

Cities and deprived neighbourhoods in the crisis. How can they contribute to the recovery?

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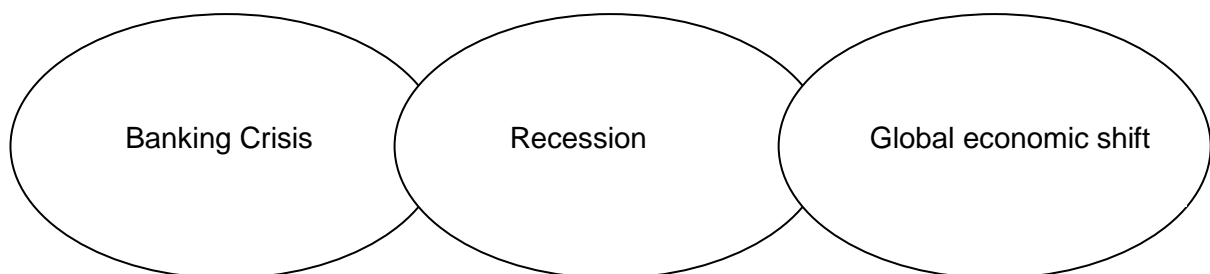
The speed, severity and impact of the crisis have confounded nearly all economists, national governments and international institutions. Unsurprisingly, it is even harder to predict how the crisis will play out at the level of individual cities, let alone different types of neighbourhood. Some argue that there are already the first signs of “green shoots” and that “business will soon return to normal”. Others say that the crisis is a symptom of deep rooted social and geographical imbalances which will require similarly fundamental changes over much longer periods of time. Whichever is correct, it is clear that cities and local governments are on the front line of the crisis, in terms of its impact on people, businesses and places. From sheer necessity, cities have also already started to explore a wide range of responses.

The URBACT programme currently supports 27 networks of 181 cities in all 27 EU Member States working together to learn how to deal with some of the major economic, social and environmental challenges facing European citizens today. The economic crisis has dramatically altered the context in which they are operating. This is why URBACT held a first brain-storming “laboratory” in Lyon on May 15 2009ⁱ bringing together over one hundred representatives from cities and other networks such as the OECD LEED programme.

The discussions showed that there is still very little hard evidence and that it is far too early to produce a precise map of the impact of the crisis on different types of urban area let alone gauge the strengths and weaknesses of different kinds of response. *However, it is clear that there is an urgent need to create platforms where cities can quickly obtain the latest evidence, learn from each other and listen to the experiences and opinions of different stakeholders.* URBACT is committed to working with other organisations to create such a “crisis watch” platform. With this aim in mind, the following article very briefly pulls together some of the main evidence that has been collected so far and sketches out the contours of some of the key challenges and debates that lie ahead for cities.

From the credit crunch to sustainable development

One of the reasons that cities find it so difficult to disentangle the impact of the crisis and to design a coherent response is that there are at least three interrelated processes taking place at the same time. In a forthcoming publication on “local responses to the global crisis” the OECD LEED programmeⁱⁱ presents these diagrammatically as follows:



Changes in one of these processes causes waves in the others, which, in turn, impact different sectors, social groups and places in different ways and with different time lags. We will also see later, that the responses to one may pull in a different direction to that of the others. So one of the biggest challenges for cities is to integrate or “align” measures in a way that matches their specific long term needs and potential.

The impact of the credit crunch on cities.

Michael Parkinson has produced one of the first comprehensive analyses of the “credit crunch” on regeneration in English citiesⁱⁱⁱ. He focuses on the impact of the credit crunch on commercial

property, housing markets, urban partners and projects, regeneration agencies and places and is less concerned with the impact on people and firms. Nevertheless a number of implications can be drawn from the analysis.

Firstly, the finances of certain cities have been damaged directly by the credit crunch. One of the most dramatic examples is the 920 million of debt owed to 123 municipalities in England after the collapse of the Icelandic Banking system. Another is the huge sums owed by over 150 German municipalities in cross border leasing schemes (said to be as much as €30 billion^{iv}).

Secondly, the income of certain local authorities is heavily dependent on financial institutions. For example, 40% of the local tax income of Warsaw comes from institutions like UBS and Credit Suisse. Last year this was €270 million lower than before leading to a large deficit. Eurocities has recently carried out a survey of 39 member cities^v which indicated that around half had experienced an impact on their budgets and 80% reported problems in starting or completing projects. According to URBACT cities from Italy and Hungary this financial situation can be compounded by policies of tax cuts and dwindling transfers from national government. This means that some cities are having to take a fresh look at their overall budget priorities.

Thirdly, the credit crunch has fundamentally shifted the nature of the public-private partnerships and funding mechanisms that have driven much of urban development in the last decade. The private sector is withdrawing from many prestigious but risky projects like the London Olympics and it seems that, for a certain time “public-public” partnerships and financing will become the norm for all but the most central and profitable projects. The global scale and nature of the credit crunch means that the main response is at national level. Nevertheless, as private credit becomes tighter for SME’s, households and regeneration projects some cities are trying to fill the gap by exploring local asset based instruments and other forms of financial engineering and support.

The impact of the recession on cities.

There is another way in which the credit crunch feeds back into the real economy and stokes the recession. It is argued that for the foreseeable future there will be a break with the model where the main drivers of urban economic development were often *consumption driven sectors* heavily dependent upon credit. The most obvious casualties are financial services themselves. The City of London, for example, is expected to lose 40,000 jobs by 2012 with a total of 370,000 jobs lost across the entire metropolis. But this is followed house building and construction, consumer durables such as cars, leisure, retail and tourism.

Another less predictable effect of the recession has been the decline in demand from the emerging economies and the severe impact that this has had on some of the export led sectors and “open” cities that have been particularly successful during the period of global boom. Of course the negative effects may simply take longer to feed back to more protected and isolated cities - while the more open, and international cities may well be the first to take off in the recovery.

The most immediate impact of the recession is on the labour market in the form of redundancies, job cuts and unemployment. (82% of the cities surveyed by Eurocities). In many countries and cities this is combined with wage cuts or freezes, short-time working and temporary lay-offs. Many of the main sectors to be hit have been male dominated (finance, construction, cars) but others are heavily dependent on the temporary, casual and part-time employment of migrants, women and young people (construction, tourism and leisure, retail). In any case, when jobs dry up for certain groups this has a negative “trickle down” effect on the availability of work and income levels for more vulnerable sections of the population. This in turn spills over into areas which are of prime concern to cities such as the ability to access housing, heating, basic services, transport and the ability to pay for pensions. 60% of the cities surveyed by Eurocities rated housing market problems as severe or very severe.

While the credit crunch means that cities can no longer depend on private finance, one of the key implications of a recession is that they can no longer rely exclusively on private markets (consumption and investment). This in turn reduces the effectiveness of traditional labour supply strategies based on activation and insertion - because the jobs are simply not there.

So, as with the credit crunch, the response has been to plug the gap left by falling private demand with public funds. This can either take the form of subsidising existing jobs and incomes (short term working arrangements, etc), bringing forward public works, supporting new jobs through instruments like intermediate labour market organisations and work integration cooperatives, or alternatively, cutting rates and taxes in the hope of reactivating private consumption and investment.

But existing levels of public support for banks and existing industries like construction and cars clearly put massive pressure on other areas in the future. They lead cities to question how long such strategies can continue and whether simply defending existing economic activity and jobs is sustainable in the light of long term global economic shifts.

The implications of long term global shifts.

One of the main factors which affect people's position on this issue is whether they believe that business will rebound to "normal" in the form of a V or will continue depressed at a low level in the form of an L. But while a quick recovery would remove some of the pressure it does not resolve the question of the long term direction that city economies must take in order to survive and prosper in the future. Here the debate centres around the margin for manoeuvre that exists in order to achieve both environmental and social sustainability in our cities.

For example, on paper, there is almost unanimous recognition that our current fossil fuel fed mode of production and consumption is not sustainable. As a result, nearly all recovery packages contain references to longer term strategies for "green and smart growth". Under this scenario we can imagine our cities once again preparing themselves to compete in the "champions league" in order to capture the maximum share of green jobs, talent and capital.

However, in practice, the amounts dedicated to long term green investments in national and local recovery packages are very limited. In addition, there is a growing line of thought which argues that growth itself is not sustainable in the form that we know it. For example, according to the European Environmental Bureau, if we were serious about allowing developing countries achieve similar levels of wealth by 2050 the carbon footprint per € would have to be reduced by a factor of 25 even before allowing for any growth in the developed world^v. These figures are not achievable with a "technological fix"; they require a fundamental rethink of current modes of production and consumption^{vii}.

There are equally important questions about the social sustainability of our cities. It is doubtful how long European citizens will continue to accept that well-known phrase that cities are both the "engines of growth and jobs" while at the same time containing the largest concentrations of social exclusion. During boom years before the crisis, inequality rose and wages took a smaller share of GDP in most EU countries. Admittedly the growth did produce jobs, and employment rates rose but much of this took the form of low paid, temporary and casual employment^{viii}. Around 20% of the people in poverty in the EU are actually in work. This situation implies enormous costs for cities in terms of social services, poor health, educational failure, drug abuse, violence and community breakdown. It also helped fuel the demand for credit which led to the current crisis^{ix}.

Under this interpretation, traditional policy responses, even when better coordinated or integrated, only provide a fire-fighting service for the symptoms. So cities must decide whether and how they want to position themselves for creating a more equal environment and dealing with the longer term causes.

From cities to neighbourhoods and neighbourhoods to people.

In its study on local responses to the global crisis, the OECD argues that a series of factors affect the impact of the crisis on local economies. These are size, economic composition, location and global positioning, social composition and culture, global connectivity, media cultures, preventative migration strategies and dependence and position in national hierarchies. All of these factors, overlap, some pull in different directions, while others have both positive and negative effects.

When we look at the neighbourhood level, one of the main conclusions coming out of URBACT networks like URBAMECO^x, is that they cannot be treated in isolation from the broader urban and regional economy. URBACT expert Claude Jaquier argues that “disadvantaged” neighbourhoods often fulfil certain functions such as acting as gateways or reception areas and “recycling” people within the city. He insists the full potential of these neighbourhoods can only be understood by analysing their position in the urban “value added chain”^{xi}. In a similar vein, a recent study for the Department for Communities and Local Government in England divides neighbourhoods into “escalators”, “gentrifiers”, “transit neighbourhoods” and “isolated areas”^{xii}.

The implication is that the impact of the crisis on different neighbourhoods will be influenced both by the nature of the city and the role of the neighbourhood within it. The “laboratory” held by URBACT in Lyon on May 15 provided an opportunity to hear first hand accounts from people working at both neighbourhood level and at the broader regional level. It became clear that there are no hard statistics and that the situation is evolving very rapidly so it is extremely risky to make sweeping generalisations. With these reservations the following patterns seem to be emerging:

The clearest link seems to be between the **city’s economic composition and the crisis**. For example, Lyon, Turin and Birmingham have an important advanced manufacturing base. The most dramatic effects have been felt in the form of job losses and short time working in car and other manufacturing (FIAT in Turin and Renault Trucks in Lyon). The immediate impact has been on “middle class” employees who do not normally live in the most deprived neighbourhoods. However, these people and the places they live are not used to the crisis and often do not have the same institutional and social safety nets as the most deprived areas.

However, in Spanish cities like Barcelona, the main impact has been the slashing of temporary jobs in construction and to a lesser extent tourism. Over 50% of the recent growth in jobs in the Spanish construction industry was made up by migrants. Similarly, large numbers of young people with low or no qualifications have become used to reasonably good wages in construction. They have lost all habit and motivation to study so it is very difficult to find solutions. This is having a knock on effect on some migrant women who have suddenly found themselves being the main bread winners and on families that have frequently lost more than one earner. These problems are most visible in the deprived urban areas.

On the other hand, administrative capitals and other cities with a high proportion of public sector employment can be more cushioned against the crisis.

More **open economies** seem to have been hit first if not necessarily worst. For example, thousands of people are on subsidised short time working the steel industry in Duisberg, Germany as a result of the global collapse in demand. There were numerous references to the loss of jobs in financial services in cities like London, Edinburgh and Milan.

In this sense, **size** pulls in two directions. Large cities are more likely to have a higher proportion of globalised sectors that are vulnerable to the recession but, at the same time, their economies tend to more diversified and by their very nature are more able to absorb the shock within the broader urban economy. Smaller cities which are heavily dependent on vulnerable sectors are in the most difficult situation.

The most vulnerable social groups, at present, are seen as being migrants and young people, both of whom are often suffering truly explosive levels of unemployment. The **social composition** of an area is, therefore, extremely important.

Almost the only comparable statistics available are for the labour market. Where these are collected systematically at a small area basis, as in the UK for different types of neighbourhood, the preliminary results do not yet suggest that the most deprived areas are doing worse. However, many commentators from the neighbourhoods have pointed out that it is still too early to judge. Moreover, official labour market statistics really only show the tip of the iceberg. They do not show what is happening in the informal and household economy or to other vital areas like debt, housing, heating and access to basic services^{xiii}.

The response. Cities as engines or cities as gardens?

The aim of the last section of this article is start to develop a framework for analysing the different types of response that cities are exploring to the crisis. Hopefully, this will contribute towards creating a platform for sharing knowledge about what works best in different contexts.

In its analysis of city responses to the recession the OECD makes a distinction between:

- a) *Supporting businesses* - for example, through SME support (Birmingham) or rate relief (Hong Kong)
- b) *Supporting people* - for example, through job placements (Los Angeles) or tax cuts (Hong Kong)
- c) *Positioning for long term investment and development* – for example, through innovation promotion (New York), better branding (Mumbai), bringing forward infrastructure investment (Miami), Tourism promotion (Helsinki), Green sector investment (Miami).
- d) *Governance and Leadership* – for example by developing special strategies for the recession (London, Aarhus, Glasgow), budget reviews (Toronto), Creating special task forces (Glasgow), and better alignment between central and local government.

This kind of framework has already been used by some cities for designing their recovery strategies (for example, London).

On the other hand, a recent report by the Young Foundation^{xiv} introduces a series of additional concepts and provides further examples which cities can find useful in designing their response. For example, they argue for a more explicit distinction between *short term and long term* responses and between *economic and social* solutions.

These distinctions are also present in the OECD report but are given more prominence by the Young Foundation. The Young Foundation also insist that certain *conditions need to be in place for longer term investment* in the future – these include support for key infrastructures, intensive support for innovations with funds managed by specialised intermediaries in each sector, and support for rapid scaling up and replication. They also consider strategies to build the “*resilience*” of communities through strengthening family, informal and institutional networks (links between schools, community and work etc). Another related concept is that of “*insulating*” people and communities from the recession through local food and energy schemes, LETS and time banking and new forms of solidarity banking.

On the basis of the concepts in the two studies above, and discussions within URB ACT it appears useful to analyse city recovery strategies in terms of their “alignment” or integration along three main axes:

- **Aligning regional and city strategies for the recovery to the situation of local communities.**

Eurocities finds that “coordinated multilevel governance is a vital component for the economic recovery”. In fact, the pressure on resources created by the crisis makes coordinated responses by Managing Authorities at national and regional levels and cities at urban and neighbourhood levels even more important than before. This is why the URBACT “laboratory” held in Lyon promoted dialogue between people working at neighbourhood, city and regional levels.

The laboratory looked at three concrete ways of making regional and city strategies more in tune with the situation in local communities:- by opening up public and private markets to disadvantaged neighbourhoods, by building their human capital and by increasing their access to finance. Examples of the first include the social clauses in public procurement contracts in Nantes and Lyon as well as integrated strategies to promote promising sectors such as the fashion in certain neighbourhoods of Arnhem and jewelry in Birmingham. Approaches to the second included strategies to build local capacity and resilience as well as initiatives to equip local people with skills in future growth areas. In the third area, the examples involved adapting schemes like Jeremie,

Jessica and the Zone Franches Urbaines to the needs of businesses in the current economic context.



- **Aligning short and long term approaches.**

The cities present in Lyon also made it clear that they are under enormous pressure to respond to the immediate needs of their firms and citizens. However, they are also in an ideal position to introduce conditions – of the community benefit or planning gain type – which help short term support contribute to long term goals. Examples include higher scores for investments with a long term future, ensuring that public works create the conditions for economic, social and environmental innovation, targeting the jobs and training of intermediate labour market organisations towards promising sectors and so on.

- **Aligning economic development to social and environmental needs.**

In their survey of member cities, Eurocities also reports that “the crisis presents opportunities for green economic growth”. The same applies for investments in fields of social need such as health, education, caring and culture. Health already accounts for around 10% of GDP, care is heading towards 4-5% and education is edging up towards 10%. The way in which these investments are carried out and financed can still form part of a model that sees cities as “engines”. Alternatively (or simultaneously), cities can explore and evolve towards more fundamental shifts in production and consumption that make them more like “gardens”. The economic crisis forces more of these choices into the open.

The diagram below summarises some of these points and provides a preliminary framework for sharing knowledge on city strategies for the recovery.

Recovery matrix	Economy (firms and labour market)	Society (People)	Place/Environment
Short-term a. Credit b. recession	Filling the gap in credit for firms (eg. Lyon – sale and leaseback of land) Bringing forward public investment + expenditure (eg. Spanish Local Authorities) Short term working arrangements (Germany, Duisberg) Subsidising existing jobs + sectors Creating temporary jobs and training (Intermediate Labour Markets (UK), Work Integration Coops (Ger), Type B Coops (It))	Debt advice and support. Tax and rate cuts Minimum income support Advice and support for housing, heating, transport, basic services... Integration policies. Building resilience and insulation from recession..	Public-public financial instruments Take advantage of lower land and property prices Protect/bring forward key regeneration projects Protect basic services Delay, cut back non essentials Environmental Pilots
Long- term (Positioning the city in the face of long term)	Creating the conditions and investing in sustainable activities (green, health, care,	More equality Shifts in consumption and saving patterns	Sustainable building, transport, energy, water + waste....

<p>global shifts)</p> <p>Examples: Transition Cities, Slow Cities, Mayors Covenant, WWF One Planet Living..</p>	<p>education, knowledge, culture....)</p> <p>Training in the skills required for sustainable activities.</p> <p>Support for innovation in these activities</p>	<p>Shifts in use of time and work-life balance</p>	
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Adaptation of a table produced by "Fixing the Future" Young Foundation

URBACT is a European exchange and learning programme promoting sustainable urban development.

It enables cities to work together to develop solutions to major urban challenges, reaffirming the key role they play in facing increasingly complex societal challenges. It helps them to develop pragmatic solutions that are new and sustainable, and that integrate economic, social and environmental dimensions. It enables cities to share good practices and lessons learned with all professionals involved in urban policy throughout Europe. URBACT is 300 cities, 29 countries, and 5,000 active participants

www.urbact.eu

ⁱ Disadvantaged neighbourhoods in the crisis. How can they contribute to the recession. URBACT Open Event. May 15 2009. Lyon. <http://urbact.eu/news-open-calls/open-event-may-15-2009.html>

ⁱⁱ Recession, Recovery and Reinvestment: Local Responses in a Global Crisis by Greg Clarke. Forthcoming. OECD LEED Programme. http://www.oecd.org/departement/0,3355,en_2649_34417_1_1_1_1_1_1,00.html

- ⁱⁱⁱ Parkinson, Michael, Michael Ball, Neil Blake & Tony Key: *The Credit Crunch and Regeneration. Impact and Implications*: January 2009
<http://www.communities.gov.uk/documents/citiesandregions/pdf/1135143.pdf>
- ^{iv} Time. April 09 2009.
- ^v Eurocities. Economic Development Forum. Unpublished survey. <http://www.eurocities.eu/main.php>
- ^{vi} Blueprint for European Sustainable Consumption and Production.EEB Work in Progress.
<http://www.eeb.org/>
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- ^{viii} Benchmarking Working Europe . European Trade Union Institute
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- ^{ix} Prosperity without growth. The transtion to a sustainable econom. Sustainable Development Commission. March 2009. It is pointed out that "in the UK the percentage reporting themselves very happy declined from 52% in 1957 to 36% today even though real incomes have more than doubled" http://www.sd-commission.org.uk/publications/downloads/prosperity_without_growth_report.pdf
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