Knowledge Exchange Seminar Series (KESS)

Can the peace dividend and devolution transform business in Northern Ireland?

Lessons from the UK's fastest growing sub-region

Dr Leslie Budd

Department of Public Leadership and Social Enterprise

Open University Business School

Open University

Leslie.budd@open.ac.uk

1. Introduction

The European Union's 10 year strategy is titled *Europe200: a strategy for smart, sustainable and inclusive growth* was published in 2010 (European Commission, 2010). Its publication coincided with the global crisis being in full swing, with the consequent austerity damaging the economies of peripheral Member States and threatening the stability and very existence of the euro. Since then the impact of the crisis has abated somewhat in Europe, but still throws up a number of questions of how the economies of twenty eight Member States, their manifold sectors and regions can be sustained. Moreover, in the light of *Europe2020* what does smart, sustainable and inclusive mean? In the case of the latest entrant Croatia, can it exploit a peace dividend and benefit from EU membership in achieving sustainable growth?

These questions are pertinent to older Member States and in particular the UK, which is facing the prospect of Scottish independence; demands for further devolution; and, how can a peace dividend be sustained in Northern Ireland. Policy transfer from other countries and regions is appealing but not always as efficient and effective as is often claimed. The UK's fastest growing sub-region, Milton Keynes City-Region (covered by the South-East Midlands Local Enterprise Partnership {SEMLEP}) does offer some lessons and evidence that Northern Ireland may draw upon.

This presentation examines what lessons there are to be learned for sustaining the Northern Irish economy from another UK sub-region in the context of benefitting from a peace dividend and further devolution. It then examines the characteristics, capabilities and capacities of the Milton Keynes City-Region economy, given the possible similarities between the two territories. Finally, the presentation uses a case study of developing a sports economy as an exemplar of how a sub-region can generate sustainable growth through integrating complementary economic sectors.

2. Deriving economic benefits from a peace dividend

The term peace dividend has a number of meanings and contextual connotations. For some writers it represents the switch from defence to non-defence expenditure as a result of disarmament (Gleditsch. Cappelen and Bjerkholt, 1994). For others, its represents a revival in aggregate output following the cessation of conflict during a civil war (Collier, 1995). Collier estimated that the civil war in Nigeria led to a 21% decline in output. In the case of Iraq, its trend annual rate of growth was 10.3% during the 1970s falling to – 0.3% in the following decade, in which it was engaged in a long bloody war with its neighbor Iran (Ministry of Planning, Iraq, 2010). Closer to home, Croatia lost nearly 30% of its output during the Balkans War (World Bank, 2007. The Global Peace Index has estimated a positive multiplier of 1.49 for every single reduction in its conflict index measured by its Global Peace Index (GPI), on a scale from 1 to 5, (Institute for Economic and Peace, 2009).

In the case of Northern Ireland, there are myriad reports and academic papers examining this question (Gudgin et al, 1998; Muckley, 2011 ; Portland Trust, 2007; Besley and Mueller, 2012) among many others. In the case of Muckley, and Besley and Mueller, they investigate the impact of a peace dividend on tourism and investment; and house prices, respectively, for which they find positive effects. In the late 1990s, the level of public sector employment rose to 39% and public subsidies rising to a third of GDP in 1995 (Goreki, 1995). In essence, the economy was sustained by the state as a result of conflict. What appears to be common to all conflicts is that economic inequality is a major driver of setting one community against another.

It is apparent that there are production, income and consumption effects from a peace dividend, but they are variable and the time lags to return to pre-conflict trend can be considerable. In looking to potentially emulate the performance of the MK City-Region, Northern Ireland carries an economic legacy of conflict that no other devolved nation or region in the UK has had to endure . Part of the problem is that evaluation frameworks are often *ex post* rather than being *ex ante* and *ex post*, so that better estimates of the trajectory and results of a policy intervention can be measured (Weiss, 1998). Apart from a peace dividend, there are economic effects of devolution that are similarly complex.

3. Devolution as an economic dividend?

Devolution tends to be a term used in the United Kingdom whilst decentralization is used more readily in the rest of Europe. It can be argued that the former is an incomplete version of the latter in that devolution involves the granting of some appropriate , but not all, governmental powers to lowers levels of national government. Evidence from the rest of the EU and the United States suggests that more decentralised or federal systems experience higher levels of economic growth. (Akai and Akata, 2002; Darby, Muscatelli and Roy, 2003; Crucq en Hendrik-Jan Hemminga, 2007). The results are not as clear-cut as this suggests in that the degree of decentralization varies and contextual factors can interact negatively, depending on the position of the economic territory in the economic cycle at any given time. Similarly, no amount of devolved political and governmental power can inure against the effects of geo-political conflicts or global financial crises.

The World Bank (2001) distinguishes four different types of decentralization: political; fiscal; administrative; and market decentralization. All four types exist in different forms and combinations across countries, within regions and sectors. Market decentralization does not imply a transfer of power or responsibilities to lower levels of government but to private companies. But, given the sectoral dimension to regional economic development, this may be an important factor in attracting and sustaining Foreign Direct Investment (FDI) (United Nations, 2000).

The concept of an 'economic dividend' has been used to encompass the benefits of devolution. The principal outcomes are identified as generating allocative and productive efficiencies, alongside the accountability and participation benefits of devolution for decision-making and co-ordinating collective policy action. (Rodríguez-Pose and Gill 2005). In the case of the asymmetrical devolution of administrative responsibilities in England evidence is hard to come by (Pike et al, 2010). The evidence is more promising in Northern Ireland, Scotland and Wales with the first two devolved nations having more devolved responsibilities than the last. In some senses, this is not surprising given the histories, culture and sense of identities in the two nations. The important point is that the devolving of powers tends to be create a more coherent framework for regionalised economic policy making by incorporating key local agencies and stakeholders into decision-making structures and processes. Consequently, forms of institutional and partnership decentralisation lower the transactions costs of policy making. A similar argument applies to fiscal decentralisation in respect of targeted expenditures and imbedded taxes, as in the case of localised setting of corporate tax rate (Northern Ireland Assembly, 2011). This outcome is also abetted by support from EU cohesion policy and its assistance programmes. Furthermore, the development of a more regionally focused and comprehensive data architecture and knowledge management system contributes to more effective policy formation and implementation, thereby also lowering transactions costs.

In the case, other the Milton Keynes City-Region, the creation of the South-East Midlands Local Enterprise Partnership (SEMLEP) has created incentives for stakeholders engaging in a range of interventions, to share knowledge, information and good practice in promoting economic development. In the case of Northern Ireland, integrating the ‘peace dividend’ with the ‘economic dividend” of further devolution may create to environment in which the benefits of economic and its distribution may be realised.

4. Economic Structure and performance of Milton Keynes City - Region

The structure of the Milton Keynes City-Region economy has altered over the last 40 years in line with developments in the rest of the UK. It has, however, developed a comparative and competitive advantage in private sector led services and related activities. Outside of London and Birmingham, it has a global reach that is greater than equivalent sub-regions. This reflects both the structure of its sectors and employment. Milton Keynes and its sub-regional hinterland occupies a unique position in the UK and its economy. Located equidistantly between the country’s two largest cities, it nevertheless has developed a set of socio-economic characteristics, capacities and capabilities that provide it with an internal dynamic. Moreover, the Milton Keynes City-Region occupies the border areas of three English regions (East; East Midlands: South-East): the most economically dynamic ones in the UK, outside of London These factors have been at the heart of it being one of the UK’s strongest city economies in recent years.

The creation of SEMLEP to promote economic development creates the conditions for what can be termed Milton-Keynes City Region combining Milton Keynes as the core with the important medium-sized satellite towns of Bedford, Luton and Northampton. From 2017, Oxford will be connected to Milton Keynes by rail with plans to extend links to Cambridge. Already linked by fast train services to London and Birmingham and beyond, and close to the motorway network the City-Region is one of the most connected in the UK. The current industrial structure rests on logistics as the propulsive industry of this growth pole with the complementary supply and value chains linked to business, financial and technical services; wholesale and retail. The City-Region is also home to a number of important research centres for advanced automotive engineering linked to Formula One racing, aerospace and electronics/digital design and production. The strategic priorities of SEMLEP build upon these globally linked businesses. Given its age profile, economic capacity and green infrastructure, sport is becoming an important fulcrum for integrating the culture, leisure and tourism economies, thereby boosting retail and logistics. This role is reinforced as the Milton-Keynes City-Region is home to a number of centres of national excellence and the site of international events held in its stadia. There are direct spillover effects into health and education as a result of these developments.

Population and Housing

The resident population grew by 17% between 2001 and 2011. The age distribution for 2012 shows the clustering of groups most likely to be physically active are within the major urban centres and abutting suburbs. In the section on greater participation, this correlates with the locations of the largest weekly spend on sporting activities.

A combination of the social and environmental attractiveness factors (open spaces, less pollution and so on) as well as economic opportunities is likely to lead to younger family formation over time. As a result, better opportunities to attract younger age cohorts to sport will boost participation rates and their sustainability, particularly in the urban growth centres.

The housing market in the sub-region and its core, Milton Keynes, appears paradoxical. On the one hand the city outstrips its local and regional rivals in terms of Gross Value-Added per head but, unlike many other strongly performing cities, most recent house price data shows that at and average of £219,000 its house prices were not only below the South East average but also below the English average of £249,000. By allowing supply to move broadly in line with demand – the housing stock increased by 18 per cent between 2001 and 2011, the largest of any English city – house prices are much lower than many other cities in the South East. This in turn makes it easier for people to access the job opportunities that exist within the city's economy. It is also suggestive of a regional real income benefit because of consistent growth in GVA per head and lower housing costs. Consequently discretionary spending on sport and related activity may rise, as the City-Region starts to align its capabilities and capacities to realising the objectives set out in the International Sporting City Strategy. (Nortoft Partnerships Limited, 2011).

5. The Case of Creating a Sports Activity-Complex Economy in the MK City -Region

The overall framework is set out in the presentation showing diagrammatically the activity-complex economy of Milton Keynes City-Region. In urban economics, three types of agglomeration are distinguished, of which activity complex is the most comprehensive. Agglomeration economies are those that provide firms and households with socio-economic gains from co-locating in particular places. The three types are:

1. *Localisation Economies*: takes the form of benefiting from pooled labour markets and shared market intelligence in the same activity in a particular place.
2. *Urbanisation Economies*: refer to unlike activities located in the same place encouraged by the provision of transport infrastructure, research and development facilities and other supporting factors.
3. *Activity-complex Economies*: they refer to economies that emerge from the joint location of unlike activities which have substantial trading links with one another (Parr, 2002) .

Activity-complex economies are then derived from the combination of localisation and urbanisation economies plus trading links between economic agents in the same place. Observing the economic and spatial structure of the Milton Keynes City-Region, one can conclude that this is an activity-complex economy, par excellence, of which sport is a particularly important kind.

The main driver is greater sport participation, based upon developing and sustaining the capacities and capabilities of a set of community capitals (assets, resources and realisable opportunities). Local sports organisations and stakeholders, in association with local/regional facilities and supporting infrastructure, produce the building blocks of a sports economy. The direct benefits and spillovers (externalities[1]) feed into the building blocks by providing a locus of interaction between four key economic sectors (plus health and education). The resultant socio-economic impact of sport on the sub-region and the iterations of an Impact Evaluation Framework (IEF), to assess each section of the process, then flows back into the next stage of greater participation, which is then repeated again.

This equally applies to any activity or economic process that flow from their agglomeration. There are conventionally three ideal-typical models of agglomeration:

1. *The Pure Agglomeration Model*: internal economies of scale, localisation and urbanisation economies.
2. *The Industrial Complex Model*: sets of stable relations between firms trading links and their spatial transactions costs.
3. *The Social Network Model*: inter-firm relations rather than intra-firm relations of hierarchical organisations responding to bounded rationality (ie; activities limited by contractual obligations in market transactions) and market opportunism. (Gordon and McCann, 2000)

The *Milton Keynes: International Sports City* strategy identifies a number of sports clusters. This elastic concept does have empirical problems in regard to agglomeration, however. It is necessary to define analytically which of these types is the dominant structural characteristic of a particular cluster (or set of clusters), in order to be able to discuss their performance empirically, and to determine what more general lessons may be drawn. Often clusters are confused with what is known as local and regional growth poles..

Growth poles are defined as a complex of industries linked through input-output relations centred on a leading economic sector; in this case sport. The concept emphasises the fact that development does not occur evenly over space, but manifests itself at particular centres or poles, each exerting a dominant influence over its neighbouring space. The formation of growth poles rests upon a dominant industry and its relationship to other industries that stimulate the local/regional economy, as well as the existence of a strong entrepreneurial culture (Rostow, 1960; Parr, 1999). Growth pole theory underlies much of the regional economic development planning in China (Riskin, 1987). .

Creating a sport activity-complex economy in the Milton Keynes City-Region cuts across all three models of agglomeration and reinforces the framework in the presentation. Moreover, by focusing on the portfolio of community capitals and their relationship with each other in the sport activity-complex economy, clusters and growth poles of sporting activity may be assessed more effectively.

6. Factors underlying an Impact Evaluation Framework (IEF) to appraise Interventions

Impact evaluation is an important component of any study of the economic benefits and costs of policy and practice aimed at increasing public value. Theory based evaluation (TBE) seeks to render explicit how the promoters of events and activities see the sequences of causes and effects, and mechanisms that underpin them, that are expected to lead to the intended impacts (Pawson and Tilley, 1997).

[1] Externalities are benefits and costs that flow from economic activity over and above market transactions

Identifying impact factors is a challenge, but the ones chosen for this case study are community capitals (or resources) that have been widely used in the evaluation of a variety of socio-economic studies. These community capitals are a variant of the seven forms of economic capital proposed by the French sociologist Pierre Bourdieu. (Bourdieu, 1986). In Bourdieu, capitals are the resources that comprise a field, which is defined as:

> "…a relatively autonomous structured domain or space, which has been socially instituted, thus having a definable but contingent history of development. One condition of the emergence of a field is that agents recognise and refer to its history. Some fields have more autonomy than others and some parts of fields more than other parts" (Warde, 2004, page 12).

Warde extends this definition to explain how the field encompasses competition for specific and generic forms of capital. The constituent agents of the field structure their relative positions by using their capacities and capabilities in respect of the capitals at their disposal. The competitive disposition of the agents is tempered by their participation in a field thereby displaying a shared commitment to its values and the capitals that comprise it.

Within a community or society, the stock of capitals can be enhanced (or diminished) over time, including as a result of policies and initiatives that serve to change the social, political and economic context. The IEF assesses impact by seeking to quantify the changes in availability of capitals experienced by individuals and the wider community as a result of removing barriers. The various combinations of these capitals (resources), and their overlap, correlate with different activities (and/or sports) in a particular locale. The scale and scope of these capitals change over time depending on the activities and events being evaluated. At the same time, the activity and/or event will generate increases in some of the capitals, whilst decreasing the amount of others.

The community capitals consist of:

- *Human Capital*: human capital is widely considered as comprising the knowledge, skills and expertise of people. It also takes into account aspects of the physical and mental well-being of people;
- *Social Capital:* There is a vast literature on social capital and its nature, role, significance, and measurement all continue to be matters of debate, not least because it is recognised that it can serve both positive and negative ends;
- *Organisational Capital:* organisational capital inheres in the processes and structures, especially managerial and governance structures, within and between organisations;
- *Environmental (including Cultural) Capital:* environmental capital is defined as 'any amenity that facilitates social co-production of outcomes and their subsequent social diffusion of their impacts'. In regard to sport this includes the way in which facilities are used and the spillovers into the local/regional community from large events;

- *Infrastructural Capital*: One of the main reasons many citizens are socially excluded from sporting activity and participation is poor availability and poor quality of local facilities or their under-development and under use;
- *Financial Capital:* A high proportion of excluded and disadvantaged people have low incomes and experience problems with managing limited financial resources. Consequently, they tend to have less access to forms of cultural, human and social capital;
- *Reputational Capital:* The value of reputational capital inheres chiefly in the extent to which the public reputation of an organisation makes it more or less easy to engage beneficiaries of its facilities and services;

The principal reasons for selecting a ‘capitals’ approach to measuring impact of any policy intervention:

- Their ready and meaningful interpretation at a variety of levels of scope. In particular, they are meaningful in terms of evaluating impact on individual beneficiaries and their families, friends and neighbours, on groups of beneficiaries, , and on communities as a whole. In this way, they link impact on individuals to impact at a societal level;
- Their ‘universality’ means they translate across otherwise context-specific settings and so support comparison and learning between local projects, but also some degree of comparison of projects at the national (meso) or international (macro) level;
- They relate to known barriers or obstacles to effective longer-term impact of participation in sports and the building of an effective sport activity-complex economy.

One can see that adopting a community capitals approach to evaluating policy interventions could be extended to identify the economic benefits of a peace dividend and devolution. It is also provides a basis of analysing the capabilities and capacities of a local or regional economy in one period and how changes in these factors are transformed in a subsequent one. This is consistent with the capacities approach to economic development proposed by the economist Amartya Sen (Sen, 1989). This conceptual approach was adopted in the EU following the publication of the European Commission U sponsored *Report by the Commission on the Measurement of Economic Performance and Social Progress* that investigated the relationship between well-being and economic development (Stiglitz and Sen and Fitoussi, 2009). Their conclusions reinforce more recent work that shows that inequality inhibits and distorts economic growth and welfare (OECD, 2012; Ostry, J.D Berg, A and. Tsangarides, C.G. 2014)

7. Conclusion

Northern Ireland and Milton Keynes City-Region have similar population sizes and a very similar set of strategic priorities for their constituent economies. They also have a similar age profiles, educational attainment and globally linked industries. They do differ in their spatial structures, with Milton Keynes being at the core of a relatively evenly spread territory , whereas Belfast is the coastal core with a large hinterland to the west. Milton Keynes is also located in what can be called the main economic locus outside of London. They also differ in Gross Value-Added (GVA) and GVA per head with Milton Keynes City-Region creating about a third more in both categories. This is hardly surprising given that Northern Ireland has suffered the effects of conflict over many decades. But what lessons can the two economic regions learn from each other. Northern Ireland has a long and embedded cultural and sporting history that Milton Keynes is starting to develop and sustain. Northern Ireland is also able to exploit any 'economic dividend' from further devolution, not yet open to the English regions. Further exploitation of a peace dividend also provides a greater stimulus, particularly in regard to attracting and sustaining FDI and reinforcing the global reach of key industries. As a relative historical upstart, Milton Keynes City Region does provide a mode, however, in which the characteristics of its economic terrain enhance its capabilities and capacities further. Although no economic or policy model transfers easily, this upstart may be the model of a sustainable economy from which Northern Ireland could learn.

References

Akai, N. and M Sakata (2002) “Fiscal Decentralization Contributes to Economic Growth: Evidence from State-level Cross-section Data for the United States’”,*Journal of Urban Economics,* Vol. 52 (1), pp. 93-108.

Besley , T. and Mueller, H (2012**)** "Estimating the Peace Dividend: The Impact of Violence on House Prices in Northern Ireland," *American Economic Review*, American Economic Association, vol. 102(2), pp.810-33, April.

Bourdieu, 1986 “Forms of Capital” in J.G.Richardson (ed) *Handbook of Theory of Research for the Sociology of Education,* (Greenwood Press, Connecticut) pp. 241-260

Collier, P (1995) “Civil War and the Economics of the Peace Dividend”, *Centre for the Study of African Economies, University of Oxford, Working Paper Series* /95-8*.*

Crucq, P. en Hemminga, H–J. (2007) *Decentralization and Economic Growth per capita in Europe,* Rijksuniversiteit: Groningen.

Darby, J., A. Muscatelli and G. Roy (2003) “Fiscal Decentralisation in Europe: A Review of Recent Experience”, University of Glasgow: Glasgow.

European Commission (2010) *Europe2020: A strategy for smart, sustainable and inclusive growth,* Communications for the Commission, COM(2020) 2010, European Commission; Brussels.

Gleditsch N.P., Cappelen A. and Bjerkholt O. (1994). *The Wages of Peace: Disarmament in a Small Industrialized Economy,* London; Sage Publications.

Gordon, I. R. and McCann, P (2000) “Industrial Clusters: Complexes, Agglomeration and/or Social Networks?” *Urban Studies*, Vol. 37, No. 3, 513–532.

P. Gorecki, *Coming Out of Violence: Peace Dividends*, University of Coleraine; Coleraine.

Gudgin, G. Hart, M, Fagg,J. D’Arcy, E, and Keegan, R (1989) *Job Generation in Manufacturing Industry, 1973-1986: A Comparison of Northern Ireland with the Republic of Ireland and the English Midlands,* Northern Ireland Economic Research Council; Belfast.

Institute for Economics and Peace (2009) *Peace, its Causes and Economic Vale,* Global Peace Index Discussion Paper*;* Sydney.

Ministry of Planning, Iraq, 2010. *Outline Spatial Strategy for Iraq (OSSI),* Ministry of Planning; Baghdad.

Muckley, C (2011) “Terrorism, Tourism and FDI: Estimating a lower bound on the Peace Dividend in Northern Ireland”*Journal of the Statistical and Social Inquiry Society of Ireland* Vol. XL pp. 116 -132.

Northern Ireland Assembly (2011) “Devolution of Corporation Tax” *Research and Information Service Research Paper* 57/11, Northern Ireland Assembly: Stormont.

Nortoft (2011) Milton Keynes International Sporting City prepared for the ISC Steering Group Final Report, Nortoft Partnerships Limited; Northampton.

Organisation for Economic Development and Co-operation (2012) Reducing income inequality while boosting economic growth Can it be done? : in *Economic Policy Reforms 2012: Going for Growth*, OECD; Paris.

Ostry, J.D Berg, A and. Tsangarides, C.G (2014) *Redistribution, Inequality, and Growth,* IMF Discussion Note, International Monetary Fund; Washington.

Parr. J.B (1999) "Growth-pole Strategies in Regional Economic Planning: A Retrospective View Part 1" Origins and Advocacy *Urban Studies,* June vol. 36 no. 7, pp. 1195-1215.

Parr, J.B. (2002) "Agglomeration economies: ambiguities and confusions" *Environment and Planning A,* Vol. 34, pp. 717 – 731.

Pawson, R. and Tilley N. (1997) *Realistic Evaluation*, Sage; London.

Portland Trust (2007) *Economics in Peacemaking: Lesson from Northern Ireland* Portland Trust; London.

Pike A. Rodriguez-Pose, A. Tomany, J, Torrisi, G, and Tselios, V. (2010) "In Search of the 'Economic Dividend' of Devolution: Spatial Disparities, Spatial Economic Policy and Decentralisation in the UK" *Spatial Economic Research Center Discussion Paper* no 62, London School of Economics; London.

Riskin, C. (1987) *China's political economy: the quest for development since 1949* ,Oxford University Press; Oxford.

Rodríguez-Pose, A. and Gill, N. (2005) "On the 'economic dividend' of devolution", *Regional Studies* 39(4): pp. 405–420.

Rostow, W.W. (1960) *The Stages of Economic Growth: A Non-Communist Manifesto*, . Cambridge: Cambridge University Press.

Sen, A. (1989). Development as Capability Expansion. *Journal of Development Planning* ,19: pp.41–58.

Stiglitz, J. Sen, A, and Fitousi, J (2009) *Report by the Commission on the Measurement of Economic Performance and Social Progress* www.stiglitz-sen-fitoussi.fr.

United Nations (2000) "Tax Incentives and Foreign Direct Investment: A Global Survey*" ASIT Advisory Studies* No. 16 United Nations Conference on Trade and Development; Geneva.

Warde, A. 2004, "Practice and field: revising Bourdieusian concepts" *CRIC Discussion Paper* 65 (University of Manchester, Manchester) pp. 1 – 35.

Weiss, C.H. (1998) *Evaluation*, (2nd ed),.: Prentice Hall; New Jersey.

World Bank (2001), Homepage (www.worldbank.org)
.
World Bank (2007) *World Development Report* World Bank; Washington.