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local economic growth

Local responses to economic shocks

Foreword

Local and national governments frequently face the challenge of how to respond to significant local economic shocks. These shocks can be caused by the closure of a significant local employer or a crisis that hits multiple firms in key sectors. Sometimes these shocks reflect underlying structural weaknesses. At other times, as with Covid-19 or the financial crisis, they arise because of national or global shocks to the macro-economy.

Major shocks present a significant challenge when it comes to learning from previous experience. As Covid-19 has shown, context can matter a lot for the way in which a shock plays out. And, even in more normal times, it can be hard to evaluate the impact of specific policy interventions to help guide policy. Evaluation is tricky when the policy response involves a complex package of different interventions. More practically, when trying to respond rapidly to a crisis, testing and learning about effective policy responses is not necessarily a priority.

These challenges are reflected in our toolkit on responding to major shocks which was published in 2016 and mostly focussed on comparing alternative ways of supporting affected workers. For example, should we concentrate support before or after a worker is made redundant? Immediate support may avoid scarring and may be important for policymakers who need to be seen to be doing something. But it also involves a lot of 'deadweight' if many supported workers would have gone on to get new jobs regardless. Waiting would allow us to concentrate more support on those who are struggling. The available evidence provides us with some guidance on these important issues but at the expense of being narrowly focused rather than covering the full range of potential policies.

One way to improve the evidence on effectiveness is to consider how we might pilot and test approaches in advance of major shocks and to embed these in local economic strategies. Back in February 2020, we pulled together a group of academics and practitioners to help us think how we might do that in the next phase of our work.

Of course, thinking in advance about local strategies to help guide the policy response to local shocks does far more than help with evidence. It also helps ensure that some of the hard thinking about what to do has already been done before the crisis emerged.

The importance of longer-term thinking and better understanding of the strategic response was emphasised at the meeting by our two academic speakers. Following the meeting, we asked one of them, Andy Pike from the Centre for Urban and Regional Development Studies at Newcastle University, to draw upon the available evidence and write up his ideas around some of these strategic issues. The briefing that follows is the outcome. In the short run, we hope it is helpful in informing the response to Covid-19. In the longer run, we hope it might encourage more piloting and testing of policy approaches that aim to help local areas respond to major shocks, whatever their cause.

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Local responses to economic shocks

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Introduction

The aim of this briefing is to examine what can be done by local economic policymakers in response to economic shocks. It defines economic shocks, identifies rationales for intervention and short-, medium- and long-term local policy responses, explains the 'task force' model, suggests things to consider for local economic policymakers, and references supporting evidence.

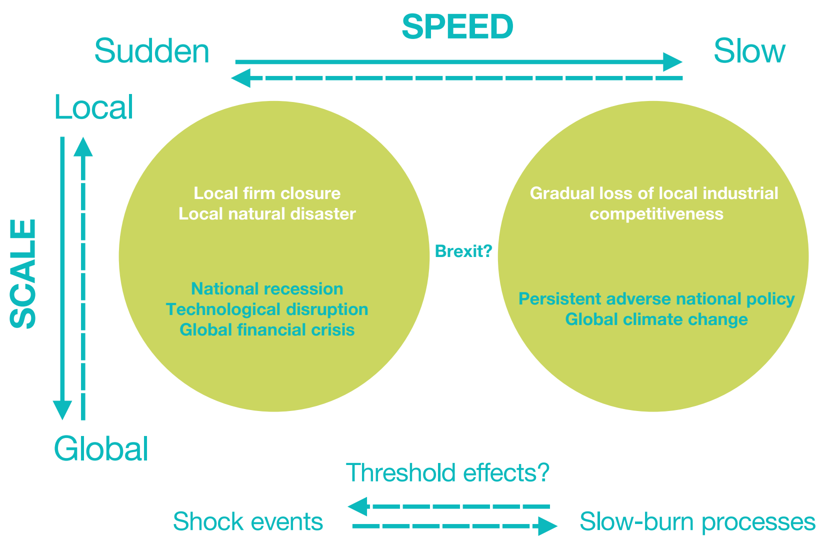
Amidst the geographically uneven impacts of the COVID-19 pandemic and recovery, local policymakers' responses to various and rapidly-changing localised economic shocks have become more important and timely.

The evidence base to guide policy is patchy. Many of the policy responses have been improvised to tackle a diversity of shocks and sudden disruptions. Few have been robustly evaluated and it is unknown what would have happened without such measures. However, the potentially damaging and lasting impacts of economic shocks locally have necessitated intervention by local partners. This briefing therefore draws upon the available sources to provide a guide to such action.

What is an economic shock?

Economic shocks are substantial disruptions to existing economic activities.[1] They are of different types and have multiple and inter-related causes relating to economic and structural changes (Figure 1). Shocks can originate within local economies or from their external relations.

Figure 1: What is an economic shock?



Source: Adapted from Martin, R. (2017) The Resilience of Cities to Economic Shocks, Presentation Slides.

Collapses in demand and breakdowns in supply disrupt markets for goods and services. New disruptive technologies displace existing products and producers as well as production processes, rendering workforce skills obsolete. Climate change and natural disasters generate environmental events including floods as well as infrastructure breakdowns. Health emergencies such as pandemics upturn economies and societies. Social unrest fosters political instability and uncertainty. Political shifts reconfigure existing economic models and relations, for example changing fiscal, monetary and international trade policies. Shocks are mainly negative but can be positive, for example, securing a large-scale investment project or winning a competition to host a major international event.

Economic shocks have different dimensions that are important in understanding their potential impacts and local policy responses. First to consider is the size of the shock. The magnitude of shocks is typically measured by the number of people being made redundant. Assessing whether the economic shock is of a sufficient size to warrant intervention depends upon the local economic context:

- Is it the closure or contraction of a significant local employer?
- Are there potentially large direct and indirect knock-on effects in local supply chains?
- Are single or multiple sectors affected?

Depending upon the answers to these questions, the shock can be defined as major and sufficiently important to formulate a local policy response.

As a rough guide, major shocks can be defined in terms of a large local firm with 250 or more employees closing a plant or cutting a sizeable proportion – around 25 per cent or more – of their jobs or large- or medium-sized (50 to 249 employees) firms with highly-localised supply chains substantially – about 50 per cent or more – reducing their demand for goods and services. Determining the size of the economic shock is especially important when a local economy is facing multiple such disruptions, for example during a business downturn or recession, and local policy responses, capacity and resources need to be prioritised.

As economic shocks are spatially uneven in their impacts, their geographical scale is the second dimension to address:

- Is the shock local, regional or wider in its spatial extent?
- How far and where does it reach into labour markets and supply chains?

This geography of the economic shock is important to establish. For example, whether it is affecting a single employer in one sector in a place or multiple employers across several sectors in one or several locations. Each situation will require a tailored policy response. In the first case, a more employer- and/or geographically-focused package will be appropriate. In the second situation, a more employer- and/or sector-orientated response is required.

Third to review is the speed and timing of the shock. Disruptions can happen relatively quickly or slowly. Sudden and rapidly unfolding shocks are challenging to engage with and require agility and flexibility by local partners to respond. While often punctuated by specific shocks, slower burn disruptions can be difficult to address because there may be a perceived lack of urgency. When economic shocks happen is important, for example as an isolated event at a point in time or as part of multiple shocks over a period. Shocks can be unexpected (e.g. natural disaster) or expected (e.g. business cycle downturn) but their exact timing is largely unpredictable. Working out the type, extent and nature of the local policy response is strongly shaped by the dimensions of the economic shock and its particular local economic context.

Short-, medium- and long-term local responses

They key questions for local economic policymakers are whether or not to intervene and, if so, at what level, in what ways, when, and for how long. Rationales for local economic policy intervention to respond to economic shocks are twofold and typically based upon addressing market failures.

The **efficiency rationale** interprets economic shocks as disrupting markets in various ways leading to inefficient economic outcomes. For example, a short-term and temporary collapse in demand can push an otherwise viable firm out of business, employees can be made redundant and supply contracts cancelled. A major closure of this kind in a local economy then generates knock-on effects on local suppliers and their workers (and thus to lost wages, household incomes and business rates).

Overall, these ripple effects undermine confidence, dissuade investment, challenge livelihoods, reduce tax government revenues and shrink local supply markets. Local economic efficiency and positive outcomes are therefore impaired by not intervening to support firms and employees to ride out and adapt to the shock. Policy interventions using this logic include assistance for employers to recruit, (re)train and retain redundant workers matched with support for those losing jobs to access suitable training and job opportunities.[2]

The second rationale is seeking **social or spatial equity or fairness**. Economic shocks have socially and geographically uneven impacts, shaped by their type and dimensions. Such impacts are unequally distributed in their effects on specific people, groups and/or places. For example, when industries contracting are spatially concentrated in particular sectors, occupations or types of area. Interventions are therefore justified to influence the uneven social or geographical distribution of the costs and benefits generated by economic shocks.

Decisions about potential intervention are also shaped by the broader aims of **local economic strategy**. For example, local ambitions to transition to a lower carbon economy mean seeking to retrain and redeploy rather than reinstate employees made redundant due to economic shocks affecting higher carbon sectors.

Economic shocks unfold over time in local economies. They therefore require integrated consideration of short-, medium- and longer-term responses and how they adapt to address changing situations (Table 1). Short-term measures are focused on addressing the immediate effects of shocks (zero to six months), medium-term responses initiate local adaptation (over six to twenty four months) and longer-term policies look to reinvention, reorientation and future local economic pathways (twenty four months and beyond). The dimensions of the economic shock – size, geographical scale, speed and timing – shape the extent, nature and resources needed for the policy responses. The uneven geographical impacts of shocks require a spatially-differentiated response with a mix of policies in different areas tailored to local circumstances:[3]

- Local economy
- Business
- Employees and labour markets
- Equipment, facilities and sites
- Supply chains

Table 1: Short-, medium- and long-term policy responses

Short-term	Medium-term	Long-term
Local economy: assess immediate and likely direct and indirect impacts	**Local economy**: attracting new investment; support for growing sectors' expansion	**Local economy**: re-assess local economic development strategy with focus on building economic resilience and adaptive capacity; identification of new and future growth pathways; monitoring and evaluation of policy responses and local business dynamics
Business: refinancing; new owners; receivership; tax deferrals, holidays and relief; grants; loan funds; loan repayment deferrals	**Business**: refinancing; new owners; exiting receivership	**Business**: diversification; innovation support; tax incentives for investment; productivity improvement support
Employees and labour markets: wage subsidies/ furloughing and job retention schemes; redeployment; redundancy pay; mortgage and rental holidays; debt payment holidays; employment and financial information and guidance; benefits and tax advice; job search support; recruitment fairs and job shops; outplacement; self-employment advice; subsistence allowances	**Employees and labour markets**: counselling and psychological support, education; (re)training and upskilling; self-employment and entrepreneurship support	**Employees and labour markets**: education; (re)training and upskilling; entrepreneurship and enterprise support
Equipment, facilities and sites: sale; re-use; mothballing	**Equipment, facilities and sites**: sale; re-uses; changes of use	**Equipment, facilities and sites**: sale; re-uses; changes of use
Supply chains: business continuity loans; capacity and employment retention support	**Supply chains**: diversification	**Supply chains**: upgrading; innovation; diversification; new market development

Some responses require flexibility and local adaptation of existing national programmes, for example the timing of access to certain social benefits. Other new measures often need substantially more resources than are available to local partners, such as temporary subsidies for people and firms to maintain employment and capacity during a shock. The package of measures in the policy response needs to be discussed, decided upon and organised by the local partners involved with recognition of their powers, resources and partnerships with other stakeholders at the local, national and international scales.

The 'task force' model

Organising the response to economic shocks challenges local economic policymakers to bring together and mobilise the relevant partners with resources to provide inputs. The 'task force' model (also known as the 'Rapid Response Group') has been widely used to convene and co-ordinate local partners. Examples have focused on employers (e.g. Rover, Siemens, Tata Steel), sectors (e.g. potteries, steel, textiles) and/or areas (e.g. Merseyside, West Midlands, Selby Coalfield).[4]

The task force comprises several elements:

- Selected membership of relevant partners (e.g. benefits services, education and training providers, employers, economic development agencies, employment services, enterprise agencies, local authorities, trade unions)
- Integration of strategic, co-ordination and implementation roles
- Temporary, task-limited lifespan and non-statutory basis
- Employer, sectoral and/or geographical focus
- Flexible, 'rapid response' approach

Task forces provide a range of potential benefits in responding to economic shocks.[5] They provide a quickly convened and responsive mechanism to focus and co-ordinate local partners and their resources and enable the policy response to innovate and be adapted to its local economic context (Box 1). The task force can also evolve in its focus and form as the economic shock unfolds from a reactive, short-term response to a more proactive and developmental-medium to longer-term approach (Table 1).

Box 1: The West Midlands Task Force evaluation[6]

The West Midlands Task Force (WMTF) was one of several established in regions across England in response to the 2008 recession. Its aims were to address and minimise the impact of the downturn on businesses and employment in the region and to ensure longer-term business resilience. Convened by Advantage West Midlands, the then Regional Development Agency, the WMTF involved leaders from local and central government, regional agencies, business and trade unions. Policies included newly designed and targeted interventions focused on credit and finance (e.g. Advantage Transition Bridge Fund), business management (e.g. Credit Crunch Hotline) and future investment (e.g. Automotive Response Programme).

A process evaluation of the WMTF found that it provided an opportunity to focus minds, enable a strategic overview of limited resources and target interventions to local circumstances. Learning points for local economic policymakers responding to shocks included:

- Maintaining economic data and intelligence capacity
- Providing appropriate levels of resources and local flexibility in their use
- Retaining institutional memory from previous responses (e.g. the 2005 closure of MG Rover)[7] and rapidly adapting and deploying off-the-shelf support packages
- Communicating, co-ordinating and collaborating between institutions and policies at different spatial levels especially nationally and locally
- Building in the goals of the task force from the outset to enable monitoring and assessment of its performance

Things to consider

1. **When to respond to an economic shock and how?**
Answering these questions will depend on the dimensions of the shock and the local economic context. Reacting to every economic disruption risks the over-use and proliferation of task forces, stretching the capacity and resources of especially key public sector local partners. Establishing criteria for whether to respond is helpful to guide decision-making, for example the size of employer, their local strategic and economic importance, the number of redundancies and the local supply chain linkages. Once established, identifying the aims of the task force, its exit strategy and criteria for its dissolution are also necessary.

2. **How can local economic policy build economic resilience and adaptive capacity better to withstand and bounce-back from economic shocks?**
If the wider economic context is becoming more uncertain and volatile then disruptive economic change and shocks of various kinds are likely to become more regular if unpredictable challenges for local economies. Local economic strategy and policymaking therefore need to consider resilience and adaptive capacity as more central concerns.[8] While firefighting the short-term issues generated by economic shocks, cross-reference to medium and longer-term aims and priorities for improving local economic resilience and the capabilities for adaptation and reinvention can help guide decision-making.

3. **How can local economic partners better prepare for future economic shocks?**
One way is to develop a contingency plan for the policy response. Monitoring longer term trends and scenario building can help identify potential local economic shocks. The possible shocks can then assist local economic policymakers to think through which partners to involve, their roles, leadership and accountability, resources and where, when, and how they would approach different kinds of interventions. This plan then provides a starting point and basis for informing and adapting the policy mixes of tailored responses to situations as they emerge. An additional step is considering the establishment of a standing and ongoing group with relevant partners that meets regularly to monitor, assess and plan responses to potential local economic shocks.

4. **Can we improve our ability to anticipate economic shocks?**
Establishing relationships and regular communication with key local employers can help support the preparedness of local partners by supporting early identification of weak signals of economic difficulties and the formulation of potential policy responses. This approach can gather intelligence about potential issues likely to generate shocks, including business restructuring plans or ownership changes as well as addressing slower burn shocks arising from longer-term challenges including climate change, declining competitiveness and under-investment in innovation.

5. **How can the evidence base be improved?**
Strengthening the sources of evidence will require more robust and systematic assessments of the effectiveness of institutional and policy responses to economic shocks. Important is balancing the evaluation of easier to measure and attribute shorter-term, direct and narrow activities and outputs with more difficult to assess and assign longer-term, indirect and wider outcomes and impacts.

Biography

Andy Pike is the Henry Daysh Professor of Regional Development Studies in the Centre for Urban and Regional Development Studies, Newcastle University, UK. His research interests are focused on the geographical political economy of local, regional and urban development and policy. He is widely published internationally and has undertaken research projects for the OECD, UN-ILO, European Commission, UK Government and national, regional and local institutions. He is a Fellow of the Regional Studies Association and an Academician of the UK Academy of Social Sciences.

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Examines the support provided to MG Rover by the Department of Trade and Industry and other public bodies in the period leading up to the closure of the company, and the impact of subsequent support in mitigating the consequences of the company's closure.

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