

POLICY SERIES

AN INDUSTRIAL STRATEGY FOR TOMORROW

**LEVELLING UP
REGIONAL
RESILIENCE: policy
responses to the
COVID-19 Crisis**

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Published:

JUNE 2020

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Introduction

For the newly elected government in the UK, like many of its counterparts elsewhere, industrial strategy has become the most important institutional vehicle through which it seeks to achieve some of its core goals. These include promoting economic growth, tackling falling productivity growth, designing research and innovation policies that will enhance the strengths of the UK economy, and ensuring that its leading sectors are globally competitive.

Its declared commitment to 'levelling up' the performance and opportunities of poorer regions with wealthier and more productive ones is also connected to its industrial strategy. This shift in UK government thinking mirrors developments elsewhere, as a range of international organisations and various western governments have recently proclaimed their commitment to 'place-based' economic development strategies.

Some experts in this area argue that there exists a template or model that the UK could import from other leading economies. At the Bennett Institute, however, we take a different tack. We have been working with some of the leading researchers at Cambridge, and engaging key decision-makers in government, to interrogate more deeply some of the dilemmas and challenges facing those tasked with designing and evaluating the industrial strategy, and the local strategies which government has encouraged some of its metro-mayoral authorities and Local Enterprise Partnerships in England to develop. Our belief

is that these will only succeed if they understand and address today's social and economic needs from place to place, and align with the key dynamics shaping the economy emerging in the coming decades.

Each of the papers in this series offers an in-depth examination of some of the fundamental issues – concerning data, measurement, definition, research policy and strategic ambition – which will determine how well governments across the UK fare in this area. Some of these draw upon evidence from other countries, and some offer arguments and proposals that are germane internationally, as well as applying to the UK.

Our aim in publishing these is to enrich and stimulate thinking and debate about some of the core precepts and goals of industrial strategies. The massive societal impact of the coronavirus pandemic, and the stark geographical divides which it has illuminated, make it all the important that we devise an industrial strategy which can help restore economic growth in the coming years, and generate tangible benefits for all.

Michael Kenny and Diane Coyle
Co-Directors of the Bennett Institute for Public Policy





LEVELLING UP REGIONAL RESILIENCE

Key advice

- Policy response to the COVID-19 pandemic should be directed at strengthening resilience of those regions that were least resilient to the 2008 financial crisis.
- England's local industrial strategies should include measures to enhance firms' capacity, particularly those rooted within communities, to strengthen resilience.
- Green infrastructure investments should be linked up with work retention and training schemes.
- Green innovation vouchers should be offered to firms so they can adapt their products and processes in response to the climate crisis and create jobs.
- Government should increase the wages of the lowest paid key workers to at least the real living wage to help rebalance inequalities.

OVERVIEW

Can lessons be learned from the UK regions' recovery to the global financial crisis in dealing with the coronavirus pandemic recession? Does recovery from this crisis offer a chance of truly transformational change within a nation state to deal with the societal problems of climate crisis and societal inequalities?

The UK has the greatest spatial inequality among European countries (McCann, 2019) to such an extent that the Government has made it a central mission to 'level up' UK regions. In the 10 years of austerity policy in the UK, output growth has been subdued along with growth in investment, real wages and productivity. Beneath the national headline figures, the regional picture is mixed - the areas with the greatest shares of deprivation suffering the largest local authority budget reductions (Gray and Barford, 2018).

These regional disparities have widened since the financial crisis of 2008, with some regions demonstrating greater economic resilience while others have been slow to recover. Areas within the 'red wall' (the 50 constituencies across Northern England, Midlands and Wales that became Conservative during the December 2019 election) generally have a lower productivity sector mix, their citizens have below-average incomes, and they have experienced greater falls in living standards since 2010 (see McCurdy, et al. 2020). This provides a strong argument for levelling up living standards, skills and opportunity between the country's productivity divides.

In our analysis of the UK's regional economies, we set out to understand how resilient they were to the 2008 global financial crisis. In this research, business cycle turning points were dated (in output, employment and labour productivity) to determine when the region was experiencing recession, how it recovered, and then compared the recovery growth rate to the rate of growth before the onset of the crisis. By quantifying expansion gains and recessions losses for the economic resilience dimensions of resistance, recovery and renewal between the peak and trough turning points of the cycle a resilience scorecard was created to rank and map the regional resilience for UK sub-regions.

Economic Resilience in UK Regions

Regional economic resilience is defined as:

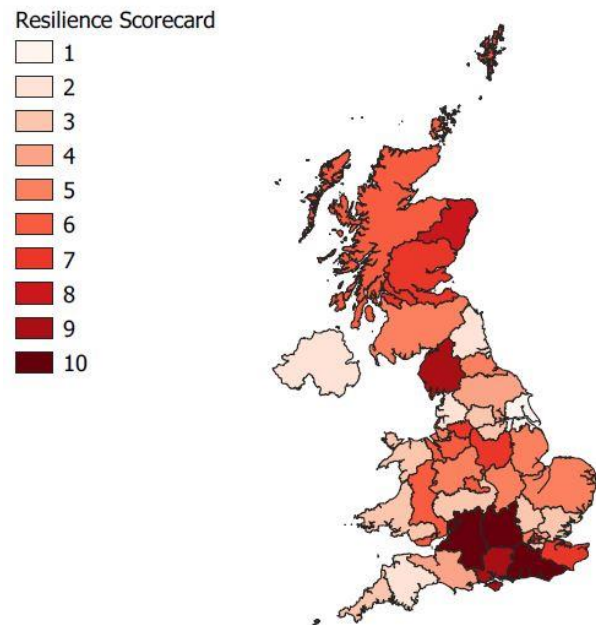
‘... the capacity of a regional or local economy to withstand or recover from market, competitive and environmental shocks to its developmental growth path, if necessary by undergoing adaptive changes to its economic structures and its social and institutional arrangements, so as to maintain or restore its previous developmental path, or transit to a new sustainable path characterized by a fuller and more productive use of its physical, human and environmental resources.’ (p.13, Martin and Sunley, 2015).

The root cause of shocks to a regional economy could be global (the 2020 coronavirus pandemic), national (1990s house price crash), or local (closing of a factory) in origin. In contrast to previous studies that largely rely on the onset of the recession to be in the same time period for each region within a country, this research dates individual region’s business cycle turning points (peaks and troughs). This allows some regions to lead and some to lag the movements in the national business cycle. The details of this methodology can be found in Sensier and Devine (2020a) along with the economic resilience scorecard for UK countries and English regions (at the NUTS 1 level).

The resistance of a region is measured by comparing the regional loss to the national loss (as the benchmark) over the recession. The duration of recession is noted along with how quickly it recovers its pre-crisis peak. The regional growth paths are compared before and after the crisis by calculating the expansion average growth rate before the recession (the 5 year average of the growth rate – the first difference of the natural log), including the date of the peak year. Following the recession, the rate of growth for the series is calculated after the trough by taking the second expansion average of the growth rate for 5 years. The renewal measure compares the growth rates 5 years before the recession and then 5 years after the recession. A greater rate of increase after

the recession indicates that the region is accelerating to a higher growth path. The resilience scorecard compiles the statistics for each region over the recession and up to 2018.

Figure 1: Map of Resilience Scorecard for UK NUTS 2 level regions



Note: 10 is the most resilient region and 1 is the least resilient region.

The summary of the resilience scorecard for NUTS 2 sub-regions is shown in Figure 1. In Sensier and Devine (2020a) we found that the most resilient region was the South East, followed by the South West. The least resilient area was Northern Ireland, then in England the regions of the North East and Yorkshire and The Humber (where the pre-recession productivity level had not recovered). When analysing the sub-regions at the NUTS 2 level (Sensier and Devine, 2020b) it emerges that sub-regions within the South East were the most resilient, along with Bristol, Cumbria and Aberdeen. Other sub-regions within the South West (Cornwall, Devon, Somerset and Dorset) perform poorly on output and productivity indicators, so they are lower down in the scorecard. The least resilient regions are Hull and Scunthorpe (East Yorkshire and North Lincolnshire), Lancashire and Northumberland and Tyne and Wear.

The West Midlands had average resilience after adaptation following the 2008 recession as output, employment and productivity bounced back with higher rates of growth post crisis. As an example of place-renewal leadership in the UK, Bailey and Berkeley (2014) discuss the operation

of the West Midlands Regional Resilience Taskforce that dealt with business and employment issues during the downturn to ensure resilience over the short and longer term. They document a number of central and local government funds that were set up to help firms access credit and advice during the 2008 downturn. They suggest that the resilience dimensions of resistance and recovery were important in the short-term, but then renewal and reorientation of the local automotive sector to diversify into low carbon and higher value activities were important for long-term planning.

Factors that affect resilience were analysed in our study by correlating determinants with the variables for each stage of the business cycle (Sensier and Devine, 2020b). Sub-regions with greater loss of output and productivity in the recession correlated with areas of greater population density and with more new enterprise start-ups. In the jobs recession, sub-regions with greater concentrations of less knowledge intensive services had greater employment loss. In the expansion phase following the financial crisis, generally, resilient regions had: greater shares of the population with higher level qualifications; higher shares of managers and professionals; more specialised industries (particularly in knowledge intensive services and high tech); lower concentrations of low-medium tech manufacturing industry; denser populations; more investment; greater amount of new enterprise start-ups; and they were quicker to recover.

Along with economic resilience it is also important to understand the well-being of people and the sustainability of places to help with a stronger recovery. Sensier and Uyarra (2020) analyse the resilience of Greater Manchester and find that the City of Manchester has been the most resilient district (particularly in the recovery of jobs since the crisis), but peripheral towns (Bolton and Wigan) have continued to suffer; policies targeted at dense agglomerations do not seem to have benefitted surrounding areas. When the analysis was widened to examine indicators for societal well-being, Manchester ranked poorly for inclusive growth, particularly with poor health and

life expectancy outcomes. Within Manchester the proceeds of growth are not being shared equitably to improve the life chances of its poorest citizens. Preston has enjoyed increasing output and a recovery in productivity but at the same time as falling levels of employment. It has scored better on good growth measures in that it has reduced unemployment and the number of people earning less than the real living wage as a direct result of the community wealth building policies. It ranks highly for measures of health and income equality and local conditions which contribute to inclusive growth.

Adaptation of policy responses in recovery from the crisis

The current crisis brought about by the coronavirus pandemic has seen immediate UK government reaction in the form of support for businesses (Job Retention Scheme, business rate relief, local grants and business loan schemes), the self-employed and the charitable sector, with the lock down announced on 23rd March 2020. Although too early to judge these measures, the response to this crisis has been led by the central state with some resources redistributed by local authorities. We assume that as countries gradually emerge from lockdown an adjustment process will lead to a 'new normal' until a vaccine is developed. Social distancing measures will continue and this could inflict lasting economic damage to some communities as employers are unable to continue with much lower demand for particular services, such as hospitality and tourism (Warren, et al. 2020). The COVID-19 pandemic has already been shown to have hit poorer areas harder (BBC, 2020). It is assumed that those places least economically resilient in the recovery from the 2008 financial crisis may also be least resilient to this current crisis, and will need greater support to assist in the recovery phase from this recession. Directing recovery policies to the places that need the most support now will help those least resilient sub-regions emerge stronger from this crisis.

The direct and indirect impact of this crisis will probably last for a number of years and further policies are needed that can help with more flexible job retention for part-time working and training, to tackle the scarring effect of the recession for workers, particularly those who are new to the labour market (Johnson, 2020). In cities, agglomeration advantages may turn into disadvantages with greater need for social

distancing, requiring significant investment to improve infrastructure, accelerating the roll out of superfast broadband to encourage working from home, and investing in alternative transport schemes, such as improving cycle and walking routes.

Local industrial strategies are being introduced across England to improve productivity and create more inclusive growth to benefit people and communities. The challenge now is for localities to increase their resilience as they move into the recovery phase when the public health dangers have receded. In recovery from the crisis there has been a rise of mutual aid community organisation and support for local business. Local industrial strategies have a crucial role to play in the pro-active recovery of regions from the crisis, to encourage reorientation and renewal within local economies. There is a need to prioritise the environment (to reach the net zero carbon target by 2050) and social, economic, and cultural wellbeing of current and future generations (Big Issue, 2020).

There is an opportunity for government to channel resources into local industrial strategies to offer greater support for firms as they emerge from this crisis. The government needs to increase local capacity and link up the provision between local government and LEPs. As the Local Resilience Forums have been at the forefront on this crisis they could help direct investment into localising manufacturing capacity to supply the health service (for example with personal protective equipment) so local communities can cope with further outbreaks.

Sensier and Uyarra (2020) describe an innovation voucher scheme introduced in Stuttgart during the financial crisis which offered grants to firms in the automotive sector to diversify into electric vehicle development. The local industrial strategies could offer green innovation vouchers to firms following the crisis to incentivise investment into green activity to strengthen resilience. These will enhance the capacity of firms to adjust their products and processes and adapt in response to the climate crisis. Environmental policies and green

infrastructure investments should be linked up with work retention, training schemes and finance provision to shore up existing employers and provide new employment opportunities to enhance regional economies.

A large number of companies have furloughed staff and even closed down. This has particularly affected those in low paid sectors, such as hospitality, which led the way in employment growth out of the last recession (Bell et al, 2020). As many firms have suspended operations they may find if demand does not pick up in their sector they may be forced to go out of business. The government could incentivise SMEs to work with universities and take on graduate apprentices; mothballed firms could be offered cash lifelines where equity is bought by the state for them to offer goods and services that are needed locally; and firms could be pivoted into socially responsible and sustainable business activity.

In Sensier and Devine (2018) a number of policies were recommended to strengthen the resilience of local industrial strategies in recovery from the crisis. Policies included: setting up a co-operative development network to encourage co-operative company development (as they are found to be more productive and resilient); encouraging demand-side policies and joining this up with business support services, education and skills opportunities (work retention and training programmes) to improve local supply chains; and increasing the pay for key workers in the foundational economy, as these are generally in lower paid sectors that predominate in lagging regions, but have become the vital front line services in the coronavirus pandemic.

Conclusions

Most UK regions' real productivity series have returned to their pre-recession levels (apart from Yorkshire and Humberside) but rapid job growth in most regions (apart from Scotland) has reduced productivity growth rates, possibly due to the growth of low paid employment and the 'hollowing out' of middle earning jobs which are easier to automate.

The English regions of the South East, South West and the Midlands rank highest in the resilience scorecard but when looking at sub-regions within these some are not doing as well. Sub-regions with the greatest resilience have not always provided equitable distribution of growth to their poorest citizens.

In recovery from the crisis it is important to understand the resistance and recovery of places at the local level. Timely regional metrics need to be compared to understand how places have recovered from shocks in the past.

Policies are needed that encourage reorientation and renewal for local areas in line with challenges in the government's industrial strategy.

The financial crisis may have provided a window of opportunity for some places to develop new institutional arrangements and to diversify their own economies. Examples of this include Greater Manchester brokering devolution deals with central government; Preston following community wealth building policies; and the West Midlands encouraging firms to diversify into higher value activities in the automotive industry.

It is essential to learn from previous crises and to adapt policies to strengthen local capacity. Most citizens across the globe have been affected by this pandemic and the call for a transformed society is growing.

Bold economic policies are needed to transform how the economy provides for its citizens and the planet before this window of opportunity closes.

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