDF from 84% to 100% was completed without major bond market instability. These cases illustrate that public acquisition can be absorbed by markets where policy is credible, well-signalled, and consistent with macroeconomic conditions, though they are not directly replicable in all respects.

The right question is not only what the Productive State costs, but what the alternative costs over time. The current model entails ongoing fiscal exposure through transfers, subsidies, and regulatory frameworks that respond to price pressures without addressing their underlying drivers. A shift toward public ownership and investment may change the composition and timing of these costs rather than eliminating them, and its effectiveness depends on implementation as well as design. The Productive State is therefore an alternative allocation of fiscal resources, not a costless one — but one that may, if successful, alter the long-term trajectory of both prices and public finances.

**Table 4: Public vs private provision — key comparisons**

Dimension	Private provision	Public provision
Cost of capital	8–12% equity return, higher borrowing costs, plus financial complexity costs	3–5% (gilt-linked bonds issued by public corporation)
Investment horizon	Quarterly earnings pressure for publicly traded companies; exit timelines of 5–12 years for private funds	20–30 year payback viable; patient capital

Dimension	Private provision	Public provision
Optimisation target	Shareholder return	Social value; universal access
Coordination	Fragmented; transaction costs at corporate interfaces	Integrated; coordination internalised within institution
Price objective	Cost plus profit margin plus financial complexity	Cost plus modest surplus reinvested in provision
Payment to bondholders (England vs Scotland)	28% to shareholder returns and debt servicing (English water companies)	10% (Scottish Water comparator)
Dividend extraction since mid-1990s	Close to £200bn (privatised transport, energy, water)	N/A

## Managing the transition

Expanding public provision into a market economy requires careful thought about the sequencing of change. The goal is to extend stability and provision without suppressing the dynamism that market competition genuinely generates in sectors where it works. That means proceeding gradually, building on demonstrated success, and learning from missteps before scaling — the logic of Manchesterism, which has built proof of concept before demanding national replication.

The crowding-out concern that typically greets proposals for public investment does not apply here, for a structural reason. The Productive State intervenes precisely where private investment has already failed — where underinvestment means private capital is not building enough regardless of interest rates or incentive design. You cannot crowd out investment that was not occurring. The question is not whether the state displaces private activity but whether it steps in where private activity has structurally withdrawn.

Beyond filling the gap, public investment actively enables private economic activity. State action in one sector creates opportunities that draw private capital into complementary sectors. The publicly owned grid serves privately owned manufacturing. Public housing shelters workers employed by private firms. Public provision of care

enables labour force participation in private employment. Reliable energy, housed and healthy workers, functioning transport, stable supply chains: these are not natural endowments but constructed conditions. When private investment fails to construct them, public investment should step in. When it does, the private economy that depends on them becomes more productive, not less. The Productive State is complementary, supporting private enterprise even as it expands public ownership and grows the common wealth.

The transition also builds on existing policy evolution rather than requiring a break from it. The turn toward industrial strategy, the use of public finance institutions as direct market participants, the shift from creating conditions to actively shaping what gets produced: these are directions already visible in Labour's programme. The Productive State extends and deepens that logic, deploying public ownership where industrial strategy reaches its limits, and building the productive capacity that market incentives alone have not supplied. The programme is bold, but it is not a leap into the unknown.

# **Part Four: The Political Economy of Transformation**

## A three-tier economy

The Productive State is the foundation for a different kind of economy — one organised around a principle that four decades of market primacy systematically suppressed: that the essentials of life should be provided for need rather than profit, and that economic security is the condition of genuine freedom rather than its enemy. The architecture achieves three reinforcing outcomes simultaneously: stability, abundance, security.

### Macroeconomic stabilisation

The welfare state addressed demand-side instability but had no tools for supply-side dysfunction and privatisation systematically destabilised foundational supply. The Productive State fills that gap directly. Public ownership in electricity generation and transmission stabilises energy prices. A substantial renewed role for council housing stabilises shelter costs. Regional transport networks reduce fares and expand labour markets. A national care service provides dignity and security for recipients, families, and workers alike. Together, these interventions create a price ceiling to complement the welfare state's income floor — a stability corridor wide enough that market volatility cannot generate crisis. This is macroprudential policy extended to supply: just as macroprudential financial regulation developed after 2008 targets system-wide stability at the specific sites where instability originates, the Productive State intervenes in the supply of essentials rather than managing demand-side consequences after the shock has passed.

### Abundance and productive capacity

Public ownership transforms the investment calculus. Public corporations can undertake projects with twenty or thirty-year payback periods because they are not subject to quarterly earnings pressure. They can build complementary infrastructure — generation plus transmission plus storage, housing plus integrated transport plus local public amenities — because they internalise the coordination benefits rather than externalising them to adjacent private actors who cannot capture the value. They can maintain excess capacity as insurance against disruption because resilience has social value even when it reduces financial returns. The result is not just more infrastructure but different infrastructure. Council housing can prioritise density, energy efficiency, liveability, and community rather than luxury finishes that maximise sale prices. Public electricity systems can prioritise reliability, renewable integration, and universal access. Public transport can prioritise coverage and frequency. These are not inefficiencies but different targets: social value rather than private profit. And public provision in one sector creates spillover effects that enable abundance in others. Cheap, stable electricity

makes manufacturing competitive; council housing construction generates employment across the supply chain; improved public transport expands effective labour markets. Abundance begets abundance through complementary investments that fragmented private capital cannot coordinate or will not supply.

## **Security through decommodification**

By progressively moving mature, systemically important goods out of market allocation, the Productive State creates a foundation of dignified life that sits above and beyond market volatility. It extends Esping-Andersen's trajectory from income maintenance to goods provision. Just as workers in the postwar welfare settlement could maintain a more dignified life during unemployment through strong social insurance, people in a Productive State economy will maintain a dignified life regardless of labour market position because the essentials are no longer priced for profit.

When essentials are commodities, wage labour becomes compulsory. People must sell their time to survive. This compulsion disciplines the labour market, keeping wages down and worker agency limited. Decommodification transforms these dynamics. Workers can refuse dangerous, degrading, or poorly compensated work because refusal no longer threatens destitution. This does not eliminate work but changes its character: from compulsion toward genuine choice, from necessity toward meaningful activity. That is a real movement toward a realm of greater freedom. And it transforms firm incentives: when workers are not desperate, firms must offer genuinely attractive employment; when inputs like energy are provided at cost, firms can compete on innovation and quality rather than cost-cutting alone. The Productive State decommodifies to expand the conditions for enterprise.

The destination is an economic system with three distinct tiers, each governed by different principles. At the foundation sits decommodified provision of essentials — organised around affordability, universal access, environmental sustainability, and worker welfare. This tier provides security: no one can fall below it because access is unconditional. Above the foundation sits a stabilised market economy where private production thrives but where the state intervenes as market participant or public producer to prevent instability and check rent extraction. This tier provides dynamism: competition continues to drive efficiency and entrepreneurial experimentation, within bounds that prevent crisis. At the apex sits the innovation frontier — sectors characterised by rapid technological change and radical uncertainty — remaining primarily private because change is too fast for effective planning, but supported by ambitious industrial strategy. This tier operates atop the enabling foundation. Entrepreneurs can take genuine risks because failure does not mean destitution. Workers can move between jobs and cities because the essentials are portable and

guaranteed. Each tier depends on the one below, the frontier enabled by the foundation.

This three-tier structure is not static. As technologies mature from frontier to infrastructure, they move through the tiers: from experiment to stabilised market to, eventually, decommodified public good. A similar process occurs with socially defined needs. The welfare state followed this logic in the twentieth century, progressively expanding the domain of social provision. The Productive State follows the same logic in the twenty-first, extending democratic control to the supply side that the welfare state left to private ownership — completing the project that the postwar settlement began but could not finish.

**Table 5: Three tiers — principles and objectives**

Tier	Governing principle	Example sectors	Scale of provision	Primary objective
Decommodified foundation	Need; universal access	Energy, water, housing, care, transport	National public corporations plus city-region authorities plus municipal providers	Universal access; price stability; environmental sustainability; no profit extraction
Stabilised market middle	Competition with public participation	Manufacturing, retail, most services, consumer goods	Primarily private; public as market participant and producer where needed	Dynamism; efficiency; rent extraction bounded by public alternatives
Innovation frontier	Entrepreneurial risk; rapid change	AI, biotech, advanced manufacturing, new energy technologies	Primarily private; adaptive regulation; state R&D investment	Innovation; experimentation, technological change atop a foundation of security

## The politics of provision

There is a deeper political argument for the Productive State that goes beyond cheaper bills and better infrastructure, running through the history of British public provision from the municipal libraries of the Victorian era to the founding of the NHS to Sure Start. Universal public provision does not merely deliver material goods — it constitutes political community. When everyone uses the same buses, the same energy system, the same public housing, the same care services, it creates the shared institutional basis for a politics that transcends the fragmentation of identity and interest that market provision systematically produces. The political theorist Mahmood Mamdani's account of civic universalism is instructive: genuine political belonging, he argues, is not constituted through ethnic or cultural identity but through common membership in institutions that serve all. This is why the Productive State forms part of a broader political project founded on a commitment to democracy in multiple spheres - in local places, at the ballot box, in the workplace, and, via the Productive State, in the economy. Britain's own history of successful institution building tells a similar story.

The privatisation settlement has worked in precisely the opposite direction: fragmenting provision by income, by geography, by the accidents of market structure, producing a country in which people's experience of essential services is increasingly divided by their ability to pay and where they happen to live. This fragmentation is constitutive of the politics of resentment and division that has come to characterise much of British political life. A politics that genuinely aims to rebuild common life cannot do so through redistribution alone, however generous. It requires the shared institutions through which common membership is made real and inclusion experienced in daily life. The Productive State is therefore a programme for material renewal. But that renewal is also a programme for civic renewal — for rebuilding the institutional foundations of a society in which belonging is constituted through what we share rather than divided by what we can afford.

This is also the sharpest line of division in contemporary politics. Reactionary politics — in Britain, in the United States, across Europe — is fundamentally a politics of shrinkage and exclusion: drawing the circle of belonging tighter, withdrawing provision from those deemed undeserving, turning scarcity into a weapon that disciplines and divides. It thrives on fragmented provision and means-tested entitlement because these create the conditions in which solidarity fractures and resentment flourishes — in which the working person who cannot afford essentials turns against the person receiving public support rather than the system that made both of them precarious. This is the paradox of redistribution: targeted welfare produces less redistribution than universal provision — because universal

programmes build the cross-class coalitions that sustain political support. Progressive politics is the mirror image: a politics of expansion and inclusion, constituting belonging through what is held in common rather than what is owned privately. When Zohran Mamdani ran for Mayor of New York City on a platform of free buses, public housing, and expanding universal provision, he was not simply proposing a set of policies. He was articulating a theory of political community in practice — that the way to defeat the politics of division is not to triangulate toward it but to build the shared institutions that make it structurally harder to sustain. Manchesterism and the Productive State are that project in the British context. It does not only begin to make life more affordable, but starts to build a different kind of politics rooted in solidarity, democracy and shared prosperity.

## In and beyond Manchesterism

The Productive State is not a theory without a geography. Its clearest proof of concept in Britain today is Greater Manchester, where Andy Burnham has spent a decade demonstrating — step by step, against the grain of national policy, and with limited powers — what the logic of public control produces in practice.

The Bee Network is the most visible example. The reintegration of bus services under public control — reversing three decades of deregulation that had seen routes cut, fares rise, and passenger numbers fall — has restored connectivity to communities that private operators had abandoned as insufficiently profitable. Since franchising began, patronage has increased and the network has expanded to serve areas the market had written off. A public operator optimising for coverage and frequency rather than fare recovery can serve social need that private calculation screens out while reducing system costs. The Bee Network is not a subsidy to inefficiency. It is the removal of a structural bias against provision that is socially necessary but privately marginal — and its success has prompted other combined authorities to follow the same path. That is how institutional change propagates: through demonstrated results that shift what is considered possible.

The structural limits of the programme are visible too. Without major tax and borrowing powers, without control over water or energy pricing, without a public housing corporation to scale council housing, the Manchesterism agenda is constrained to demonstrating the principle rather than delivering it at full scale. These are not incidental constraints. They are the product of a national framework that has consistently found ways to limit the ambitions of devolved public provision when it proves too effective at demonstrating alternatives. The history of municipal socialism in Britain is partly a history of central government curtailment — from the abolition of the GLC in 1986, which had pioneered integrated public transport and cheap fares under Ken Livingstone, to the sustained financial pressure on local authorities that has stripped them of the capacity to act as the municipal

entrepreneurs their Victorian predecessors were. Manchesterism is not merely constrained by Westminster. It is contested by Westminster's hoarding of power — and the political project of the Productive State requires an ambitious national government but also a transformed relationship between centre and place that gives city-regions the powers, resources, and constitutional protection to build and sustain public institutions without fear of future dismantling.

What Manchesterism demonstrates above all is that devolved public provision is not merely a staging post to national transformation but a constitutive part of it. The Productive State is not a purely national project delivered from Whitehall. It requires the city-region scale that Greater Manchester has pioneered — public institutions with democratic accountability, local knowledge, and operational autonomy sufficient to manage essential services in ways that reflect the specific geography, labour market, and community of the places they serve. The three-tier economy operates at multiple scales simultaneously: national corporations for network infrastructure, regional city authorities for transport and housing, municipal providers for care and local services. The institutional template that national transformation requires is already being built, sector by sector, in the city-regions that have chosen to reclaim public control.

The political sequence that follows from this logic is legible, even if the exact pace depends on what governments are willing to do. The first moves to be taken are already clear. Thames Water's financial collapse provides the clearest route to public ownership at manageable cost, through the special administration regime, without upfront fiscal pressure. GB Energy, properly empowered with a genuine trading mandate rather than constrained to a subsidy vehicle, becomes the dealer function in practice — building institutional knowledge, shaping market dynamics, and creating the political evidence base for deeper intervention. From there, the producer function: regional public housing corporations capitalised through the public corporation model, borrowing against their own revenues and building at scale on public land, while the private market adjusts to a changed competitive landscape. Each stage builds the constituency for the next — council tenants in decent affordable homes, people on bus networks that serve their communities, households whose energy bills fall as public generation anchors prices — constituencies whose material stake in the programme makes it politically durable rather than reversible. The forces of resistance are real and specific. The counter-force is the larger constituency and one that has paid and is still paying the privatisation premium. The question is whether the political project can organise that constituency. That is what Manchesterism has been doing at city-region scale. The Productive State extends the logic nationally.

# Conclusion

*"All this is not to suggest that the popular radicalism of wartime Britain was, for the most part, a formed socialist ideology, let alone a revolutionary one. But in its mixture of bitter memories and positive hopes, in its antagonism to a mean past, in its recoil from conservative rule, in its impatience of a traditional class structure, in its hostility to the claims of property and privilege, in its determination not to be robbed again of the future that victory promised, in its expectations of social justice, it was a radicalism, eager for major, even fundamental changes in British society."*

- Ralph Miliband, *Parliamentary Socialism*

For all the challenges we confront as a society, there is a shared and irreducible core of sentiment to people who call Britain home: a sharp anger at injustice, a commitment to a common life of dignity and freedom. These are not unreasonable desires. They are not unrealisable either. They are the very least people deserve.

It is that same spirit that Ralph Miliband identified in the British people as their dark night of struggle against fascism broke into the early light of dawn. And it was that same spirit that sent people in their millions to pass judgement on Conservative rule in the summer of 2024 — not necessarily for Labour with strong conviction but decisively against the meanness and frustration of long years of stagnation and decline. The public asked then and they ask now for only what is obvious: major, even fundamental changes in British society.

Today their judgement is similarly clear. Labour have hitherto not delivered on that demand. If that feeling does not change, the electoral consequences will be severe and lasting. But in Manchesterism — public control of essentials to ensure everyone can live a dignified life, rebuild the productive foundations of the economy, and strengthen the nation's finances — there is an emerging agenda that can answer that desire for change. In the Productive State — in the reclaiming of our ability to build and provide the essentials of life with scale and ambition, in the remaking of the rules of ownership to serve people not privilege — there is a programme of practical and popular radicalism that can deliver national renewal.

The forces that will resist change are not abstract. They are the owners of privatised utilities whose returns depend on the continuation of the extraction documented in this essay; the financial institutions that structure and refinance private infrastructure debt; the revolving door of regulators and executives whose careers span the public-private boundary; and the political common sense, embedded across Whitehall, that treats the existing settlement as natural rather than chosen. These interests will not be overcome by better argument alone. But there is a larger and more urgent constituency on the other side: the workers, communities, households, and businesses who have paid the privatisation premium for four decades and are still paying it

— bills that were always supposed to fall and never did. Their anger is legitimate. Their interest in a different settlement is overwhelming. And in that interest — organised, sustained, and politically expressed — lies the only force capable of making the Productive State real. That state must be built as the NHS was built: not administered from Whitehall for a grateful public, but constructed as a set of institutions that respond to real needs in which people gain the experience and material stake that make defence and expansion their own interest. This is the popular mobilisation that can transform a weary country and rebuild Britain.

The diagnosis is clear. Desire for change is general. What is needed is the courage to act — and the movement to make transformation real.

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