



# Practice Running Ahead of Theory? Political Economy and the Economic Lessons of UK Devolution

Graham Brownlow  
(QMS)

Globalisation in Crisis? Conference  
University of Cambridge  
July 13<sup>th</sup> 2017









# Structure

- Introduction: Devolution Economics in Theory and Practice
- Devolution Past & Present
- (Ir) relevance of Tiebout (1956)?
- (Ir) relevance of Kaldor (1970)?
- (Ir)relevance of FGFF & SGFF?
- Conclusion: Devolution and Constitutional Economics



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# Framing UK Devolution Economics

- Practice running ahead of theory: Brexit and beyond?
- Devolution's Economic Dividend.
- Institutional Geography:
  - A. A recognition of the importance of the general institutional structures of a county (as in the New Institutional Economics) (North, 1990);
  - B. A recognition of the importance of the institutional structures at the sub-national level;
  - C. Due to A) and B) there is a recognition that institutional geography is connected to the historical uniqueness of each specific location;
  - D. The recognition that institutional geography in no way implies optimality in observed institutions, but it does imply that contingency is important in understanding observed outcomes.



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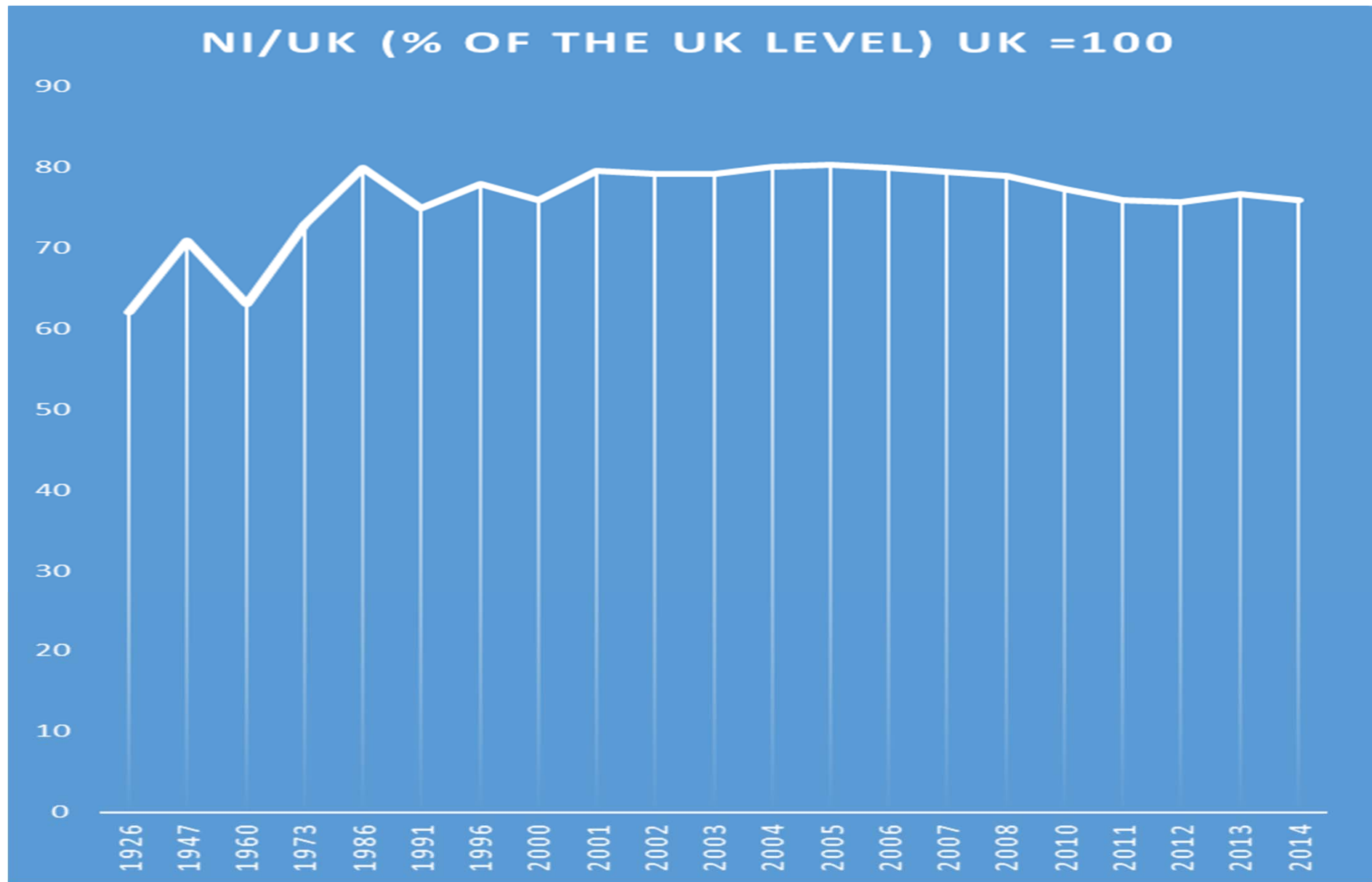




# Institutional Geography and 'Economic Dividends' 1

- Legitimacy as feature/measure of devolution?
- Soft budget constraints.
- 'Stormont' (c1921-1972) as a 'laboratory' (Furniss, 1975).
- Institutional geography, rent-seeking and poor economic growth (Crafts, 1995; Brownlow, 2007).

**Figure 1: Income per Head in NI compared to the UK average, 1926-2014**







# Institutional Geography and ‘Economic Dividends’ 2

- No consistent pattern regardless of direct rule or pre 72 devolution.
- Public finance more generous post 1945.
- Related to legitimacy boost from WW2 (Ollerenshaw, 2013).
- Archival evidence on scale of ‘inducement gap’.



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# Devolution, Institutional Geography and Tiebout Sorting 1

- Tiebout and UK local authorities (Kay and Marsh; Dowding, 2008).
- But increasing competition among DAs would complicate matters further.
- Uniformity within DAs? Reduce mobility between LAs?
- Taxation, migration, labour and housing markets (Bell and Eiser, 2014; Birnie and Brownlow, forthcoming).



# Devolution, Institutional Geography and Tiebout Sorting 2

- Tomlinson (2014): deglobalisation and deindustrialisation.
- Good news: Public spending stabilising employment levels, but composition (Lee, 1995; McCrone, 1999).
- Bad news? Switch towards local decision making.
- Tiebout sorting vs political reality.



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# Devolution, Institutional Geography and the Kaldor Model

- Kaldor (1970) two parts: interregional finance and regional policy.
- So automatic and discretionary public spending Evidence (Geary and Stark, 2015; 2016).
- But institutional geography ignored “premia” exist.
- A ‘corridor’ of outcomes are possible and DAs differ.





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# Devolution, Institutional Geography and Fiscal Federalism 1

- Barnett suits HMT.
- DAs and collective action (decentralised costs and concentrated benefits).
- Case of coal price/freight subsidies to NI in 1950s and 1960s.
- Persistence of competitiveness gaps.



# Devolution, Institutional Geography and Fiscal Federalism 2

- Lower CT for NI as an ‘economic dividend’/’game changer’ argument (Budd, 2016).
- But consensus is CT in isolation not enough.
- Azores & Institutional Geography.
- Concentrated benefits once more.
- But analysis of the suggested ‘game changer’ is not so clear cut (Birnie and Brownlow, forthcoming).

# Figure 1: Feasibility and impact of devolution of each tax


	Low impact#	High impact#
High feasibility*	Landfill Tax Stamp Duties	APD Income Tax
Low feasibility*	Betting & Gaming Duties Insurance Premium Climate Change Levy Vehicle Excise Duty Aggregates Levy Capital Gains Tax Inheritance Tax	Corporation Tax Tobacco Duty Fuel Duties Alcohol Duties VAT National Insurance Contributions Customs Duties





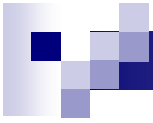
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# Constitutional Economics & Institutional Geography

- Muddling through? Flexibility?
- North Sea oil & Scotland's future.
- Piecemeal.
- Limits of generalizability?



**Q&A?**