

LEARNING FROM TROUBLED TIMES: CITY REACTIONS TO ECONOMIC CRISIS

Miguel Rivas
URBACT lead expert
mrivas@grupotaso.com

The poor capacity of our cities to respond locally to the crisis, in another way than as collaborators of Central States in the execution of Keynesian measures, stresses again the question of financial devolution. Unfortunately, the boom of public deficits in most of the EU member states and the subsequent necessity to reduce them will postpone sine die such a debate. Meanwhile, many of our cities are giving evidence of a more proactive behaviour than States and regions for the design and promotion of a post-crisis new productive model.

URBACT is near to launch a survey on "Cities Responding to the Economic Crisis" taking as evidence more than one hundred questionnaires sent by the URBACT community of cities joining this UE programme. Meanwhile, the persisting situation of crisis, fuelled at European level by the current difficulties of Greece, legitimates the opening of a large debate within the URBACT framework on how to strengthen the position of our cities and local communities. In order to contribute to this debate, we have focused our analysis on the extent in which economic downturn is affecting a sample of cities that are participating in the URBACT network on creative clusters.

A sample of small and medium-sized cities

Óbidos, Portugal: small cities, great visions. There is a formal strategy in Óbidos [10.875 inhabitants, 80 km. north of Lisbon] to become a creative town based on distinctive endogenous assets, in order to play a wider role at national level. Since 2002, Óbidos has been implementing a development strategy focused on tourism, culture and economy. The Town Council has been organizing a number of national-class events that attracted the attention to this historic town.

Barnsley, UK: remaking the Northern England mid-sized town. Barnsley [South Yorkshire] has a population of 218,000 [82.000 in town] and it has a great history as a centre of coal mining. In the beginning of the 21st century the town centre was characterized by a stagnant property market, an over abundance of bargain-orientated retail shopping and a one-dimensional night-time economy based around the pubs & clubs sector for the young adult market. Using creative industries as one the key drivers a huge regeneration effort followed in order to rebuild an economic base that would offer a future for the people and to eradicate the dereliction left by industrial decline.

Jyväskylä, Finland: the human technology city. Jyväskylä [130,000 inhabitants] is a youthful city located in Central Finland, 270km north of Helsinki. The site of many education-related “firsts” in Finland, Jyväskylä is known as a “city of schools” that hosts two universities and a number of innovative cross-field research institutes. The city is also famous for its many buildings designed by Alvar Aalto. The vision for the area is to build an innovation ecosystem setting people at the core: that is the meaning of the place-brand “the human technology city”.

Enguera, Spain: the value of the unknown. Textile manufacturing and agriculture were for many years the main activities in Enguera [5.000 inhabitants, in the Valencia region]. Nowadays, it is in the services sector where the most important bet for the near future is taking place, basically tourism and activities related to culture.

Reactions to crisis at a glance.-

	Óbidos	Barnsley	Jyväskylä	Enguera
There is a formal recovery plan in response to crisis	no	no	no	no
There are specific defensive measures to face short-term impacts of the crisis	no	yes	no	yes
There is already a post-crisis long-term strategy	yes	yes	yes	no
The experience in URBACT is being useful in shaping such strategy *	helping in some way	neutral so far	helping in some way	crucial

* crucial / helping in some way / neutral so far [assessment by LE]

On the impacts

According to the feedback given by this sample of small and medium-sized cities, six kinds of impacts can be highlighted:

- **Unemployment has risen sharply.** It is clearly the most visible impact on local economies. In Enguera, unemployment is hitting hard with a rate of 18.5% [“there are a lot of families where at least one of the parents is unemployed”]. As in the rest of Spain, very affected by the bursting of the real estate bubble, that rate has doubled the levels of unemployment of 2006-07, then at its minimum.
The unemployment rate declared by the city of Jyväskylä, in Central Finland, is now around 14%. In Barnsley [UK], it is expected that a 10% decrease in total employment will occur by 2011.
- **Rise of business mortality, redundancy enquiries and shrinking of the local markets,** with a subsequent fall in tax incomes for the local treasuries.
- In almost all cases, **closure of some large company of relevance for the local economy,** such as the closure of the NOKIA centre in Jyväskylä that has left 320 high-skilled workers unemployed.
- **Local housing markets fall-out,** directly affected by the credit crunch, which increases weakness of local treasuries. In this context, social housing policies are even more important. In Enguera, most demanding segments of housing, young couples and immigrants are being hit hardest by the crisis.
- While social services are slightly seeing their activity increasing, we are not assisting to any local episode of social crisis. Presumably, in other contexts such as Eastern Europe, the situation could be somewhat different.

In Enguera, the group of immigrants [20% of the local population is of Bulgarian origin] is not returning home. They came to stay and face the effects of the crisis as the locals. The inflow of new immigrants is clearly diminishing anyway.

Nevertheless some **hidden impacts of the economic crisis on people** are also mentioned: “depression and mental diseases are more common than in good times” [Jyväskylä].

- **Slowdown or re-sizing of some major urban projects,** especially those supported by private funding. Perhaps this is specifically affecting Óbidos, with a tourist strategy largely based on the resort pattern and real estate developments. Quintas d’Óbidos [a tourist resort] is now downsizing; Plaza

Oeste, a shopping mall with a new approach focused on the landscape and leisure, is redefining its core business at present time ¹.

Defensive measures for short-term impacts

All cities in the sample recognize they do not have **formal plans** to respond specifically to the current crisis. Anyway, this situation is likely to be common to a number of regional governments across Europe.

If no formal recovery plans have been set up at local level, a range of political priorities and defensive measures can be identified in cities to face short-term impacts of the crisis on people and SMEs. Half of the sample are taking concrete measures, which reveal a clear will of reaction among the cities, and once more the confirmation of the local scale as the scale of reality ². Four types of defensive measures acting in the short-term can be identified:

- **Assisting the worklessness/long-term unemployed.** Complementing the national systems of unemployment insurance. Measures consisting in building and promoting individual skills in order to be ready to exploit employment opportunities. In some cases, sector plans to improve training standards, as the local employment plan for the construction sector in Enguera.
- **Helping low-income households.** For instance, supporting schools and health providers to make sure families, children and individuals affected by the downturn can get the support they need to deal with their situations. In some cases, ensuring that there are housing options for those in financial difficulty, maintaining at local level a flow of affordable housing [Barnsley]. Social housing policies are now at the top of local priorities.
- **Supporting SMEs.** Temporary reduction of some local taxes to SMEs in 2009 and 2010 municipal budgets [Enguera]; "Pay promptly"

¹ Crisis in real estate market is particularly affecting local strategies on regeneration in UK, since most of them are based on public-private partnerships. See Parkinson, M. et al (2009) *The Credit Crunch and Regeneration: Impact and Implications*. Department for Communities and Local Government, London.

² In this context it is important to come back to the work of the British geographer Peter Taylor on the relationship between scale and politics. Taylor, P.J. (1982) A materialist framework for political geography, *Transactions of the Institute of British Geographers*.

commitment and support to local businesses on information on contracts and opportunities within the Council [Barnsley].

- **Activating local consumer markets.** In line with the British tradition in town centre management, Barnsley works on creating positive atmosphere in urban spaces devoted to retail. In those cases, cultural or creative activities can be functional drivers enhancing time to consume and leisure. Also the re-development of public spaces, including attractive activity programmes as scenarios for the local recovery.

Re-activating commercial life in Barnsley

Under the title "Re-making Barnsley", this mid-sized town in Northern England has the ambition to be a "21st Century Market Town" in the heart of an enterprising and innovative local economy. Actually they have already successfully completed a huge restructuring process from a steel & coal-based economy.

In this strategy, culture and creativity-based activities are playing a central role, even in the effort to take short-term measures to face the on-going downturn. For instance, their strategic cultural programme targets emerging trading days in the town centre to encourage footfall and spending in the retail and hospitality offer there. This includes Sunday Specialist markets and regular entertainment programming during weekends.

They are also programming empty retail units with contemporary visual art and dressing all the development sites in creative attractive hoardings. They have a programme of "creative shop windows", facilitated by the Barnsley Welcome, in order to cover empty windows with vibrant images of the market and the cultural offer, to help create a more appealing and engaging urban environment.

Moreover, they have invested in a new plan of "Town centre ambassadors" and developed the cleansing services in the town centre, with the objective to ensure responsive and effective public service.

Facing the post-crisis: long-term strategies

The crisis is confirming that, at local level, cities need a clear strategy [and consequent implementation mechanisms] regarding their “productive model”, through the integration of drivers such as creativity & innovation, tech-based activities, greening economies or networking.

All the sample cities, except Enguera, already have a long-term strategy of economic development. In other words they are actively managing change. Furthermore, they all include some innovation or key message to diffuse to the URBACT community of urban practitioners.

Key message from Jyväskylä: a new cluster reading of the local economies. There is a general consensus that one of the keys to face the crisis is re-thinking mature industries and promoting new emergent productive realities. In other words, to perform a sort of de-construction of the existing local productive base and re-build it again trying to match with the trends generally associated to the “new productive model” still to come.

As the rest of the Country, Jyväskylä is very active re-shaping mature industries and promoting new productive realities throughout knowledge, technology and creativity. This range embraces clusters such as forest industry future, bioenergy cluster, nanotechnology, ubiquitous computing, new generation machines and equipment, the EduCluster [on education activities] or the so-called wellness sector on technologies around sports and health sciences.

In fact this refreshing way for business clustering is part of the basis that explains the successful path opened by Finland fifteen years ago, as a reaction to the crisis in 1990-93, consequent to the collapse of the USSR.

This, combined with the core position that has been assigned to education at all levels [with a strong cross-disciplinary approach, without any prejudice to other fields like in Southern Europe] and expenditure focused on systematic R&D [around 3% of the GDP, while the EU average is 2.1%] is a distinctive feature of Nordic countries and a lesson to be learnt across Europe.

Key lesson from Barnsley: formal strategic planning and capacity for constant foresight. Formal planning means converting visions into a strategy ready to be implemented through a work agenda.

Barnsley is a middle-sized town near Sheffield. Although it is worth mentioning that the city is part of the few who have formally reacted to the crisis in the short term, Barnsley stands out because of its capacity over the last 25 years to drive

the reshaping of its local economy from a coal-mining and steel-manufacturing base to a post-industrial economic model. Mutation and economic change are well known concepts in the area which are drivers in a local culture of systematic strategic planning. Not in vain Barnsley Strategic Plan is called "Remaking Barnsley".

Key lesson from Óbidos: powerful visions and strong leaderships. In spite of its modest size, Óbidos has been able to clearly opt for the concepts of creativity and sustainability as the main focus of its economic strategy [Creative Óbidos] and as inspiring ideas for a range of major investment projects in the area related to tourism, shopping centres (Plaza Oeste Project) or public programmes (network of museums, cultural events, etc).

Nowadays the village of Óbidos joins an *avant-garde* position in Portugal in the debate around creative industries and urban strategies. Quoting Telmo Faria, the Mayor of Óbidos, "to preserve our scale is so crucial as our development pattern itself, a pattern empowered in cultural and creative economies".

Conclusions

As stated by Peter Mehlbye, Director of the ESPON Coordination Unit, "*when addressing the global economic recession it is crucial to underline that the crisis is in progress and not over yet, despite first encouraging signs of recovery*"³. Unfortunately, in the first months of 2010 these first signs of recovery are being altered by gloomy news and prospects from Greece and in a lesser extent from Portugal and Spain. We may also add that many countries in Eastern Europe are facing high uncertainty.

The crisis has already had important impacts. And it is a matter of urgency to build on this and draw plain and simple guidelines, with a clear action-oriented spirit to help face the future. Obviously, the main challenge to be addressed by the political personnel is to make sure that things will not remain unchanged after the crisis.

³ Press Release No 06/2009 from ESPON concerning the ESPON seminar in cooperation with the Czech EU Presidency held in Prague on 3-4 June 2009 on "Territorial Development Opportunities during the Global Economic Recession for regions, cities and larger territories".

In my opinion, two significant conclusions can be drawn from both short-term and long-term responses of the sample cities to the crisis:

1. The crisis has dramatically raised the question of financial devolution.

The lack of financial devolution explains the scarcity of local packages of anti-crisis measures, including formal recovery plans. And in the few cases where there are such initiatives, they are limited to soft support measures, based on little public funds. Nowadays, local governments have no say in neokeynesian strategies ⁴. Actually, major short-term recovery measures such as those facing credit flow recovery or labour market reforms are far from the local scale.

According to the Centre for Cities, the British think-tank on urban issues, "*the recession is a time for more devolution, not less; the downturn is affecting places differently, and cities need to be better able to respond with tailored solutions*" ⁵. Sadly this claim has not been turned into a fact and it is far from what is happening in these days.

This must be a lesson to be learnt for the future. City governments have suffered a lack of relevant tools to give a local response to the impacts of crisis. This kind of local responses, when properly combined with the ones from upper scales, could act as a contribution in the fight against economic downturns.

Moreover, I appoint devolution to the "local state" ⁶ as one of the questions linked to innovation in public sector, along with the metropolitan government [or the new territorial governance] or wider spreading of PPP formulas. This kind of social innovation should be a driver in the post-crisis long-term strategy, together with knowledge-based economies, low-carbon economies, and so on ⁷.

Nevertheless, the strong expansion of social expenditure and Keynesian measures and the huge flow of resources for the rescue of the financial system have made the public deficit in the EU skyrocket. In the Euro zone, it is forecast to reach 7% of GDP by 2010. In Ireland, the public budget balance is estimated to turn from a surplus of 0.5% of GDP in 2007 to a deficit of 15% in 2010. In the

⁴ For instance, the Spanish government started an ambitious plan of public works with outstanding funding (called "Plan E"), in which local governments were involved for the identification of works to be carried out at the level of their municipality.

⁵ Centre for Cities has launched the debate "Cities manifesto", www.citiesmanifesto.org, as an attempt to shape the role of cities in Britain's economic recovery.

⁶ On this insightful concept introduced by C. Cockburn in 1977 - *The Local State*, Pluto, London - see Peter J. Taylor (1993) *Political Geography: world economy, nation-state and locality*, third edition, Longman.

⁷ The issue of devolution has more to do with framework conditions than the productive model itself.

same period, Spain will move from a surplus in national budget of roughly 3% of GDP to a deficit of 11%. Unfortunately, this strong deterioration of public accounts will not create the propitious ground for the inclusion of devolution into national and regional public agendas.

2. A systematic local strategic planning will be a catalyst in the building of the new productive model.

As a period favourable to creative destruction, the crisis could be faced as an opportunity for local economies to introduce necessary adjustments or to simply re-think themselves as urban economies at the light of global trends [sustainability, knowledge economies...]. A turning point, the right *momentum* for strategy ⁸.

When it comes to planning, cities are in addition showing more dynamism than other scales of government, no matter the rank or the size of the city. Most of the sample cities already have a city model and a scenario for the future.⁹

Local strategic planning will help to build the new productive model, on the condition that two directions should be followed:

- **Planning must be radically innovative regarding the strategic thinking of urban economy.** This involves:
 - Using the cluster approach as an exercise of deconstruction/reconstruction of the local economic base. A way of re-thinking the economic identity of our cities.
 - An analysis at the spatial level: the nature of the new urban industrial space; new productive functions for central areas in metropolitan contexts; how to deal with de-industrialization and re-industrialization processes in metropolitan contexts; the new role of "intermediate regions"¹⁰ and medium-sized cities in polycentric models, etc.

⁸ "The recession will create a new platform of growth if business entrepreneurs emerge to take opportunities in new growth industries and social entrepreneurs address emerging social challenges" [Attacking the Recession: How Innovation Can Fight the Downturn, C. Leadbeater and J. Meadway, NESTA, 2008].

⁹ "We are reviewing our municipal management plan according with our strategy, reinforcing even more three key dimensions: creativity, sustainability and social cohesion" (City of Óbidos).

¹⁰ See OECD territorial reviews on this spatial category, which is aimed at overcoming the urban/rural duality.

- Translating into specific local actions global trends which are shaping the new economy such as eco-innovation, tech-based activities, creativity-based business models, open innovation or social innovation.¹¹
- **A robust articulation with regional, national and European strategies.** Here articulation means both alignment and financial support. In specific contexts, as in Central Finland or Yorkshire, it works more or less satisfactorily, while Southern Europe still has a long path towards such strong articulation [the case of Portugal is particularly striking]. It is an issue of mere efficiency in public management, independently from the grade of regionalism or regional political autonomy.¹²

¹¹ In *Danger and Opportunity: Crisis and the New Social Economy* [NESTA, 2009], Robin Murray poses social innovation as a key driver in the emerging new economic landscape. This concept of social innovation also embraces public innovations such as metropolitan and city-region governance, devolution and so on.

¹² See the lack of real commitment of the associated Operational Programmes Managing Authorities in the URBACT programme at local level, just as a proof of this poor articulation between these administrative scales.