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Introduction

1. We work in the Alliance Manchester Business School at The University of Manchester and our research covers areas of economics, innovation policy and strategy. We are submitting evidence based on our research of the 2008 financial crash to suggest ways that this could inform economic recovery from the coronavirus pandemic.

2. We have recently conducted research comparing the economic resilience of UK regions in recovery from the 2008 financial crisis. In this evidence submission we discuss lessons from the financial crisis and suggest changes for the future.

3. Regional economic resilience is defined as the capacity of a regional economy to withstand, recover from and reorganise in the face of market, competitive and environmental shocks. The root cause of these shocks could be global (the 2008 financial crisis and the 2020 coronavirus pandemic), national (1990s house price crash) or local (closing of a factory) in nature.

4. Academic studies investigated why some regions are more able than others to recover from economic shocks, pointing to pre-existing structural conditions for businesses and the labour market, networks and institutional and governance configurations of regional economies as key resilience factors (Boshma, 2015). Regions with a more diversified sectoral portfolio are assumed to be less sensitive to economic shocks as the risk of being hit by a shock is spread among those sectors and they are better placed to find new combinations leading to new growth paths.

5. We find that UK regions that have been most resilient following recovery from crisis have tended to be those with greater presence of knowledge-intensive and high-tech services and with higher than average levels of qualifications of the workforce and a larger share of managers and professional occupations (see Sensier and Devine, 2020b). Resilient regions are more likely to have dynamic and adaptable institutional and governance structures allowing them to learn from previous crises.

What will be the impact on inequalities within society and how should the Government address inequalities that may have been exacerbated by the crisis?

6. We have found that regional disparities have widened since the financial crisis of 2008, with some regions demonstrating greater economic resilience while others have been slow to recover (Sensier and Devine, 2020a). In recovery from the global financial crisis the South East has been the most resilient English region with the North East and Yorkshire and Humberside the least resilient regions (along with Northern Ireland). When we analyse the sub-regions at the NUTS 2 level (Sensier and Devine, 2020b) what emerges is that sub-regions within the South East are 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 are less resilient. The least resilient sub-regions are Hull and Scunthorpe (East Yorkshire and North Lincolnshire), Lancashire and Northumberland and Tyne and Wear. The centralised UK system of governance has proven to be ill-suited to respond to these interregional problems, and has arguably exacerbated them, as it has reduced the institutional capacity of the sub-regions to react to the crisis.

7. The UK's regional inequality levels following the 2008 financial crisis have been further aggravated by cuts to government spending. The entrenchment of regional inequalities

led the Conservative Government to make “levelling up” investment across UK regions one of its central electoral promises.

8. The impact of the COVID-19 pandemic will also differ markedly across regions and threaten to further increase disparities. We assume that, as countries gradually emerge from lockdown, an adjustment process will ensue to a new normal until a vaccine is available. 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 like hospitality and tourism (Warren, et al. 2020).

9. We assume that those places least economically resilient in the recovery from the 2008 financial crisis may also be least resilient to this current crisis, as capacity has been further depleted by austerity. Initial data released on consumer spending (Cook, et al 2020) shows that rural places that rely heavily on tourism have so far been hardest hit. The direct and indirect impact of this crisis will probably last for a number of years (Kitsos, 2020) and further policies are needed that can help with job retention and part-time working, along with tackling the scarring effect of the recession for workers who are new to the labour market. Directing recovery policies to the places that need the most support now will help those least resilient sub-regions emerge stronger from this crisis.

What are the implications for the Government’s “levelling up” agenda announced in the Budget/infrastructure strategy?

10. In recovery from the current crisis, local and national policy should be directed at regenerating sustainable and equitable regional economies and to continue with the levelling up agenda. Economic resilience does not merely mean returning to the pre-shock state of affairs. Greater adaptability implies the possibility of renewal and the creation of new pathways. Rather than returning to the status quo, some commentators are seeing the crisis as a window of opportunity to embrace changes towards a more sustainable and fairer economy.

11. 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 we have seen the 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 environmental (to reach the net zero carbon target by 2050), social, economic and cultural wellbeing of current and future generations.

12. 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 of 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.

13. We (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.

14. A large number of companies have furloughed staff and may even have closed down – this has particularly affected those in low paid sectors like hospitality which led the way in employment growth out of the last recession (see Figure 4 in Bell et al, 2020). As many firms have suspended operations they may find if demand does not pick up in their sector they may have 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 and for them to offer goods and services that are needed locally and to pivot firms into socially responsible and sustainable business activity.

15. Sensier and Devine (2018) recommend a number of policies to strengthen the resilience of local industrial strategies in recovery from the crisis. These include:
    a. setting up a co-operative development network to encourage co-operative company development (as they are found to be more productive and resilient);
    b. 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;
    c. improving pay and conditions 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.

16. Investment in innovations to facilitate this will be paramount, particularly in enabling technologies such as 3-D printing, health, and food security. Investment in R&D (particularly between private sector and universities) in these areas can allow reorientation into high value-added activities contributing to social value and economic recovery. The pledge for increased and geographically better-balanced R&D expenditure is more important than ever, and so is a reversal of years of centralisation and austerity cuts so that councils have greater capacity and revenue funding to plan and react faster during a crisis. Plans to locate a HM Treasury office to the North East should be prioritised along with locating other central agencies in regional offices to prepare and deliver economic recovery in partnership with universities, LEPS and local authorities (see O'Brien, 2020).

What are the differences and similarities between this shock and the Great Financial Recession of 2008 and also the economic demand management and demand suppression policies pursued during the Second World War? What lessons can be learnt from these past shocks and the recoveries that ensued?

17. Along with economic resilience it is also important to understand the wellbeing of people and the sustainability of places to help with a stronger recovery. We (Sensier and Uyarra, 2020) analysed the resilience of Greater Manchester and Preston in recovery from the financial crisis. We found that the City of Manchester was the most resilient district (particularly in the recovery of jobs since the crisis), but peripheral towns (Bolton and Wigan) continued to suffer, so policies targeted at dense agglomerations do not seem to have not benefitted surrounding areas. When we widen our analysis to examine indicators for societal wellbeing Manchester ranks poorly for inclusive growth, particularly with poor health and life expectancy outcomes, so within Manchester the proceeds of growth are not being shared equitably to improve life chances of its poorest citizens. Preston has enjoyed increasing output and a recovery in productivity but at the same time it has seen falling levels of employment. It has however scored better on good growth measures in that it has reduced 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.

18. In this crisis, subnational governments around the world have been at the forefront of fighting the crisis; they are typically responsible of critical policy areas such as health, social services and economic development. The UK Government action to respond to the pandemic has been highly centralised with some resources redistributed by local authorities. However much of the effort of fighting the crisis has fallen on local authorities. Local government in the UK is financially crippled after years of austerity, and the loss of commercial income and the day-to-day costs of fighting the pandemic (including extra costs for social care, buying PPE) are threatening the delivery of essential local services.

What are the lessons that society can learn for the future e.g. reducing carbon emissions, increased home working, business resilience?

19. Having seen the benefits of clearer skies and streets emptied of cars, mayors in the north of England (and in other cities worldwide) are also suggesting lasting improvements such as building cycling and walking networks in many cities, boosting internet connections so that more people could work from home and retrofitting houses to improve energy efficiency and create jobs.

20. A study by Hepburn et al (2020) compared green stimulus projects with traditional projects, and found green projects create more jobs, deliver higher short-term returns per pound spent by the government, and lead to increased long-term cost savings. In a recent report for the Greater Manchester Combined Authority (Ziembla et al, 2020) we explore the opportunities associated with large scale retrofitting programmes for innovation and economic development in the Manchester City Region. Heating of homes is the UK's biggest use of energy and the largest single source of greenhouse gas emissions. In Greater Manchester, domestic energy use accounts for 4 $MtCO_2$ emitted to the atmosphere annually. The impact on climate change is aggravated by the country's ageing building stock and suboptimal energy-efficiency standards. Reducing the need for domestic heat should contribute to improving public health, alleviating poverty and creating employment opportunities post-COVID-19. However, there are considerable challenges in retrofitting to the desired standard at such a scale, including a lack of relevant capabilities within the region and the cost of energy efficiency measures.

21. Economic crises can open a 'windows of opportunity' by potentially jolting institutions or constitutional configurations out of established pathways and thereby facilitating the introduction of new structures and relationships. The financial crisis may have provided such a window of opportunity for some places to develop new arrangements supporting new path creation and diversification of regional 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 crisis 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. We need bold economic policies to transform how our economy provides for our citizens and the planet before this window of opportunity closes.

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