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Economic resilience: addressing the challenges to come

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A decade after one of the worst economic crises, the national economy seems to have long overcome its negative impact. In a similar vein, economic resilience (the ability of a place to overcome a shock) appears to have lost its track on the political agenda with less appetite for preparing for bad times and more for celebrating success. However, if history has anything to teach us here, it is that economic crises happen almost every decade. This, coupled with the perceived challenges down the Brexit road, makes it ever more pressing to enhance our understanding and building of local economic resilience.

How can policy influence resilience in local economies?

- Recognise and promote the role of anchor institutions such as universities for increasing skills locally.
- Identify the importance of amenities for attracting talent in different areas.
- Motivate university-industry collaborations and cross-industry innovation
- Create a place-based industrial strategy that will use local assets and pursue resilience enhancing growth.
- Fund further research on resilience and promote the creation of local plans that explicitly address resilience.
- Provide leadership guidance and foster effective institutions to cope with external shocks.

Introduction

City-REDI has prepared this brief to inform the debate on economic resilience. It draws on resilience research at the Institute and elsewhere. It first discusses the lack of the concept of resilience in political and policy discourse at the national level and then considers the importance of the notion for local areas. Examining the limited empirical literature, the briefing continues in identifying the determining factors of resilience for which evidence exists and the relevant policy implications.

Policy Context

2008 saw the outbreak of one of the worst and most systemic economic downturns faced by economies around the world. Originating in the housing market and finance sector in the US, the crisis soon spread to different sectors and economies.

However, the crisis affected different economies with varying levels of severity, and some still face the adversities associated with the drop in output and employment.

One of the main policy responses to the recession was identifying its causes and implementing stricter rules on lending and regular testing of the vulnerability of banks. However, economic history has proven that downturns and business cycles are recurring, often for different reasons. As a result, it is equally important to identify how and why some places were better able to offset the crisis impact.

The differential responses of national and local economies to the 2008 crisis has rekindled the interest of academics and policymakers on the concept of economic resilience. Resilience, broadly defined as the ability of a place to overcome or avoid altogether the negative consequences of an economic shock, was able to bring together stakeholders and foster cooperation in creating societies and economies that could mitigate the crisis impact.

10 years on, research, discussion and discourse on how to make a place more resilient has lost its prominence in the UK. This is due to the return to positive growth rates and employment increases (at least at the official figure level).

- Economic resilience as a concept does not appear as a target of national policy with the exception of sectoral resilience to disasters (Cabinet Office 2016).
- IPPR North finds little evidence of direct focus on economic resilience in the Strategic Economic Plans of Local Economic Partnerships (Cox et al. 2014).
- The focus of policy has returned to economic and employment growth of any kind.

This policy briefing suggests that economic resilience should be brought back to the fore of academic and stakeholder interest for a number of reasons. Firstly, as mentioned before, economic crises are recurring phenomena in time. Thus, whilst it is important to address the causes of each recession, it is equally if not more important to create places that can mitigate the negative forces of a crisis. Secondly, by understanding what makes a place resilient, it is possible to build better economies and place-based policies that will utilise local assets and characteristics and provide endogenously created good growth. Finally, with Brexit expected to pose a challenge for local economies, it becomes even more pressing to identify the factors that enhance good growth in different places.

Regional Context

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Comparing West Midlands' Local Authority Districts to UK

As mentioned before, the national performance across indicators during the crisis can mask significant sub-national variations. The table below shows how local authorities in the West Midlands compare to the UK for three different measures of the 2008 crisis impact (employment, unemployment, Job Seekers Allowance).

Area	Employment	Unemployment	JSA
UK	1.9	2.7	1.6
Birmingham	3.0	5.1	2.1
Coventry	4.7	2.7	1.7
Dudley	3.9	5.2	2.2
Sandwell	3.7	5.4	2.7
Solihull	5.9	3.4	1.9
Tamworth	11.4	8.5	1.8
Walsall	3.5	4.8	2.7
W'ton	5.0	6.4	3.0

Source: Author's calculations from APS data

The figures show the difference between the average rate for the period 2004-2007 and the average of four minimum (or maximum depending on the meaning of the variable) rates for the period 2008-2014. Thus, whilst the UK has lost 1.9% of its employment during the crisis, Birmingham lost 3% and Tamworth 11.4%, the worst performance among all LADs. Similarly, unemployment in the UK has increased by 2.7% during the crisis when the relevant figure for Sandwell is double that.

These figures suggest that the heterogeneity of the crisis impact observed between countries is also present within them, with significant discrepancies in the way different places have performed during the crisis. This makes it even more important for localities to identify the resilience determinants.

What does research tell us?

Research on the determining factors behind the varying levels of resilience are limited. However, there are a few determinants that empirical studies point to (Kitsos & Bishop 2016; Lee 2014; Rocchetta & Mina 2017; Beer & Clower 2014).

The first and probably the most crucial is **skills**. Areas with higher shares of individuals with degree level qualifications have been found to perform better during the 2008 crisis. This could be because skilled individuals are highly adaptable and able to learn faster than those not skilled. A second factor is **demographics**. Places with higher shares of younger aged population (under 50) have shown less of a negative impact from the downturn. This again could be related to flexibility and lower inertia which lock-in individuals to particular tasks/jobs, sectors and/or labour markets. The third factor is related to the **local industrial structure characteristics**. Due to the systemic nature of the crisis, most of the academic research does not identify specific sectors that were hit more than others. However, evidence suggests that technological coherence and innovation performance were significant indicators of the crisis impact in different localities. Finally, effective **leadership** appears to be linked to successfully navigating through the crisis years with qualitative studies stressing the importance of agency and institutions.

These findings lead to a number of policy proposals that could assist places in achieving resilience enhancing growth.

Policy Recommendations

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How can policy influence the resilience of local economies?

- Recognise and promote the role of anchor institutions such as universities in attracting and creating skills and human capital in local labour markets. This will both increase the share of degree level qualification holders as well as the share of young people in an area.
- Recognise the importance of amenities in attracting talented individuals and promote effective place-making.
- Incentivise university-industry collaborations and foster innovation activities linking different industries.
- Promote a place-based industrial strategy that will maximise the use of local assets and pursue resilience enhancing growth.
- Incentivise further research on resilience and the creation of local plans that explicitly address resilience.
- Provide leadership guidance and effective institution building in coping with external shocks.

Sources

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