

Hodge Project International Symposium: Institutions needed for Economic Development

Agenda

Monday April 9th		
	Speaker	Discussant
5pm – 6.30pm	John Tomaney; University College London: The UK after Brexit; how local is local Chair: Brian Morgan	Ian Courtney; Wesley Clover Corp.,
Tuesday April 10th		
9 am-10.30 am	Ricardo Hausmann; Harvard Kennedy School: Economic and political implications of the sense of us Chair: Gerald Holtham	Kevin Morgan; Cardiff University
10.50 am -12.50pm	John Kay; University of Oxford: The ambiguous boundary between public and private activity Claude Menard; University of Paris (Pantheon-Sorbonne): Theoretical developments in the organisation of public bodies Chair: Rob Huggins	Ed Richards Former CEO Ofcom
2.15 pm - 3.45 pm	Ian Goldin; University of Oxford: Technological disruption and regional economic development Chair: Nick Clifton	Marianne Sensier; Manchester University
4 pm- 6 pm	Training and education Ken Mayhew; Oxford University and Chris Warhurst; Warwick University: Improving education and training – from analysis to delivery Geraint Johnes; Lancaster University: Planning v Competition in Education: Outcomes and Efficiency Chair: Brian Morgan	Melanie Jones; Cardiff University James Wilson; University of Deutso
Wednesday April 11th		
9.00 am - 10.30 am	Julie Froud and Karel Williams; Manchester University: The Foundational economy and development Chair: Gerald Holtham	Victoria Winkler; Bevan Foundation
11.00 am – 12.30 am	Fabrizio Barca: A policy approach to Rural-Urban Divides Chair: Brian Morgan	Peter Midmore; Aberystwyth University

Summaries of Papers Presented

John Tomaney: Brexit, devolution and economic development in England



John Tomaney presenting, with Discussant, Ian Courtney, and Chair, Brian Morgan seated

John laid out in his paper, the story of uneven devolution focussed on England, and sub-national economic development policy since 2010. In this context, indicators such as GVA gaps between London, the 'North' and 'South'; % primary school children claiming free school meals; % of 16-18 year olds in more study or training; % graduates leaving the region for employment; opioid prescription rates; housing stock values tell a story of uneven development. Budget pressures coupled with grant reductions to local authorities (e.g. leaving a gap of £600m in 2016/17 in Birmingham) marks uneven Government spending across England's regions.

The policy response has included abolishing regional structures (such as RDAs) and a preference for localism influenced by the Manchester model and implemented through Devolution Deals, Combined Authorities, metro-mayors and an ad-hoc asymmetric deal-led approach coupled with local financing initiatives such as proposed local control of business rates.

Risks from emerging threats to the labour market are greatest in those areas that already suffer the most, whereas current UK orthodoxy in local economic development identifies with people not places; City centrism; 'Functional' urban regions; scale and skills as reasons for increasing density and development; positive aspects of agglomeration (without the negative); a privileging of markets over planning; and a faith in the power of mayors as accountable institutions

Since 2010 John argued that English devolution can be seen as delegation. But this brings problems of accountability and the capture of local decision making by local elites and vested interests. On top of this, and perhaps because of it, local politics doesn't resonate with voters.

Strong institutions matter but decentralising and devolution to less developed cities and regions has limits, and there are also limits to property-based city centrism, and top down industrial strategy. John proposed that alternative approaches need to be seriously thought through and these include

approaches such as the Foundational Economy; Everyday Economy, the Preston Model, and the economics of 'belonging'.

Ricardo Hausmann: The Sense of us - Public Goods and the State



Ricardo Hausmann presenting, with Gerald Holtham in the chair

Ricardo's paper carried on with the theme of the 'economics of belonging' by describing research at Harvard University that points to the importance of identity as a motivating force in social and economic development.

He outlined what he refers to as the Scrabble theory of economic development where possibilities for economic development (taking the place of letters on a scrabble board) increase exponentially as technology-development teams and the numbers of people increase. Know-how and modern technology thrives on diversity and his research group have produced an economic complexity index that patterns diversification in national economies.

Historical identities, in political terms have always been fluid, as evidenced by the cases of Germany and Italy. However, different countries have different approaches to social and economic development, and many developing countries are closed to immigration and quotas on foreign skilled workers are very common. Diversity, in this sense, may be used as an indicator of the level of economic and social development in particular contexts.

Allied to this, (local) culture is significant in shaping human and co-operative behaviour. Moral psychology has already had an influence on economic theory and will be more significant in the future. Imagined communities, where feelings of belonging are important, contribute to the shared sense of 'us'. Development requires technological diffusion, which in turn requires a capable state and the absorption of knowhow (often from abroad). What is also required is an imagined community (of identity) that is deep enough to agree on the development of complex (public) goods and broad enough to allow for economies of scale and the supply of economic goods.

A double paper session with John Kay: 'The Ambiguous Boundary between Public and Private Activity' and Claude Menard: 'Theoretical developments in the organisation of public bodies'

John Kay's presentation discussed the world that lies between the ideals of public and private organisations. An extensive list of hybrid organisations were highlighted as examples where the boundaries are not so clear-cut, from the BBC to School Academies.



John Kay and Rob Huggins as Chair

Issues arising from this ambiguity include:

- Governance: how are managers appointed and accountable?
- Financial structure: ensuring adequate reserves and access to capital
- Resolution: what happens when hybrids fail in function?

The objectives of the governance of hybrid organisation are to allow planning and investment over longer periods than the annual budget cycle; to delegate management responsibility while retaining accountability; provide an overarching strategy and governance that reflects both social and financial factors; and to resist interest group capture.

Claude Menard: Theoretical developments in the organisation of public bodies

In the same session as John Kay, Claude's paper provided a discussion of what dimensions public authorities as well as private agents must consider when selecting modalities to deliver public goods, and specifically public utilities. He did this with a particular view of transaction costs both economic and political (examples in Water and Sanitation sectors)



Claude Menard presenting

Claude considered that the major challenges to the existence of public organisations delivering public goods are two-fold, namely technological revolution e.g. in the form of smart grids; and institutional changes such as financial regulation in a globalised world.

Technology interaction with institutions work through different layers, and the operation of technologies map on to macro, meso, and micro institutions respectively. This system requires co-ordination and alignment to provide good outcomes. On the technology side there must be coordination of simultaneous useage of increasingly diversified technologies, while on the institutional side there must be coordination of the definition and allocation of property and decision rights, such as in who can transfer rights to use and the conditions of transfer; and how can the rights be exercised, and what are the procedures through which decision makers can operate. The selection of an appropriate organisation is based on the interplay between the autonomy of decisions and incentives, and the autonomy of property rights.

There is also the problem of governance and that of enforcement. The first is about who should arbitrate: the courts and/or regulators? The second about what are the (meso-) institutional settings that must translate rules and allocate specific rights; implement and control specific rules; and monitor and incentivize operators.

Assessing the transaction costs involved are in terms of e.g. the costs of regulation (UK) relative to monitoring through public bureaus (Netherlands), or contracts (France, PPPs); and in terms of political choice of switching from public utilities to PPP, or to full privatisation

Ian Goldin: Technological disruption and regional economic development



Ian Goldin delivering his paper

Ian Goldin's paper was based on a view of the extraordinary growth of the past thirty years as being due to unprecedented globalization and accelerating technological change. Connectivity has been associated with rising creativity and accelerating change. The speed, scale and complexity of this integration has far-reaching implications for business and for individuals, societies and regional policy.

Emerging markets are likely to continue to grow at high levels for the coming decades. Rising life expectancy and collapsing fertility around the world has dramatic consequences for pensions, retirement, dependency, and employment patterns. Meanwhile, advances in artificial intelligence and robotics are transforming the nature of work and have the potential to replace significant numbers of jobs and widen inequality.

Globalization spreads not only opportunities but also creates a new form of emergent systemic risks. Pandemics, cyberattacks, climate change and financial contagion are among the systemic risks increasing uncertainty. The existing expert systems, not least in finance, have failed to manage these risks and may well have exacerbated them. Meanwhile the spillovers associated with global economic growth and connectivity mean that global commons failures are escalating. The increase in risk, growing inequality, and the failure of authorities to manage globalisation means that the downside risks to many, particularly in the lagging regions in already rich countries, overwhelm the benefits. Reactions include growing extremism that is amplified by social media, and this threatens to reverse integration and globalisation.

Disruptive technological change increases regional inequality within countries. This is through the disruption to firms and jobs as well as the growing costs of housing and transport in dynamic cities. Higher returns are likely to continue to accrue to workers in dynamic cities. Productivity growth is increasingly concentrated in a small(er) number of firms and places.

Disruptive technological change in the context of rapid globalisation requires a radical renewal of institutions supporting regional development. National and regional development banks may have a role to play, provided they are not based on discredited past policies and practices. So too have other means to catalyse innovation and entrepreneurship, including tax and other incentives. When societies change more rapidly, the danger is that within countries groups of individuals and parts of the country and regions get left behind more quickly. This requires a more active government, to renew infrastructure and institutions, which are becoming out dated more quickly. The same is true of firms, whose equipment and management practices depreciates more rapidly. We need new or radically reformed institutions. But before institutions we need a better understanding of disruptive change and ideas on how best to respond.

A double paper session with Ken Mayhew, Chris Warhurst, and Daria Luchinskaya: 'Improving education and training – from analysis to delivery', and Geraint Johnes: 'Planning vs Competition in Education: Outcomes and Efficiency'



Brian Morgan chairing the discussion session with (from left) Chris Warhurst, Geraint Johnes, and Ken Mayhew

Ken, Chris, and Daria's paper pointed out that the skills-needs of the economy are about as much demand as supply, and that we need to think about skills provision as part of the Industrial Strategy. We can do that by considering workforce intelligence and forecasting; investing in a coherent system of workforce planning; and the role in all this of the education and training system.

Coordinated workforce planning, where labour market projections interplay with an understanding workforce adaptive capacity, requires that employers think about future workforce requirements in a more serious way than to date. But employers compete as well as sometimes collaborate, and their framing of the problem of workforce fit is not always helpful.

There is a need for a system of workforce planning that includes multi-stakeholder input, with more appreciation of coordination cf. to reliance on market forces. More employers should be drawn in to the workforce planning process, where interests should align around common areas e.g. job quality (as in Fair Work Wales). There should also be an all-age coordinated approach that avoids HE

dominating young people's training and education, and a revamped approach to career guidance, where individual workers are able to make well-informed and rational choices.

The discussion also referred to the Welsh Assembly Government's strategy development paper 'Prosperity for All: an Economic Action Plan', and asked how the aspirations outlined in that document be met? The Welsh Industrial Strategy may stand alone but it must be judged on what it can achieve as part of the UK's approach as well as its own specific policies and needs.

Geraint Johnes: Planning vs Competition in Education: Outcomes and Efficiency

Geraint's paper was more specifically about the education system in Wales and recent concern about performance. He discussed the PISA performance in Wales, which may be contrasted with England where quasi-market forces are encouraged, but where competition does not in fact improve performance in the top quartile of schools. The deterioration of results in Wales may be due to lack of competition between providers, or due to students' lack of practice in the tests. Relatively sparse population in Wales limits the effectiveness of competition in any case.



Melanie Jones responding to the session on skills, education, and training

Karel Williams: The Foundational Economy and development

Karel Williams set out a paper that challenged the terms of debate about regional development and asked what is required of place-based policies. His paper set out a perspective on the debate about **what**, and **how** we see the economy. His team at Manchester University have laid out the grounds for reframing the economy, and to draw out implications for a new approach to governmentality.

Karel's thesis was that we are too preoccupied with individual consumption, market income and jobs as a means to welfare. Measures such as GDP and GVA are made on an income per capita basis, which is distributed unequally. The focus should instead be on ideas about wellbeing, which depends on such things as collective consumption via networks and branches, cost and availability of housing, price of winter fuel, public transport, and care services. Encapsulating this approach, the Foundational Economy thus refocuses attention on social infrastructure.



From left; Chair: Gerald Holtham; speaker; Karel Williams; and Discussant: Victoria Winckler

Karel claimed that we are too preoccupied with income and jobs as a means to welfare. Collective provision is not an individual choice and can be categorised as providential services such as health and schooling; and material infrastructure such as cables and pipes. The elements of the Foundational Economy are mainly sheltered with wages not determined by international competition, where distribution is local but not exclusive.

The Foundational Economy recognises what is already there in the local economy, and we should map resources, build capabilities, and mobilise around local issues for asset based economic development. It should be based on public sector anchor institutions and firms that are grounded in the local economy.

Karel advocated breaking down the line between economic and social policy, and criticised the 'old' politics as narrowly framed, which has led to the waste of privatisation and outsourcing approaches where costs for foundational services, for example, can be reduced by reducing the benefits to stakeholders. Policy-making should be seen as the product of a participative and deliberative democracy, and policy learning done from experiment. To this end we need lead institutions who have the resources and adaptability to change and to lead, and suggested that intermediary institutions, for example Housing Associations capable of initiatives outside housing, should be employed to catalyse change.

Fabrizio Barca: A policy approach to Rural-Urban divides

As in Karel Williams' paper Fabrizio was concerned with territorial inequalities, and in particular within-country inequalities. He saw an authoritarian dynamic at work in the West that included an intolerance of diversity, and a mistrust of institutions, which he traced back to the unequal distribution of benefits, and the costs of system change. Economic inequalities, he exemplified in terms of income, wealth, and material deprivation; whilst for social inequalities access to common goods and quality of services is seen as unequal. Thirdly, however, he identified recognition

inequalities as the perception that there is a lack of recognition by policymakers and the powerful of the problems and issues experienced by communities leading to fracture of identity.

Inequalities have a territorial dimension and include static or falling-behind towns and cities; peripheries; and rural (or inner) areas. In rural areas there is pressure on all 3 fronts of inequality. Space-blind institutional reform have exacerbated the problem, producing 'one size fits all' change designed by know-it-all bureaucrats and implemented by local elites.

A policy U turn is required: where knowledge embedded in the place is needed to exit traps, but also combined with external knowledge. Local elites are hesitant to adopt innovation which could make them dispensable, especially if compensating transfers have already shaped behaviours. External policy makers need to engage in action to help push places out of their traps. Hence, we must provide motivation and incentives for both local and external elites to perform the U turn.

National policymakers can act as a fair and impartial spectator to:

- Build a space for debate
- Entrust local elites with responsibility for decision making
- Draw boundaries by engagement in a process
- Acknowledging ignorance
- Make policies space aware
- Deploy outreach teams

Fabrizio finished his presentation with a description of an Italian project that engaged with local communities to devise development initiatives (entitled The Strategy for Inner Areas).



Discussant Peter Midmore, responding to Fabrizio Barca's paper (Brian Morgan as chair)
