

The impact of the economic crisis on local and regional governments and local and regional economies world wide

April 2009

Microsoft Conference, Bilbao.

Greg Clark
Advisor on City and Regional Development.

1. Introduction

Outline of the paper

The paper offers an overview of the current economic crisis and the impact of this global downturn on the local economies worldwide. Specifically, attention will focus on the crisis' impact on local economies and the role of regional governments in reacting to and mitigating these consequences. This will be discussed both generally and with reference to cases from Europe and the rest of the world.

The role of local and regional governments in dealing with the economic crisis is directly related to governance at a national level and the dynamic interplay between these two scales of governance is considered. Notably there has been the downwards shift in responsibility from a national to a local level under central governments' anti-crisis strategies as well as the emergence of proactive leadership at the local level. Accompanying such changes is an opportunity to utilise and update local economic development approaches. Moreover, local authorities are becoming significant players in restoring economic stability and development and have an opportunity to increase their influence and importance in the EU.

In order to address the aforementioned issues, the following points will be considered in sequence:

- The Crisis;
- Principles for Local and Regional Leaders;
- The impact of the global economic crisis on the nations and regions worldwide;
- Central governments' anti-crisis strategies and a shift in responsibility; and
- Tackling the crisis on the local level - case studies from around the world.

2. The Crisis.

The current economic crisis sweeping the world is different in character to previous crises. It is marked out by its depth and likely prolonged duration, its global reach and influence, and by the structural implications it has for the world's financial systems and investment regimes. It has also come at an important time in the evolution of the global economy and is likely to accelerate some processes of change that are already in train. It will give rise to profound hardship in many parts of the world, with uncertain consequences at this point. The uncertain nature of the crisis adds to its challenge, and gives rise to a need for leadership internationally, nationally, and locally.

Despite these unusually challenging dimensions, the economic crisis has not altered many of the long term, global drivers to which local leaders must respond, but has added to them, in number and in intensity. Environmental sustainability; balanced global development, poverty reduction and tackling hunger; enhancing and utilising science, technology, and medicine; achieving peace and stability; and embracing a global economy with increasing returns to knowledge and innovation, will all remain global drivers of local development once this crisis is over, and they should continue to guide long term action and strategy. This crisis is likely to add the need for a better global governance and regulation of world financial systems, and the requirement to address large scale and deeply rooted unemployment, business failure, and home repossession, in many countries. The crisis is also going to leave many advanced and developing nations highly indebted for years to come, and prolong the period of time over which many populations have to work, and the level of taxes they have to pay.

National governments and inter-governmental organisations are taking the lead in defining what needs to be done at the macro-economic level.

The Importance of Local Action.

Local leaders also have important contributions to make; both in informing and helping to shape national policies, and in promoting economic development and recovery programmes at the local level. Local economies are differently impacted by the crisis depending upon their starting point and structure, and those that have gone into the recession with challenges of unemployment or weak local economies and fiscal regimes will find that these challenges are made much harder by it. In many countries, devolved financial systems mean that, due to the crisis, local governments

find they have a smaller resource base of locally generated tax revenues, and this is resulting in major cut backs in local government services just at the point when they are most needed.

The recent period of extended growth in most OECD countries (c 1992-2008 but with some variables) heralded for the first time important new dimensions in local development. In many OECD countries

- local strategies emerged as a key means to shape local economic change and futures;
- new forms of public and private co-investment were established at the local level;
- local economic leaders embraced globalisation as an opportunity beyond rigid national hierarchies, land and property redevelopment and infrastructure became profitable and established vehicles for external international investment in many places for the first time;
- large numbers of people moved from one country to another to pursue economic opportunities on a planned basis; and
- knowledge rich activities and organisations became centre stage in new generation local economic strategies.

It was a long cycle of growth that spawned many new fields of local development action and saw more local economic leaders emerge in many different places. The ultimately unsustainable nature of the boom does not mean that these local development efforts were not worthwhile, but it does mean that they must now be re-appraised.

This statement of principles (below) accompanies a review of how the economic crisis is impacting on local authorities and their economic development partners.

Capacity for Local Economic Leadership.

Proactive local economic leaders have already created the capacity to engage in local economic development but not all local economies have such capacity. Indeed, the majority do not. Capacity to draw-up, and effectively implement, sound local economic strategies is not common. The crisis is a good time to mobilise and re-calibrate existing efforts, and to build up new capacity and competence in local development where it does not yet exist. Local economic leaders can learn from each other in pursuit of this aim.

Local Economic Development was largely invented to address crises periods such as these. It grew out of efforts in both Europe and North America to restructure local economies after the Second World War and the first wave of de-industrialisation in advanced economies. So, the crisis represents an opportunity to utilise and update local economic development approaches.

Local economic development can make an important contribution to national economic performance, and has become more critical with increased global competition, population mobility, technological advances, and consequential spatial differences and imbalances. Effective local development can

- reduce disparities between poor and rich places;
- add to the stock of locally generated jobs and firms;
- increase private sector investment overall;
- improve the information flows with investors and developers; and
- increase the coherence and confidence with which local economic strategy is pursued.

This can also give rise to a better diagnostic assessment of local economic assets and advantages, and lead to more robust strategy assessment, development and delivery.

Local development is often led or facilitated by local governments, but local development is not a task to which local governments are well suited or traditionally associated with. Local development is not like service provision, representation or regulation. It is a 'market-facing' activity that operates over longer time frames, broader geographies, and wider institutional collaborations than is usual for local government.

It is a specialist 'vision driven' activity that seeks to define a path into the future and to shape the behaviour of other actors, most of whom are not in the control of local governments leaders. It also

requires sensitive understanding of external factors such as 'contested investment' and 'investment returns', 'business cycles' and 'market forces' as well as a deep appreciation of local assets, endowments, and distinctiveness. Effective local strategies also require deep cross border and cross sectoral collaboration, as well as the effective and compelling communication of choices made and investments taken. They must inspire confidence in order to act as co-ordination vehicles.

This requires exceptional leadership skills amongst local government leaders and their partners if local development is to succeed.

The skills of visioning, communicating, partnership and alliance building are to the fore. Working with businesses and investors to reduce the risks involved in investing or expanding in a location is a key attribute of local economic leadership. Stakeholder engagement is key. Local economic leadership also requires the mobilisation of active support from residents (who have a right of veto through the ballot box) for processes that will often involve change, growth, diversification, and the challenge of relinquishing old customs and habits in favour of new ones which may be unfamiliar or even disadvantageous.

Local economic leadership must also recognise that many of the economic stakeholders in a local economy do not exercise a vote in local elections. Businesses, commuters, tourists, investors, students, infrastructure and logistics providers, are not enfranchised in local elections despite the fact that they are major economic stakeholders. Important implications arise from this: local leaders must find means to engage them in local economic strategies despite having no mandate to represent them or lead them, and, local leaders must seek to reconcile their interests with one another through visioning and agenda building, as well as aligning their needs and interest with those of residents. Reconciling the needs and aspirations of residents with those of economic stakeholders is not usually straight forwards, especially in context where economic growth and quality of life are perceived to have major tensions and trade-offs between them.

3. Principles for Local and Regional Leaders.

What principles emerge from an examination of the better practices already in train by local economic leaders across the world? The following ten principles were elaborated by a meeting of local leaders who met from around in the world in Barcelona with the OECD LEED Programme and Barcelona City Government discussed the following principles.

i. Provide pro-active and collaborative leadership at the local level

"Don't over-react, but respond with purpose"

Purposeful leadership is required at the local level for many reasons. Working to understand, interpret and communicate the local impact of the crisis is a fundamental first step to recovery. Because the local impacts of the downturn will be diverse and distinctive from the overall national impact this will begin to reduce uncertainty, restore confidence and establish a foundation from which a rationale of how to respond can be set out.

Local leaders should embrace this process of evidence-based assessment, with rigour and precision. Such assessment should consider both the impact on places and on people, and they should recognise that both are important. It is through the clear and confident communication of such evidence that local leaders can energise and bring together diverse stakeholders to further build a picture of the impact of the recession but also build and deliver appropriate downturn management strategies.

Few leaders have control over all of the levers of local economic performance so by fostering this sort of collaboration and achieving influence they are better able to achieve coordinated and integrated action against the recession.

Collaboration should also not just cover sectors within the local economy but should embrace inter-municipal and inter-local efforts. The needs of the whole economic space, and not just the municipality, should be the focus.

Overall, local economic leaders must maintain focus on the key long term drivers as well as short term challenges, differentiate between long and short term responses and embrace the need for both to begin immediately. They should seek to understand the difference between social and economic imperatives, subsidies versus investments, temporary versus permanent approaches.

- ii. **Make the case for continued public investment and public services and the taxes and other sources of investment required.**

“Make the case for investment”

Continued public investment and services, and the taxes and other sources of investment required to fund them. During a recession public investment becomes even more important and less affordable than usual. Demand for public support increases from people and firms who are no longer supported by the market. It is essential for local leaders to make a vigorous case for public investment, for taxes and levies, and for the services they resource.

Without sustained public investment local economies will slip further into degradation than they otherwise would and require massive later reinvestment if they to come out of the cycle of decline.

- iii. **In the long term: build local economic strategies which align with long term drivers and identify future sources of jobs, enterprise, and innovation.**

“Robust long term economic strategy”

Build sustainable and long term local economic strategies which align with long term drivers and identify future sources of jobs, enterprise, and innovation. Local economic leaders should bring forwards strategies that are based on an evidence-based evaluation of what is working elsewhere and has worked during past crises. Strategies that recognise the long-term drivers of growth and change and that identify future sources of innovation, growth, and productivity will be the most successful. Though tempting and politically valuable, short term measures can perpetuate the economic unsustainability which is at the heart of most recessions. Long term goals such as productivity, innovation, sustainability, equality, and creativity do not disappear, but are made more important by this crisis. Drivers such as knowledge economy and innovation systems, population diversity, environmental sustainability, global trade, human development and enrichment (including tourism, entertainment, and culture) will remain long term sources of productive job growth.

Local economies will re-emerge through investment based on sound platforms that encourage and resource entrepreneurs, innovators, sustainable job creation, and productive services.

- iv. **In the short term: focus on retaining productive people, business, incomes, jobs, and investment projects.**

“Purposeful short term action is needed”

In the short term: focus on retaining productive people, business, incomes, jobs, and investment projects. Helping people to adjust to changing opportunities and forms of employment and housing is a key opportunity and requirement. Many people are losing either their jobs or their homes or both. Local economic leaders cannot house and employ many of them, but they can make sure that help is at hand to adjust and settle them into new arrangements quickly.

Retaining and supporting firms and investment in order to keep jobs and incomes in the local economy should be a central focus of local leaders in the short term, but should not to the detriment of long term stability. This is seen as critical to retaining population which is important for longer term investment overall. Local leaders should endeavour to be realistic and targeted. They recognise that it may not be possible to protect all locations, jobs, projects, investments, and sectors but it is important to focus on those that have long term productive potential.

In general, local economic leaders are promoting good supply side interventions which make the local economy more productive in the medium and long term rather than trying to subsidise or artificially stimulate jobs and activities.

There is great scope for intermediate and social employment programmes that advance environmental sustainability or other public goals and add to the performance of localities.

- v. **Build the tools and approaches to attract and retain investment over the long term.**

“Investment attraction and readiness”

Build the tools and approaches to attract and retain investment over the long term. A critical short and long term issue is reinvestment. Making local economies attractive for reinvestment requires a clear strategy and a balance between investment opportunities, investment readiness and investment tools.

Local leaders should actively engage in mechanisms to retain and maintain investment and protect jobs over the longer term if they are sustainable. When capital is tight it is also important to review other investment drivers such as the use of assets, brand, collaboration, project preparation, project management and ensure that they are performing optimally.

Supporting relationships with investors, image and identity, skills and knowledge, the Institutional Framework, and to effective collaboration are also all essential during the recession.

Local leaders have to **make the most of what they have already**. This means using existing resources and investment tools fully or communicating existing initiatives more effectively. Local leaders are recognising that some developments, infrastructure and assets will be under-utilised during the recession and are taking active efforts to identify intermediate uses and other asset management strategies to ensure that they are fit for purpose when demand improves.

Public assets such as land and buildings are seen as important ingredients in making investment work. Localities should consider how to use ‘none-cash’ resources better to incentivise private investors.

Make wider changes that are that are needed now, do not **‘waste the crisis’**. Local leaders should recognise that the recession is an opportunity to do better than in the past and to embrace fresh long term thinking about the local economy and take time to consider long term strategy especially in respect of investments, markets and the long-term geography of trade.

Most local economies have inherited some unhelpful customs, practices, or rules that hinder long term economic performance. This crisis is a good opportunity and rationale to make changes in the institutional and operational framework that are good for the future.

Where appropriate, leaders should identify investment opportunities that localities can take directly in their own long term interests (e.g. acquiring strategic real estate which is currently discounted) and look to develop partnerships with new investors coming from non-traditional sources.

- vi. **Building genuine long term relationships with the private sector, trade unions, and other key partners.**

“Relationships matter and need increased attention”

Building genuine long term relationships with the private sector, trade unions, and other key partners. Local economic leaders should recognise that new models of partnership will be necessary in the future. These relationships should bring inclusive dialogue and support together from a wide range of sectors.

Engaging directly with private sector employers and investors is critical to understanding the conditions they face and to encouraging their active participation in recovery. Engagement with

Trade Unions is essential to ensure active policies that support work and incomes over the long term.

This type of mature and open debate with private sector employers and investor is critical to maintaining long term momentum in local economies and to managing short term challenges.

Partnership with trade unions is critical to job retention and future expansion.

- vii. **Take steps to ensure the sustainability and productivity of public works, infrastructure, and major developments/events.**

“Effective public works and major investments”

Take steps to ensure the **sustainability and productivity of public works, infrastructure, and major developments/events**. Where programmes of ‘public works’ are undertaken, local leaders should focus on those which have a long term alignment with the localities development objectives. They should not support the short term rationale of creating jobs which may not be sustainable. Public investments that can attract private investment not substitute for it, should be pursued. Local leaders are seeking to use public works to promote wider goals of innovation, energy efficiency, economic inclusion.

It is important that infrastructure investments undertaken will deliver productivity and sustainability goals and that employment is really generated by them. There are important local development actions required to ensure that job benefits flow to those who are otherwise excluded from work.

Localities that are hosting international events such as Olympics, World Cups, and others will find that these ‘public works’ have both short term benefits and the long term potential of helping to re-position their local economy. Exploiting the short term benefits fully as well as the long term benefits requires dedicated planning and skilful intermediation.

- viii. **Local leaders should act purposefully to support their citizens in the face increased hardship**

“Stay close to the people”

Local leaders know that ultimately, local economies are about the people that work, visit and live in them. Recession directly threatens the quality of life of these people and therefore the health of the city as a whole. Local leaders should put in place new and additional support to help citizens deal with the changes and challenges that recession and economic crisis brings.

A strong focus of citizen long term interests is essential for local leaders. The quality of local services and support directly impact on the experience of the crisis.

- ix. **Local economies have benefitted and should continue to benefit from being open and attractive to international populations and capital**

“Stay open to the World”

There are pressures to adopt ‘local protectionist’ approaches as well as national ones. Perceptions that international workers and immigrants, or international firms, are part of the problem and should not now be welcomed, may become rife. It must be remembered that local economies have benefitted enormously from being **open and attractive to international populations and capital**, and having a distinctive appeal internationally will be important throughout and after the crisis. So, local leaders can demonstrate and promote the importance of remaining open and enlisting continued investment and immigration as a future source of growth.

Being open is more than embracing global flows of population and capital, it is also about learning from and sharing in the lessons and experiences of others.

x. **Communicate and align with National and other higher tiers Governments.**

“Build National-Local Alliances”

Communicate and align with National and other higher tiers Governments. Whilst local economies have specific needs that will vary within any national context, they also need national support if they to succeed in the long term, and many of the responses to the current crisis need to national and international.

Local leaders are working in **partnership with national and higher tier governments** to ensure that the national responses are both worthwhile and deliverable on the ground, and have every opportunity to succeed. Local leaders can help ensure that national solutions are sensitive to local needs and variables and that they are deliverable in all locations.

4. Analysis: impacts of and responses to the recession by local economies worldwide

i. How in general, are localities impacted by the credit crunch, economic recession, and changing global geography of investment and trade?

Because different local economies are impacted in different ways by the global economic recession and because the downturn is yet to run its full course, it is difficult to offer a very detailed picture of the ways in which the credit crunch is affecting the world’s localities. Because of the variety of local economies worldwide there is a high level of variety in the breadths and depths to which local economies are affected. None the less, with data improving and by focusing on local economies where effects are being felt progress on understanding the impact of the recession in local economies is being made.

By dividing the effects of the recession into tangible and intangible impacts we begin to build a more coherent picture of the situation on the ground at present in ‘recession-hit’ local economies - a picture which could inform other local economies what they could expect over the course of 2009 and 2010.

Tangible impacts

Slow-down in actual and forecasted local economic growth rates. Because urban areas are the fundamental drivers of national economies, a recession, defined as a ‘decline in Gross Domestic Production for two or more consecutive quarters,’¹ and the decline of local economic growth rates go hand in hand. In November 2008, the BBC reported that economists in Hong Kong have lowered forecasted local economic growth for 2008, from 4-5% to 3-3.5% to reflect the global slowdown. The growth rate in 2007 stood at 6.4%.² As well as economic output, growth can also be measured in terms of employment. For London, the GLA Economics team forecast negative and stationary employment growth over the next few years as a result of the credit crunch: -0.7% (2008); -1.1% (2009); and 0.0% (2010).³

Firms restructure, enter administration or close. Already, there have been a number of high profile victims of the present global downturn. With the recession originating and gaining speed initially within the financial services sector, this was the first area to be hit hard. The slow collapse of the global investment bank, Lehman Brother’s began as the mortgage market crisis unfolded in the summer of 2007, ‘when its stock began a steady fall from a peak of USD 82 a share.’ The firm eventually filed for Bankruptcy on September 15th 2008 after the US Government refused to bail out the bank.⁴ Unprecedented events such this sent shockwaves through the global economy. On January 15th 2009, Citigroup, another banking giant, announced that it would restructure and split its business in two after reporting a quarterly loss of GBP 5.6 billion.⁵ As the crisis deepened, many local economies which are vulnerable to it saw its affects penetrating other areas of the economy. Across the United Kingdom, the high-street retailer, Woolworth’s - present in the UK’s cities and towns since 1909, entered administration in November 2008 and finally closed all its 807 outlets by the 6th January 2009.⁶ There are now increasing pressures on the SME sectors of the local economies worst hit by the recession.

Job losses. As firms restructure to mitigate the impact of the recession and close because of it, the most obvious result is the loss of thousands of jobs. To follow on from the examples above, the restructuring of Citigroup has seen it cut 52,000 jobs worldwide⁷ and in the closure of Woolworth's 27,000 jobs were lost UK-wide.⁸ Job losses are not confined to the likes of New York and London (where losses could reach as high as 40,000 in the City of London and around 370,000 jobs London-wide - 7.9% of all jobs in London - by December 2012).^{9 10} On the other side of the globe, Auckland too predicts rising unemployment (Annex Table 1).

Table 1. Predicted rising unemployment in Auckland

	Actual		Forecast	
	2008	2009	2010	
Unemployment rate	4.2	4.9	5.3	

Source: see endnote ¹¹

House repossession and devaluation. The principal cause of the global downturn was the failure of many American's to keep up mortgage payments, a process which gathered speed since the summer of 2007. The very same banks which gambled by offering home-owners mortgage loans they could not afford began to repossess more and more homes. As the Guardian reported in March 2008:

*'The mortgage delinquency rate of 5.82% [in the last three months of 2007] was the highest since 1985 and up from the 4.95% seen in the fourth quarter of 2006. By the end of last year, one-in-five sub-prime borrowers were in arrears on their home loans.'*¹²

The knock-on effect of this process and of the downturn in general has been that the house price increase bubble has burst. In the worst hit local economies, reports of significant depreciations in the value of the housing stock have been reported as the market readjusts. In Edinburgh, house prices plunged by 10% in the last quarter of 2008 and in Paris prices are expected to fall by approximately 7% over 2009 with worse falls expected in certain neighbourhoods such as the 14th and 18th Arrondissements.^{13 14} This process is also being fuelled by people unable to keep up with mortgage repayments as a result of the downturn. It is this increasing supply of housing and falling demand for housing that could drive house prices down further.

The impacts of such a readjustment are varied. For instance, many elderly Londoners who had planned to release house price equity for their retirements now cannot. More importantly, local service provision could also be affected as tax revenues for local governments decline (described below).

Fiscal Impacts: growing local budget deficits. As businesses close, people lose their jobs, consumers spend less money on the high streets and house prices fall, local economies suffer from a loss of tax receipts. This can have serious knock on effects for the volume and the quality of local service provision which local economies can provide. For instance, local economies in the United State of America get 28% of their funding from property taxes. Thanks to falling house prices, finance officers expect this level of funding to have decreased by 3.6% in 2008.¹⁵ As tax receipts declined towards the end of 2008 in Philadelphia, the city planned to cut jobs in its administration and to shut libraries and swimming pools to close a USD 108 million gap in its current USD 4 billion budget.¹⁶ In New York City, it is estimated that the financial year budget gap of 2010 will rise to USD 4 billion.¹⁷

It is not only through declining tax receipts that local economies have experienced unplanned growing budget deficits. Following the collapse of the Icelandic banking system, 123 councils in the United Kingdom are owed around GBP 920 million from money deposited in accounts held in the country. Though all councils said they do not have a problem meeting their service delivery responsibilities in the short term, the national government said it would step in should the need arise.¹⁸

Civic unrest. As the recession deepens in local economies worldwide the likelihood of civil unrest increases as residents and workers take to the streets to air their grievances with the way the recession is being handled or to scapegoat certain minority groups, for instance. The former has already taken place in Paris where on the 29th January 2009 Parisians took to the streets in response to a perceived lack of effective action by President Sarkozy in response to the recession.¹⁹

International trade and tourism. Changes in the global macro-economic environment can have important implications for local economies. For instance, fluctuations in the value of currencies can impact on important sectors which make up a city economy. With the rapid depreciation of the Pound Sterling, local economies in the UK have both benefitted and lost out. Those reliant on exports and foreign visitors have gained a price advantage whilst those relying on imports have lost out.

Intangible impacts

Loss of consumer confidence. In part driven by the tangible effects above and in part fuelling them, consumer confidence is integral to the health of local economies. By feeling comfortable enough to purchase (from local businesses), which leads to employment, profits and reinvestment, consumers can create a bottom up stimulus for the economy. However, with the threat of job losses around (which can be a disproportionate fear created by the media and by a general climate of concern) and the requirement of individuals to keep up mortgage repayments, many prefer to save than spend, which sucks the oxygen out of the local economy. For instance, with fears heightened by memories of the last recession, consumers in Helsinki are becoming more cautious. According to Heidi Holmberg, an economist at Sampo Bank, 'people are trying to rearrange their loans, asking for non-amortizing months, while some difficulties have already emerged with credit cards and general-purpose consumer loans.'²⁰ The situation is the same across most of the world's local economies which are now feeling the downturn more sharply. This loss of consumer confidence is the key factor in completing the vicious cycle that could hold local economies under recessionary conditions until 2011.

Loss of investor confidence. Stung by the impact of unsuccessful speculation either by themselves or others, financiers at the current moment are tending to sit on, rather than invest their funds. According to global property consultant Cushman & Wakefield:

*'The ramifications of the credit crunch continue to depress the Central London commercial property investment markets. A total of GBP 1.244 billion of transactions took place during the 3rd quarter. This was 40% down on Q2 and represented approximately 20% of the total turnover of Q3 2007, according to the latest Central London investment market figures.'*²¹

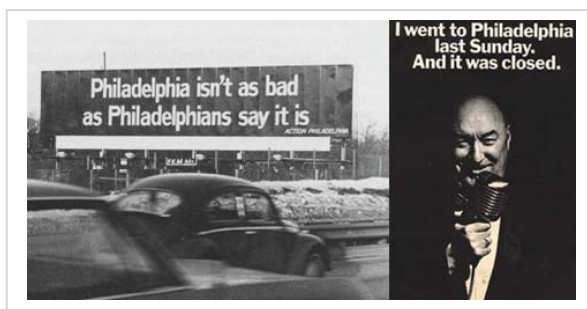
As with a decline in consumer spending, a reduction in investment dries up important capital liquidity in the local economy and can create an investment gap between where the locality wants to be and what the locality can achieve given the funds available. The impact of the credit crunch on local economic investment is described in more detail later in this chapter.

Uncertainty. With an increase in real and perceived pressures associated with the risk of failure, there is a tendency for leaders at all levels in the public and private sectors to lose their way to some extent. At the very top end, local economies in New Zealand were left waiting for cues from their central government as to how to respond to the recession. Given the fact that government decisions in Auckland have so much sway across the country, local economies and the residents, businesses and other organisations within them have been forced to hold back in their own plans to mitigate the impact of the recession for a clearer sense of direction from the government. As the New Zealand Herald wrote in mid-January 2009, 'Business waits for signs of leadership.'²² At the other end of the scale, leadership in the SME sector is also critical, particularly because many businesses in this sector sometimes lack the strategic thinking required to remain profitable through troublesome times. This subject is tackled head-on by the Lyon Chamber of Commerce and Industry, which suggests it to be a problem.²³

Loss of identity. The onset of this recession marks the end of an economic and urban settlement hierarchy orthodoxy which has prevailed since the last recession in the early 1990s. Indeed, with the emergence of the Chinese economy, there are those who argue this downturn could mark the watershed between the hegemony of western nations and a new and emerging hegemony in the East. Whatever the precise case, the prevailing global urban settlement hierarchy, and each individual locality's role within it, is undoubtedly evolving. Confident local economies such as New York and London, whose economies were defined by their financial services cluster and high levels of global connectivity, now question the inevitability of these perceived strengths. The very identity and future of so-called global cities is now in question in the light of the global downturn. The recession could unlock old urban settlement hierarchies. Though potentially damaging for established local economies, it presents an opportunity for local economies with less of a global presence which will look to emerge from the recession with a clear and confident identity.

Decline in civic pride. A product of the tangible impacts outlined above and reinforced by a loss of civic identity and lack of purposeful leadership, declining civic pride is an intangible sentiment amongst city residents and workers which sees them less proud about their locality than they once were. It involves a climate of self-deprecating malaise descending on a locality. Fingers are pointed, scapegoats are sought and tensions rise.

Philadelphia's image in the 1970s recession



Source: see endnote ²⁴

It is important to note that this picture of the impact of the global recession on local economies is biased towards local economies which are most affected by the downturn at present. This gives the analysis a natural bias towards local economies in America and the United Kingdom. None the less important themes emerge. In particular, it is evident how interrelated the impacts whether tangible or intangible can be. Preventing the closure of this vicious cycle could be the key for local leaders who are both experiencing the downturn acutely and who are yet to suffer.

Similarly, the full impact of the recession on local economies are not yet known as it is yet to run its course. Many of the impacts which are yet to come could be the result of a chain of events which are already underway. Interesting work is underway and being debated in London by the London Council's under the title of the 'London Collaborative.' It sees the construction of development scenarios, one of which models the future impacts of the recession.²⁵ Predicted impacts, which are yet to be seen on the ground include, include increased crime and heightened social tensions between poor white Londoners and immigrant communities, for instance.

ii. Are some local economies impacted differently from others?

Without doubt, different local economies are experiencing the current economic cycle in different ways. Though complicated because (1) the recession has not yet run its course and we do not yet see all of the impacts of the recession on all local economies; (2) different local economies are have different sensitivities to the downturn; and (3) there is a lack of comprehensive local-scale analysis and data, it is possible to begin to suggest that some local economies are impacted differently from others because of:

- a. Size;
- b. Economic composition;
- c. Location and global positioning;

- d. Social composition and culture;
- e. Global connectivity;
- f. Media cultures;
- g. Preventive and migration strategies; and
- h. Dependence.

It is the variance in these factors and overlap and interaction between them which influences both the onset rate of recession conditions and the depth of the recession conditions experiences.

Size

The relationship between locality size and the recession is not a clearly defined one. In other words, local economies of the same size in terms of population and business base may be affected very differently.

Evidence suggests though that disproportionately large local economies have experienced the onset of recession conditions more rapidly than small to medium sized local economies as more of what happens within these local economies is of a global nature. London for instance is more tightly tied into global financial services markets and patterns of trade and visitors because it is a large locality and comprises of industries, infrastructures and attractions which engage with, facilitate and appeal to global flows of capital. As a result, London has been quickly affected by financial instabilities in the United States and by reductions in trade with and visitors from other localities, regions and nations. By contrast, small to medium-sized local economies, such as Aarhus, Denmark's second largest local economy, tend to have a smaller number of globally orientated industries, infrastructures and attractions and so has not yet seen the worst of the downturn both in terms of depth and rate of onset.

Of course, factors other than size are critical to determining the sensitivity of a locality to economic instability. As will be discussed later in this section, economic composition for instance will also determine the rate and depth of a locality's experience of recession. However, in broad terms, we can suggest that the larger the locality the more diverse its economy is likely to be and therefore the more resilient the local economy will be to a very deep recession. In smaller local economies, the likelihood of there being a critical mass of healthy sectors to see the rest of the municipality through the recession is reduced.

Size also impacts on the centrality of a local economy and its position in urban hierarchies. In other words, as locality size increases the importance of the local economy as a hub for business and population increases. This, in turn, magnetises the locality and draws in talent. With recession marking the decline of old and ineffective businesses and working practices there will be a reliance on talented individuals to have the strategy, vision and insight to survive and thrive, and bring local economies and their businesses out of the downturn. With larger local economies attracting more talent, it is likely that they have a better chance to mitigate against the worst effects of the downturn and indeed bring themselves out of it.

Economic composition

Perhaps more than any other, the structure of the local economy is critical in determining the depth of and rate at which a locality plunges into recession.

At the global scale, there is a notable distribution of local economies experiencing recession conditions with a focus in the United States of America and Western Europe. There is an undeniable correlation between the level of connectedness of a given locality with global flows of capital and the rate and depth at which the same locality experiences the downturn. Therefore, local economies which are not yet highly globalised such as Helsinki, Aarhus and Sheffield, for instance, are not over-exposed to economic instabilities beyond their municipal boundaries and are unlikely to experience the worst of the downturn and to a large extent may be isolated from it. At the same time, economies such as London and New York - perhaps the most open economies in the world, will be more vulnerable to these same perturbations and are likely to experience the onset of the downturn more rapidly. It is ironic that this same openness which makes localities economies such

as London and New York so fragile to global recession is the same openness which has made these local economies so successful over the past 100 years.

The depth of the recession is much more a function of local scale processes. First, the severity of the downturn and its affects will largely be a function to what extent the local economy relies on a sector which is in crisis. For instance, the London economy is reliant on financial services. The GVA of London Financial and Professional services in 2006 was GBP 63.2 billion (39.8% of UK GVA).²⁶ Financial and Professional services represent c.750,000 jobs - half of the total CBD jobs in London.²⁷ So, it is likely that a crisis in this sector will have a strong impact on the locality's economy. The economy of the City of Aarhus - built around education, ICT and health, however, is likely to avoid a deep economic crisis as these sectors are fundamental human requirements (even ICT) and the demand for such products is likely to remain relatively stable.²⁸

In the UK, research undertaken by The Work Foundation in London has linked vulnerability to recession conditions to the degree to which a local economy is orientated towards the public or private sector. Large private sector orientated local economies, such as Manchester, it argues, are likely to feel the impact of the recession more acutely than public sector dominated local economies of a similar size such as Sheffield.²⁹ When it comes to the upturn, however, the more dynamic, skilled and entrepreneurial local economies such as London and Manchester are expected to recover more rapidly.

Localities with broad based economies are less likely to experience a very deep recession as there's a higher likelihood of there being a critical mass of healthy sectors in the locality to provide important productivity, employment and tax revenue. Localities with narrow economies do not have this privilege. If they specialise in one or two sectors, and these sectors suffer in the recession the impacts are likely to be more acute. In London for instance, Financial and Professional services, some of the worst hit sectors by the recession, represent c.750,000 jobs - half of the total jobs in the Central Activities Zone of the locality.³⁰ With the GVA of these sectors representing £63.2 billion (39.8% of UK GVA) in 2006, it is unsurprising that the UK is one of the worst hit nations in the developed world by this recession and London, as the UK's Financial and Professional Services hub, is bearing the brunt.³¹

Diversity in itself though is not necessarily a recession safety net. More precisely, it depends which sectors make up the diversity of the local economy. For instance, if a local economy was considered diverse yet this diversity was constituted by sectors hit hardest by the recession (Banking and Retail for instance) then the locality would not be well-placed. On the other hand, a relatively narrow local economy, based around relatively healthy sectors (ICT and Education for instance) would still be considered healthy. Indeed, certain sectors are generally considered more recession-proof than others. Public Sector activities such as governance, healthcare and education tend to be the most stable sectors during downturns. Even these sectors, however, may be affected due to a reduction in the local tax take.

In reality though, local economies are messier than the examples given above and are constituted by a mixture of poorly performing and healthy sectors. The impact of the recession on a local economy in terms of economic composition, therefore, is dependent on the ratio of healthy to poorly performing sectors and the relative sizes of these sectors.

Location and global positioning

It is also possible, at the local scale, to differentiate between the precise nature (as opposed to the degree) of the global connectedness of a locality and the pace at and depth with which it is experiencing or may experience the downturn. In other words, different local economies engage with global processes in different ways according to the nature of the local economy or their 'place in the world / global positioning.' For instance, African visitor centres such as Cape Town rely on international Tourism for jobs and wealth creation, Chinese manufacturing centres such as Beijing rely on healthy export markets to sell the good they produce and knowledge hubs such as London rely on fluidity of capital to lubricate their financial and business services sectors.

Because the rate at which each of these global flows (tourists, manufactured goods and financial services) is affected by the recession differs and the economies of the localities described above

have a reliance on them, Cape Town, Beijing and London will be affected at a different rate by the recession. For instance, London was affected extremely quickly by the sub-prime crisis in the United States both because the crisis started in a sector where London was invested but also the banking sector is extremely globalised – capital / and crises of capital can flow extreme extremely quickly between interconnected local economies. For a Chinese manufacturing locality though, the situation is a little different.

The impact of the downturn has not been felt as suddenly as in London. According to one commentator 'the dominoes are falling in our direction but have not quite reached us here in China yet.'³² This suggests there is an inevitability that the recession will impact on Chinese localities even if this impact will be delayed somewhat. This lag-time is due to the relative sluggishness with which goods trade relations between local economies and nations are affected by a downturn as compared to the rapid pathways through which shockwaves in the global financial markets travel. However, when major Chinese importers begin to suffer because of a fall in the demand for their goods as a result of the global crisis, months of decreased exports from China is likely to begin to impact strongly on major exporting Chinese localities.

It should be noted however that Geography can influence the position of a locality within global supply chains and in relation to global flows of capital. Less globalised local economies with low levels of virtual connectivity, poor access to national and international transport hubs have limited access to global capital flows and therefore likely to respond more sluggishly to the global recession as they are relatively isolated from it. Many African localities, particularly inland places such as Lusaka, Gaborone and Windhoek for instance have yet to report serious recession conditions due to their relative isolation from global flows of capital. For similar reasons, some long haul destinations such as Auckland and Cape Town may experience a decline in visitor and business traffic as a result of their relatively isolated geographic locations.

Without doubt, some of the distribution of local economies which are experiencing recession conditions can be explained by their location. Though geography can account for some of this variation, it is rather a given locality's position in the world urban hierarchy and locality supply and demand chains that provides the most comprehensive explanation.

Social composition, conditions and culture

There are many commentators who believe that culture has had much to do with this recession. At the recent Davos meeting of the World Economic Forum it was claimed that the recession in the West has been fuelled by a culture of consumerism and a lack of saving. This situation is very different when compared to the East, and particularly the Muslim world where lending and credit is forbidden. Because the recession has been triggered and fuelled by the impact of bad credit and debt there is a notable pattern between local economies experiencing recession conditions and spending and saving cultures. Broadly speaking, this maps out to Western local economies suffering more intensely than Eastern and Islamic local economies. Even Dubai, perhaps the most vulnerable Islamic economy, remains relatively stable. In March 2009, the UAE's economy minister Sultan Al Mansouri said:

*"We are evaluating the situation on a case-by-case basis. At present, we see stability for at least nine months... I don't think there will be recession in the UAE [but] there will be a slowdown because we are part of the world and we will be affected."*³³

The composition of a locality's population will have important consequences for the way in which it experiences recession. It is likely that the experience of economic hardship will manifest in different ways according to the social composition, conditions and culture of the locality. For instance, very open local economies, with large migrant populations could experience an increase in ethnic tensions. Derived from scenario-based work of *The London Collaborative*³⁴ initiative, it is suggested that in London economic hardship may result in a rise in the far right and racial tensions in the locality.

Global and National and Regional connectivity and dependence

At the global scale, there is a notable distribution of local economies experiencing recession conditions with a focus in the United States of America and Western Europe. There is an undeniable correlation here between the level of connectedness of a given local economy with global flows of capital and the rate and depth at which the same locality experiences the downturn. Therefore, local economies which are not yet highly globalised such as Helsinki, Aarhus and Sheffield, for instance, are not over-exposed to economic instabilities beyond their municipal boundaries and are unlikely to experience the worst of the downturn.

They may perhaps even be bypassed by it. At the same time, local economies such as London and New York - perhaps the most connected local economies in the world, will be more vulnerable to these same perturbations and are likely to experience the onset of the downturn more rapidly. It is ironic that this same connectedness which makes local economies such as London and New York so fragile to global recession is the same connectedness which has made these local economies so successful over the past 100 years.

At the national and regional scales, connectivity is also a factor in determining the rate at and depth to which recession conditions are experienced by a locality. The key factor here is trade. Patterns of consumption and production can be complex and tend not to be localised within municipal boundaries. As such local economies which trade nationally and regionally are more exposed to instabilities elsewhere in the economic system. For instance, though global processes are also involved, a lack of national and regional demand for vehicles UK-wide led to the loss of jobs at LSUK in branches across localities across the West Midlands: Birmingham (nine staff); Tipton (17 staff); Hereford (14 staff); Gloucester (13 staff); Shrewsbury (11 staff); Warwick (three staff); and Wolverhampton (12 staff).³⁵

Though this is a rather negative picture, by contract, connectedness beyond municipal boundaries to healthy sectors may well prove vital to pulling local economies through the recession. For instance, with their economies relatively less affected, local economies and businesses from the emerging markets could prove vital trading partners with recession-hit local economies in terms of corporate investment, municipal finance investment or even tourists.

Media cultures

Evidence suggests that there is a strong role to be played by the media as a feedback mechanism at times of recession.

In the West, the media tends to accelerate the onset and deepen recession conditions (positive feedback). In the East, the media is less alarmist and is reporting the recession with a more sober tone. According to one Chinese internet blog:

*'Of course Chinese media also feature extensive coverage of the world financial crisis, but not with the same urgency and focus on extremes that typically defines Western coverage. No matter how much Americans ignore it, it is undeniable that media portrayal has had an impact on their own economic outlooks.'*³⁶

What this suggests is that the fervor and style with which the media cover the downturn can have an important impact on the depth of the recession at the local scale. Crucially, the media can help to link distress in one area of the economy to another. For instance, intensive coverage of the crisis in global financial services could have perhaps remained slightly more self-contained in some local economies were it not for the intensity and negativity of the media coverage. Instead, with messages of doom and gloom, consumer and investor confidence has been badly affected which means that knock-on implications for retailers, manufacturers and the wider SME sector have been worse than they could have been.

Preventive and mitigation strategies

The impact of a recession in a local economy is also a function of the effectiveness of the strategies (or lack of) to prevent the onset of or mitigate against the effects of the downturn. Before launching into the evidence it is perhaps helpful to explain what these two terms mean:

- **Preventive strategy.** Group of measures taken to prevent the onset of recession in local economies where the downturn is not yet felt strongly. E.g. New Zealand National Government: In response to the coming recession and future projections for New Zealand and its local economies, Prime Minister, John Key, announced on Thursday 15th January 2009 that the:

*'Government wasn't going to do nothing while [a negative] scenario played out and number of options were being considered.'*³⁷

- **Mitigation strategy.** Group of measures crafted and delivered in a locality where recession has already struck to minimise the depth of the downturn. E.g. London: Mayor's Economic Recovery Action Plan in December 2008.

Though it is too soon to tell the effectiveness of most anti-downturn strategies in local economies, it is possible to say that many local economies do not yet have fully articulated strategies. The negative impacts of the recession are likely to resonate more strongly in these local economies than in local economies that do have anti-down turn strategies. Time will show the effectiveness of such strategies. None the less, we may still say that certain local economies seem to be responding more effectively than others. For instance, the Glasgow approach to mitigating against the worst of the down turn is widely considered to be exemplary.

As shown by the recent riots in Paris, at its most extreme a lack of action, or of perceived action can result in serious implications. The 29th January 2009 saw Parisians take to the streets in response to a perceived lack of effective action by President Sarkozy in response to the recession.³⁸

Looking ahead, as the pinnacle of the recession is reached locality by locality, we could begin to see the emergence of recovery plans locality by locality.

Complication

A principal complication to this analysis is that the recession has not yet run its course. As a result, we are judging impacts at a snap shot in time which may not reflect the situation when the dust settles. In other words, the lack of severe impacts in some local economies may be a function of time (recession conditions may not yet have reached these local economies) rather than their robustness to the downturn. None the less, important observations can still be made.

Summary

To summarise this complicated phenomenon we can make a number of preliminary statements.

The rate of the onset of downturn conditions in a locality is a factor of:

- What sector the crisis started in;
- How globalised the sector is;
- How connected the locality is with this sector;
- Intense and negative media portrayal;
- Degree of dependence on a larger local economies in the national urban hierarchy; and
- Preventative measures.

The depth of the downturn conditions in a locality is a factor of:

- What proportion of the locality economy is reliant on the sector in crisis;
- Whether the local economy is reliant on one or more sectors in crisis;
- Volume and outlook of media coverage of the downturn;
- Intense and negative media portrayal;
- Degree of dependence on a larger local economies in the national urban hierarchy; and
- Mitigation and recovery strategies in the locality.

iii. What are the leading local economies doing to address the impacts of the economic situation?

Because not all local economies are yet to be severely affected by the downturn and because many who have been have yet to fully articulate their own anti-downturn strategies at the local scale, a comprehensive answer to this question is relatively difficult. None the less, there are a group of leading local economies from which strategies and communications are emerging. They can be summarised below:

Effective leadership. Because of the importance of the downturn, the fact that an effective response requires a coordinated response (between local, national and super-national governments, the private sector, consumers and trans-national institutions), and the fact that a large part of the recession relates to a lack of confidence and certainty leadership is fundamental to tackling the downturn. All stakeholders need the direction of key and leadership figures and organisations to lend them the confidence not to act in such a way which will make the recession worse. We can identify perhaps three key actions undertaken by leaders in local economies battling the credit crunch:

- Public communication: the impact of a high quality speech-making cannot be under-estimated. It galvanises key stakeholders into action and can create the necessary sense of unity within a locality which is needed to see it through the worst of the downturn. A quality speech should balance style and real substance. After outlining some tangible measures, Glasgow Council Leader Steven Purcell then roused the crowd very effectively in a speech to the 11th State of the City Economy Conference in November 2008:

*'In these difficult economic times, we are going to need Team Glasgow to pull together more than ever. This is not a time for any of us to retreat into our bunkers, whether it's public agencies or private commerce, we must stick together and do what is right for our city.'*³⁹

- Tangible and intangible measures: as much as there is a requirement to persuade and influence by inspiration, the gravity of the recession and its complexities mean that real measures that make a tangible difference to important sectors in the local economy are required. For instance, New York City highlights five specific policy recommendations for the most effective use of federal funds as a catalyst for economic recovery. In London, GBP 5 billion will be invested over the next three years to get London's housing market moving again. Other measures are aimed at winning hearts and minds. In Glasgow, free parking was provided in all Council car parks and Strathclyde Partnership for Transport park-and-ride car parks on the last Sunday before Christmas 2008.⁴⁰
- Strategies: to provide more direction, a sense of unity and coherence to any measures and between any stakeholders involved in the process of recovery, it is important that local economies build strategies. London released its 'Economic Recovery Action Plan' in December 2008,⁴¹ New York City has its 'Financial Recovery Bill: Priorities for the City of New York' Report,⁴² and Lyon published its '*Au-delà de la crise? Aider les entreprises à garder le cap*' ('Beyond the crisis ... helping companies to stay on course') in December 2008.⁴³ Other local economies, which haven't been affected as rapidly as European and American localities, such as Auckland, are in the process of developing their strategies. Importantly, strategies assign specific roles to stakeholders in local development, such as development agencies. Without such a strategy it is difficult for individual organisations to organise to combat the recession, and if they do it can often little more than a piecemeal attempt to stimulate recovery.
- Taskforces: London and Glasgow are good examples of local economies which have set up taskforces to support the crafting and implementation of local scale policies to combat the downturn. These are usually composed of business leaders and talented economists. The Glasgow Economic Advisory Board comprises of Sir Tom Hunter, Willie Haughey, Jim McColl, Akmal Khushi and Dr Lesley Sawyers.⁴⁴ London has set up a London Business Advisory Council including representatives of business, the GLA group and other partners to assess the needs of London's economy and to tackle emerging issues.⁴⁵

Advocacy with national/federal governments. Though many local economies have not, most leading local economies have articulated their own strategies to combat the recession. None the less, with recession being a national as much as a locally-based problem and with vast resources at its disposal, local governments are exploiting the opportunity to leverage support from national and federal governments.

The evidence shows that the process of engagement of local economies with national government thus far can be described as both active and passive:

- Active local engagement with central government: locality is proactive in making its case for central government investment and support.
- Passive local engagement with central government: locality waits for central government guidance and resource allocation and attempts shape outcomes.

Because the leading local economies in the world tend to be at the top of their national urban hierarchies and their health has far reaching impacts, they find it far easier to make a case for central government funding in a proactive way than smaller, less confident cities and regions. For instance, New York has been very proactive in lobbying central government for funding support. Indeed, Mayor Bloomberg published his 'Financial Recovery Bill: Priorities for the City of New York' Report is a wish list of items Mayor Bloomberg wants to finance in his city. It is directly targeted at the new Obama administration in an attempt to draw down as much of the USD 800 billion nationwide economic recovery package for the local economy as possible.

Investing in infrastructure. Because transport orientated development is a cornerstone of the urban development process, represents the core of the local economy, and is fundamental to competitiveness, many local and national governments are taking the opportunity to invest large sums of public funds into large urban infrastructure projects. It is hoped that investment now will lead the local economy forward strongly in the recovery phase of the recession. There are many examples of such large projects:

- Heathrow third runway: MPs voted by a margin of just 19 to support the GBP 9 billion plan to build a third runway at Heathrow Airport, West London, unveiled by Geoff Hoon, the Transport Secretary.⁴⁶
- Torontonion infrastructure: During a process of engagement with local stakeholder in the local development system in Toronto in January 2009, many highlighted the need to use the present opportunity to invest in infrastructure to bridge the locality's investment gap and to improve the locality's competitiveness.
- Fibre optic revolution: in a BBC article in late January 2009, it was announced that the British Government intends to embark on a large virtual infrastructure building campaign which will see all UK homes both urban and rural having access to broadband and faster download speeds by 2012. According to Prime Minister Gordon Brown, digital technology is as important today as 'roads, bridges and trains were in the 20th Century.'⁴⁷
- US local economies: with the inauguration of Barack Obama and his pledge of over USD 800 million to 'rebuild America' through large infrastructure projects, local economies across America are presenting investment ready infrastructure proposals.

Many local economies are setting up special taskforces to ensure that the benefits of such massive investments are maximised.

Investing in skill building. As well as investing in the physical infrastructure of local economies, local governments, development agencies and national governments are targeting the skills agenda head on. To increase employability, re-skill those made redundant and to make local economies more competitive, access to skills learning and training programmes is being improved. In London, The Mayor, with the London Skills and Employment Board (LSEB), will focus the combined skills and training spend of the London LSC and the LDA - in excess of GBP 700 million a year - to increase support for people who have recently lost their jobs, helping them to get back into employment quickly and access the training they need. The GLA family is also pledging to offer 1,000 apprenticeships each year to build skills and confidence and to reduce worklessness. A Central

Government rapid response programme to target and prevent long term redundancy will also be expanded.⁴⁸

Supporting the SME and banking sectors. Hit perhaps the worst by this recession due to the lack of available credit and important employers and producers of the urban economy, there are a range of measures across the world's local economies to support the banking and SME sectors. In Glasgow, for instance, to combat the lack of available short term credit which is the oxygen of small businesses, there has been an extension of a Business Investment Fund which offers low-cost loans to small and medium-sized businesses.⁴⁹ In Lyon, support is directly targeted at the SME community to maintain an entrepreneurial spirit in the locality.

Reducing waste. As well as developing programmes which will improve resilience and hopefully lead recovery, local governments especially are looking to make savings by streamlining administration, cutting red tape and any other unnecessary costs. Sometimes it has even meant shedding staff. For instance, Transport for London, which runs London's train and bus network shed about 1,000 support staff jobs in 2009 following a review of operating costs.⁵⁰ Within the Greater London Authority (GLA) itself, further streamlining is taking place in the UK's capital city. The London Mayor is, for the first time in the GLA's history, freezing the precept. He is also looking for efficiency savings of more than GBP 950 million over the next three years across the GLA group, to allow resources to be redeployed to assist Londoners more directly.⁵¹

iv. [Do local economies in Europe face particular issues or challenges? What about local economies in OECD countries more widely? And local economies in emerging markets?](#)

As section 2.2 suggests, there is a relatively strong spatial element to the ways in which local economies are impacted by the recession. This section will summarise some of the broad impacts under the heading of European local economies, OECD local economies and emerging local economies.

European local economies

Credit crunch. Many European local economies are 'debt users' which means the lack of availability of credit will impact strongly on business sectors and consumers. E.g. UK, Spanish and Irish local economies, for instance.

Migration. With conditions worsening in many of Europe's established local economies, many migrants who took advantage of labour freedoms in the EU are likely to return to their nations of origin. This represents a significant reorganization and potential challenges for the host nations in losing a significant number of lower skilled workers, and opportunities for many new EU member states which will see their diaspora population returning. Though this will provide a boost to these nations the influx of a large number of returning diaspora could overburden local service provision. E.g. German local economies, UK local economies and Polish local economies.

Banking crisis. With so many European local economies having strengths in the banking and finance sectors, Financial centres and Financial hubs are likely to suffer acutely from the banking crisis.

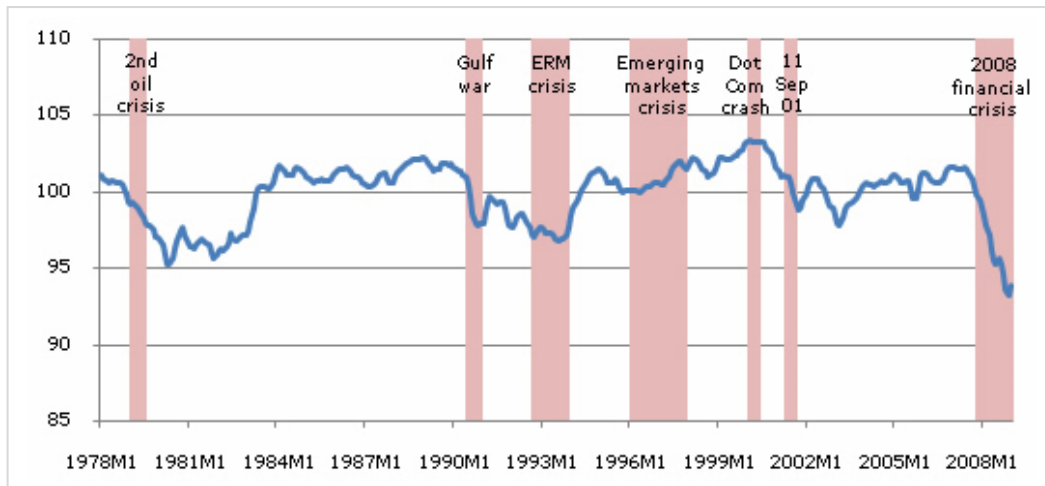
OECD local economies

The consumer confidence graph shows that OECD nations, and the local economies within them are affected by perturbations in the global economy, no matter where they occur. At the local level, we can broadly distinguish between two types of OECD local economy and the impacts of the recession upon them.

Robust and regulated local economies. Though they trade closely with the US and US local economies, Canadian local economies such as Toronto are relatively isolated from the recession at present. One reason for this is that Canadian Financial Service firms are tightly regulated making them more robust to the recession, even though recession will still come. There is a real opportunity here for Canadian local economies and the Canadian banking sector to improve their competitive position in relation to US local economies and banks during the crisis.

Anglo-American model local economies. Without doubt American local economies will suffer acutely but also, local economies with the same model are likely to suffer. For instance there are many American banks in Mexican local economies and so the recession has impacted relatively severely here too. Local economies in Australia, New Zealand, Korea and Japan will also suffer for the same reason - they are engaged in the same global flows of capital and similar sectors to Anglo-American local economies.

Patterns of consumer confidence across OECD nations (1978 to 2009)



Source: see endnote ⁵²

Emerging local economies

Trade and Oil rich local economies. Instead of being new debt users, trade and oil rich local economies in the east are experiencing budget surpluses coming into the recession. This means that these local economies will have relative freedom of maneuver to invest in their own progress and the progress of other local economies globally.

Major trading partners. Though many local economies in surplus are experiencing relative isolation from the recession they will eventually begin to see a fall off in aggregate demand. As economies which purchase the oil and goods of local economies in the east such as Dubai and Beijing slow, demand will fall and the negative effects of this will be felt in the supplying local economies.

v. [What should local economic leaders do now to make the most of the situation?](#)

Leadership is fundamental to the capacity of a locality to be resilient in the face of and to recover from recession. For even the most successful of local economies, recession is an uncertain period. The last recession was over 15 years ago and has very different dimensions to the downturn in the early 1990s. Added to this uncertainty is the pressure of needing to deliver as the conditions which recession can induce are so negative. Moreover, because the dimensions of the recession can vary from city to city, even within a nation, it is critical that an effective and bespoke local response is formulated.

Local economic leaders are the figureheads of the fight against the downturn.

Figures such as Boris Johnson (Mayor of London); Cllr Steven Purcell (Council Leader of Glasgow); Michael Bloomberg (Mayor of New York); and Petra Roth (Lord Mayor of Frankfurt) have all very different leadership styles. Yet, similarities between what they are doing begin to emerge on closer inspection.

Communicate effectively. Communicating what is already happening and what new initiatives are being undertaken, either in hard copy or speech format is an important task for the local economic leader. It creates a sense of unity, civic pride and purpose, and can galvanize stakeholders and residents into action in the face of the downturn.

Use expertise. It is important to use the know-how and expertise of economists and business leaders. As well as style, leadership should have substance and impact. By organising teams of key informants and stakeholders it is likely the locality will be better placed to emerge

Engage with the business community. As critical pillars in the system of local development and major employers efforts must be made to understand the situation of business leaders from all sectors and of all sizes. This will allow the locality to retain more businesses and to craft packages to isolate them from the downturn to an extent. Positive and genuine relationships during a recession are likely to be lasting and positive with the capacity to deliver positive results around investment attraction in the recovery and upturn phases of the business cycle for instance.

Innovate or be visionary. The recession will reorder many traditional patterns of trade and reorganise old urban hierarchies. This will give local economies with clearly articulated visions and identities the opportunity to thrive if they act on opportunities and deliver on their strengths. For instance, new trading partners will emerge from the east - these local economies should be engaged with to pull the struggling local economies out of the downturn.

vi. [How can national governments and private sector partners support localities at this time?](#)

Apart from the action of local economic leaders and councils, the other two key stakeholders in pulling local economies out of recession are national governments and the private sector. We summarise below the ways in which they can support the process of making local economies resilient and stimulating recovery.

National Governments

Be decisive and set the agenda. Often, an effective response requires national government to take the first steps. This sets the agenda and budgets and lends confidence to those within the urban development system that what they are doing is right under the given circumstances. Without this decisiveness, many key organisations and stakeholders are left waiting, which will only deepen the downturn.

Resource programs which promote resilience and recovery. It is one thing to talk of the action needed to pull local economies through the worst of the recession. It is another to allocate resources (funding, time and expertise) to help facilitate this process. National government should make its position very clear here about what it has available and what local economies should look to do to secure resources.

Collaborate to compete. Excellent vertical collaboration should take place between all levels of governance to ensure that resulting strategies are coherent and complementary. This will maximise their impact in the long term.

Prioritise. Though difficult, national government must prioritise where, when and who it supports. Strategic sectors, failing and resource scarce local economies should be given priority support by central government for instance. It is important that governments conduct an honest assessment of where local economies and sectors within them stand. This should be used to justify interventions.

Private sector partners

Build robust relationships. There is a strong possibility that recession conditions may damage emerging and established fruitful relationships. New economic realities will test relations between the public and private sectors. Questions emerge as to how robust and sustainable are existing relationships and whether each party will be capable of openness, trust and placing themselves in the position of the other to come up with necessary solutions. In more trying times, when profits are in decline, it may become easier for the private sector to blame the public sector of inflexibility for instance. As a result, with the risk of a breakdown of important collaborative efforts between the public and private sectors comes an increased risk of a more acute investment gap in local economies worldwide.

Be proactive. Local government often does not have the tools to engage effectively with the private sector even given its importance the system of urban development. Business leaders should actively approach key public sector organisations and figures to broker deals, reaffirm common goals and set visions of where the locality could and should be. Business leaders should also approach the public sector with an agenda of their own and not necessarily wait to be given one.

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