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Recovery from recession: a view from the Northwest

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Abstract

In this latest edition of Local Work, John Corish, Economic Development Officer for 4NW (the Regional Leaders Board for the Northwest of England), focuses on responses to the recent recession and that of the early 1990s, offering a personal view of the lessons for the Northwest of England to ensure we enable a sustainable economic recovery this time around.

The recent recession in context

While each recession is different, there are some similarities and by considering what has gone before we can hope to best plan for a sustained economic recovery.

The recent recession, (as measured by GDP), has been deeper than even the 1980s recession which led to major economic restructuring across the North of England. At 18 months in length it has also been the longest since records began in 1955. In short, it has been unprecedented.

The property regeneration sector has been particularly badly hit, with official figures showing that the Northwest unemployment rate rose within this sector by over 500% in a two year period to October 2009, (with 21,000 job losses in the sector across the North of England overall).¹

However, the economy as a whole has so far avoided the level of job shedding of previous recessions, with flexible labour market practices enabling many companies to retain skilled workers by reducing hours and/or capping employee pay. In doing so, companies hope to have sufficient labour to meet any upturn in demand.

Although less often reported, there are also indirect impacts of recession. Recent research² has found that previous recessions have resulted in not just rising unemployment, but also increases in crime, mental health problems and family and relationship breakdown.

At a macro-economic level, the Chancellor's Pre-Budget Report (PBR) forecasts a return to growth of 1% - 1.5% over the course of 2010, with the Chancellor pledging the UK Government deficit will be halved over four years in an orderly way that does not threaten future investment.

¹ Cited in Professor Michael Parkinson's report *The Credit Crunch, Recession and Regeneration in the North: What's Happening, What's Working, What's Next?* Northern Way, 2010 <http://www.thenorthernway.co.uk/downloaddoc.asp?id=759>

² *Learning from the Past: Tackling worklessness and the social impacts of the recession* Social Exclusion Taskforce, Cabinet Office, 2009 <http://www.cabinetoffice.gov.uk/media/319293/lftp-briefing-paper.pdf>

In order to resuscitate the economy, over the last 2 years we have seen record-breaking amounts spent on banking bail-outs and quantitative easing, plus temporary changes to taxation designed to stimulate consumer demand (the largest of which was the temporary cut in VAT). As stated in the PBR, the present UK Government deficit is now estimated to be £178 billion (12.6% of GDP).

2010: Prospects for recovery in the Northwest

At the time of writing, the UK economy has technically emerged from recession, with official data showing a rise of 0.3% in GDP. However, the risk of a further global economic crisis and the need to reduce the UK Government deficit makes a double dip, 'W' shaped, recession a widespread concern. In addition any recovery will not be uniform, with the built environment and regeneration sector forecast to recover more slowly than the overall economy.

To consider future economic conditions at the regional level, the North West Regional Development Agency provide the secretariat function for an independent Regional Economic Forecasting Panel; comprised of 17 senior representatives of business, academia and the public sector in the Northwest.

In the Panel's Autumn 2009 short term forecast (for 2009-12), they report most Northwest companies are experiencing a stabilising of activity at low levels. However, they do not expect overall employment in the Northwest to begin to rise before 2012, and even then the strength of growth will be modest. As evidence used for the Northwest's new Regional Strategy forecasts it may take until 2018 before employment returns to the pre-recession peak.

The Panel expect cuts in public spending and increases in taxation to restrict Northwest economic growth to less than 1% in 2010, 1.25% in 2011 and to 2% in 2012. These are weak rates of growth in comparison to those during the recovery from previous recessions and those predicted globally over the period.

There is an emerging consensus among most³ independent economic commentators that whoever wins the next general election will introduce higher taxes, implement major public service efficiencies and make cuts to services.

However, there are policy and ultimately political judgements to be made in terms of the delicate balancing act of when and how quickly to pay back the current deficit without choking off the fragile economic recovery.

What has been the local authority and partner response to recession?

Recent research for central government by the Spatial Economics Research Centre (SERC 2009) examined the role of local authorities in the 1980s and 1990s recession. It found that local authority responses to previous recessions had been limited by constrained local government finances and an unexpected lack of experience of how to respond to a recession.

In contrast, local authorities and public, private and third sector partners in the Northwest have responded quickly to help mitigate the worst impacts of the recent recession and to plan positively for recovery.

As reported at 4NW's Economic Development Group, measures implemented by Northwest local authorities and partners have included:

- boosting local procurement opportunities;
- targeting resources on areas and groups in most need;

³ Although not all – e.g. the new economics foundation argue for a 'New Green Deal' for the UK - a £50bn green stimulus package based on enabling low carbon economy and green jobs.

- safeguarding strategic regeneration and development projects that have clear long-term value;
- promoting entrepreneurship and business start-up;
- minimising the risk of business and household failure with advice and support;
- pledging to pay bills promptly;
- delivering Future Jobs Fund projects. As of December 2009, over 6,500 offers of a job, work experience, or training lasting at least 6 months has been pledged to be delivered in the region for 18-24 year olds out of work for 6 months or more;
- alongside the creation of the Joint Economic Commission for the Northwest, various sub-regional and local recession/economic recovery working groups have been formed to co-ordinate the action.

However, a note of caution is expressed by the SERC research over the ability of local authorities and other public sector organisations to continue to aid economic recovery given that there will be significantly reduced public sector funding in the short to medium term.

UK regeneration policy during the 1990s recession

In terms of specific policy responses to the 1990s recession it is interesting to note policy was very much focused on fighting the prospect of inflation, with only minimal UK government support to aid recovery. What support there was focused on those areas which had still not recovered from the shift in economic structure caused by the 1980s recession.

During the 1990s the Major government's regeneration policies, led by Michael Heseltine as Deputy Prime Minister, continued to target those geographical areas worst affected by economic decline, but also introduced new funding regimes and institutions, often at the regional and local level and making greater use of local authorities and elected councillors alongside the private and community sector. Key amongst these were the creation of:

- The City Challenge programme;
- Training and Enterprise Councils (TECs);
- The Urban Regeneration Agency;
- in 1988 co-ordination of the European Union's disparate structural funds was agreed, with the introduction of common EU wide objectives based on targeting geographical areas and social groups in need. As a result, over the last 20 years the Northwest has benefited from major investment in regeneration via European Regional Development and European Social Funds;
- the 1990s saw the increased use of trans-national territorial co-operation within the EU, for example through INTERREG projects, and the development of the European Spatial Development Perspective.

Further policy influences through the 1990s

The 1990s recession appears to have had proportionately less impact on rural communities, with the 1992 reform of the Common Agricultural Policy (CAP), combined with high world food prices, of greater significance during the period and possibly insulating the wider rural economy from the worst of the 1990s recession.

However, over this period the rural economy as a whole continued to suffer from the long-term decline in local labour market opportunities, with agricultural employment as a proportion of the total labour market continuing to decline due to increased mechanisation. In addition, while house prices in general and in rural communities fell during the early 1990s, rural housing still remained beyond many rural workers' affordability.

The Urban Taskforce Report of 1999, led by Richard Rogers, into UK urban regeneration emphasised the need to consider urban and rural issues not as wholly separate policy areas, but 'in the round', with the renaissance of urban areas, focused on brownfield land reclamation, being credited with reducing the need for housing growth in shire areas which bordered the major conurbations (protecting greenfield and greenbelt land).

Through the 1990s recession continued concern for the environment was apparent, with stronger legally binding environmental protection enacted (e.g. the Environmental Protection Act, 1990 and through CAP payments to farmers for environmental management of their land).

One example of post-recession recognition of the need to plan for economic growth across rural and urban areas was the introduction of a strategic plan for the Thames Gateway corridor overseen by Michael Heseltine in 1995. This long term project, in co-operation with local authorities and the private sector, was set up to deliver the High Speed 1 rail link and associated economic growth between London and the Channel tunnel.

In summary the 1990s, in part as a result of ensuring long-term economic recovery from the impacts of previous recessions, saw a shift from centralised government to greater policy formulation and delivery by a combination of public and private stakeholders often at a regional and local level.

What does this mean for the Northwest in 2010?

The Northwest agreed as a region to prepare a Regional Strategy, (RS2010 for short), back in 2008. Now a statutory requirement, RS2010 will promote sustainable economic growth over a 20 year plan period and is being led by 4NW and NWDA, working with a range of partners.

As part of the RS2010 development process consideration has been given to the policies and actions needed to make things happen in regard to recovery and to create a more resilient economy in future.

This has included asking fundamental questions such as:

- What should be the balance between creating jobs for all (employment focus) and creating higher skilled jobs (productivity focus)?
- How we can best tackle long-term worklessness?
- Should we be pursuing a strategy of creating jobs in local communities, or allowing jobs to be created anywhere in the region and linking unemployed people to those jobs?

What is already clear is that success will depend on the region capitalising on the opportunities of the move to a low carbon economy to provide a 'job rich' recovery.

With the likelihood of reduced public and private sector funds over the short to medium term, we will also need more long-term public-private partnership working to deliver physical regeneration. To realise this local authorities and economic development agencies need greater freedoms from Whitehall to invest for the long-term, (with the Northwest Urban Investment Fund a positive early example of what can be achieved).

If the private sector is to invest they will need the certainty of a clear, long term, strategic and integrated approach to spatial and economic planning, (this is particularly true for major infrastructure provision). This will require agreement on a set of policies and actions behind which the private, public and third sectors can unite to drive major investment and development. In developing RS2010 this is what the Northwest has set out to achieve.

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