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Human Geography

Economic geography and economic development

Economic crisis: The economic resilience of regions

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Introduction

Why are some places less affected by economic decline than others? Why do some places recover from an economic shock more quickly than others? Is it just about the types of businesses and industries they have, or are other factors also at play? These are just some of the questions raised by the current economic crisis which economic geographers are being asked, by both politicians and practitioners.

In seeking to answer these questions we are beginning to think about regions in terms of their overall resilience. This takes into account their ability to withstand an economic shock, such as the closure of a factory, or the loss of a key market, or more global events such as the financial crisis. Resilient economies may be ones that are able to withstand that shock, managing to avoid an economic decline, or are able to quickly 'bounce' back from the negative effects of the shock. This focus on resilience is a shift away from the traditional concentration on growth and competitiveness of the local economy, which often marks studies of regional economic development.

Cardiff University, together with partners from across the EU, have been measuring which regions in the EU have been most affected by the economic crisis, as a way of identifying those which seem to be most resilient. They have then examined the factors which contribute to making regional economies more, or less, resilient. The research is still ongoing and so the results presented here are the early findings of the work.

The case event: the economic crisis

The causes of the current economic crisis are well documented. A 'credit crunch', in 2007/2008 spiralled into the beginning of a financial crisis as banks discovered that their presumed assets were worth substantially less than expected in the face of defaults on mortgage payments. As nation states moved to 'bail out' their banks so a sovereign debt crisis was initiated, which was made worse by an inability of some governments to raise funds on international markets to pay for spiralling public debt. This has resulted in what commentators commonly refer to as the Great Recession or the Global Recession. The crisis has been particularly severe and long-lasting in the European Union, and some places have suffered more than others.

Measuring Tools 1: Quantitative analysis

A key part of the study is to examine the geography of the Great Recession across the EU. This is using statistics collected from across the EU on a common basis. Drawing on longitudinal measures of economic output (GVA) and employment provides an indication of how strongly a particular economy has been affected by the economic crisis, and how long that affect has persisted for. The data is collected at the NUTS 2 level (a standard statistical unit in the EU). We are then using other statistics to seek to explain why some places are more badly affected than others. This uses a range of economic analysis techniques.

Measuring Tools 2: Qualitative analysis

The second key part of the study is to explore why some places are more, or less, resilient than others. This involves 8 case studies drawn from different parts of the EU. Each case illustrates some common features and some which are more particular. This enables us to identify how different features contribute to creating more, or less, resilient economies. The case studies are based on regions in Ireland, Estonia, Poland,

Italy, Greece, Germany, Finland and the UK. The UK case study is Wales.

Findings

Simple analysis of the change in levels of employment (2007-2009) illustrates that there is a very clear geography to the economic crisis. Those countries shaded in dark blue have held onto employment better than those in lighter blue.

Looking at how the picture changes after 2009 illustrates how the crisis has persisted in some economies longer than others, whilst others that were badly affected in 2007-2009 have

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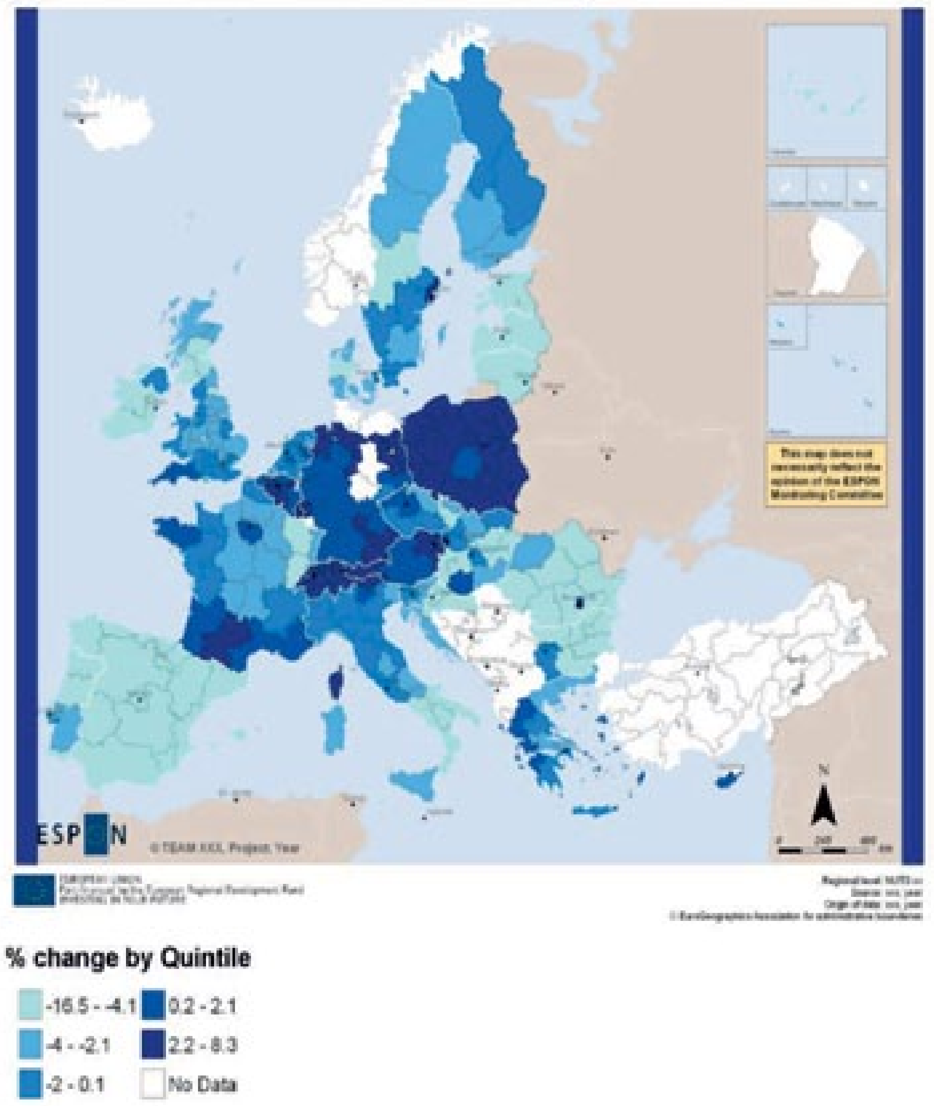
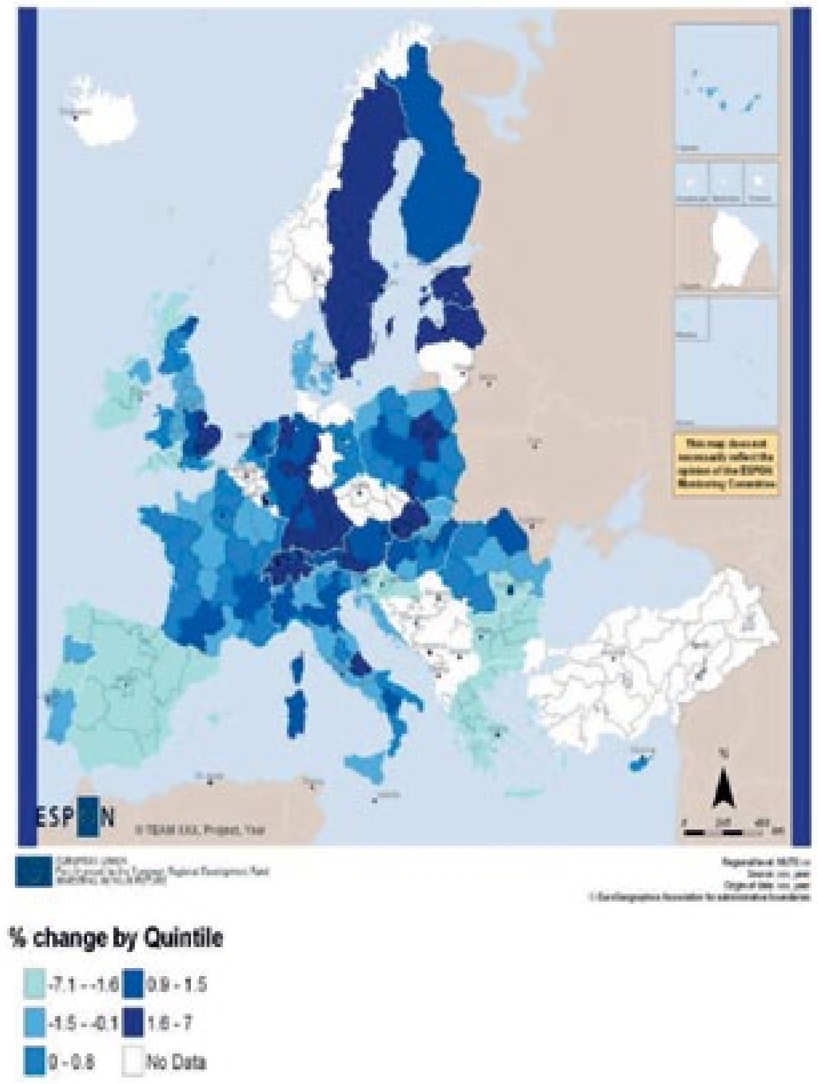
Percentage change in headcount employment between 2007 and 2010 by NUTS 2 area



Percentage change in headcount employment between 2010 and 2011 by NUTS 2 area



begun to 'bounce' back since 2010. Annex 1 provides some comparative data through which to explore those EU countries most affected by the crisis and to illustrate the sectoral dimension involved. Annex 2 provides an indication of which regions appear to have been the most 'resilient'.

Examination of datasets going back to the 1990s begins to suggest that whilst economic crises are a recurrent phenomenon the geography of each crisis varies. This suggests that resilience is not a stable or static phenomenon but that some common features might be at work.

A large proportion of this geography of resilience can be explained by the economic structures present in different places. This refers to factors such as the diversity and range of their businesses, the extent to which they have businesses which are performing well in the global economy, as well as factor such as how open they are to new business and trade opportunities and the ability of their governments to continue to maintain levels of public spending.

However, there are also some more qualitative factors at work. These often relate to the choices being made by households, firms and public bodies. For example, individual businesses might cut the working hours of their employees to be able to keep them in a job rather than have to make them redundant. Workers might take a pay cut or rely more on the informal economy rather than the formal one. Understanding how these individual choices begin to build up in to larger patterns of behaviour and influence levels of economic resilience is the subject of the next stage of the study.

Conclusions

- There is a clear geography to the current economic crisis. There is also a geography of resilience emerging, which illustrates how some places are better able to withstand the economic crisis and others are able to 'bounce' back more strongly.

- In considering the economic resilience of regions we need to understand the role of businesses, and their decisions. We also need to consider the role of people, how they contribute to the human capital available, and the decisions that they take (whether to stay or migrate for example). We need to take into account community features (the extent to which people 'pull together' in times of hardship) and the role of the place itself.

Annex 1: Comparative data

Impact of the Recession 2007-11

Source: European Commission (presented at ESPON Open Seminar, Dublin, 13 June 2013)

Annual average % change 2007-2011	Employment					Gross Value Added				
	Very high impact	High impact	Moderate impact	Low impact	EU-27	Very high impact	High impact	Moderate impact	Low impact	EU-27
Agriculture, forestry and fishing	-3.1	-1.7	0.8	-1.6	-1.1	0.7	0.4	1.3	-1.6	0.8
Industry (except construction)	-4.8	-2.5	-2.9	-0.5	-2.2	-1.1	-2.6	-1.9	0.4	-0.9
Construction	-15.2	-2.8	-1.3	2.1	-3.0	-8.6	-4.8	-2.1	1.7	-2.9
Wholesale and retail trade, transport, accomodation and food services	-1.8	-0.4	-0.2	0.9	-0.1	-0.1	-1.5	-0.7	1.5	-0.2
Information and communication	0.2	1.0	0.5	0.1	0.4	2.5	1.8	1.1	3.6	1.9
Financial and insurance activities	-1.1	0.1	-0.3	0.1	-0.1	-1.8	1.3	-0.7	0.8	-0.2
Real estate activities	0.2	0.9	-0.8	1.8	0.3	0.2	0.2	1.2	0.9	0.8
Professional, scientific, technical, administrative and support services	-0.1	0.8	0.6	3.4	1.5	-0.5	-1.0	0.1	-0.2	-0.2
Public administration, defence, education, health and social work	0.7	-0.4	0.9	1.4	0.8	1.2	0.2	1.3	1.6	1.2
Arts, entertainment, recreation, other services, services employed by households & extra-territorial bodies	-0.5	1.4	1.0	0.7	0.7	0.5	0.9	0.4	0.2	0.4
Total	-2.8	-0.8	-0.1	0.9	-0.3	-1.1	-1.0	-0.2	1.0	0.0

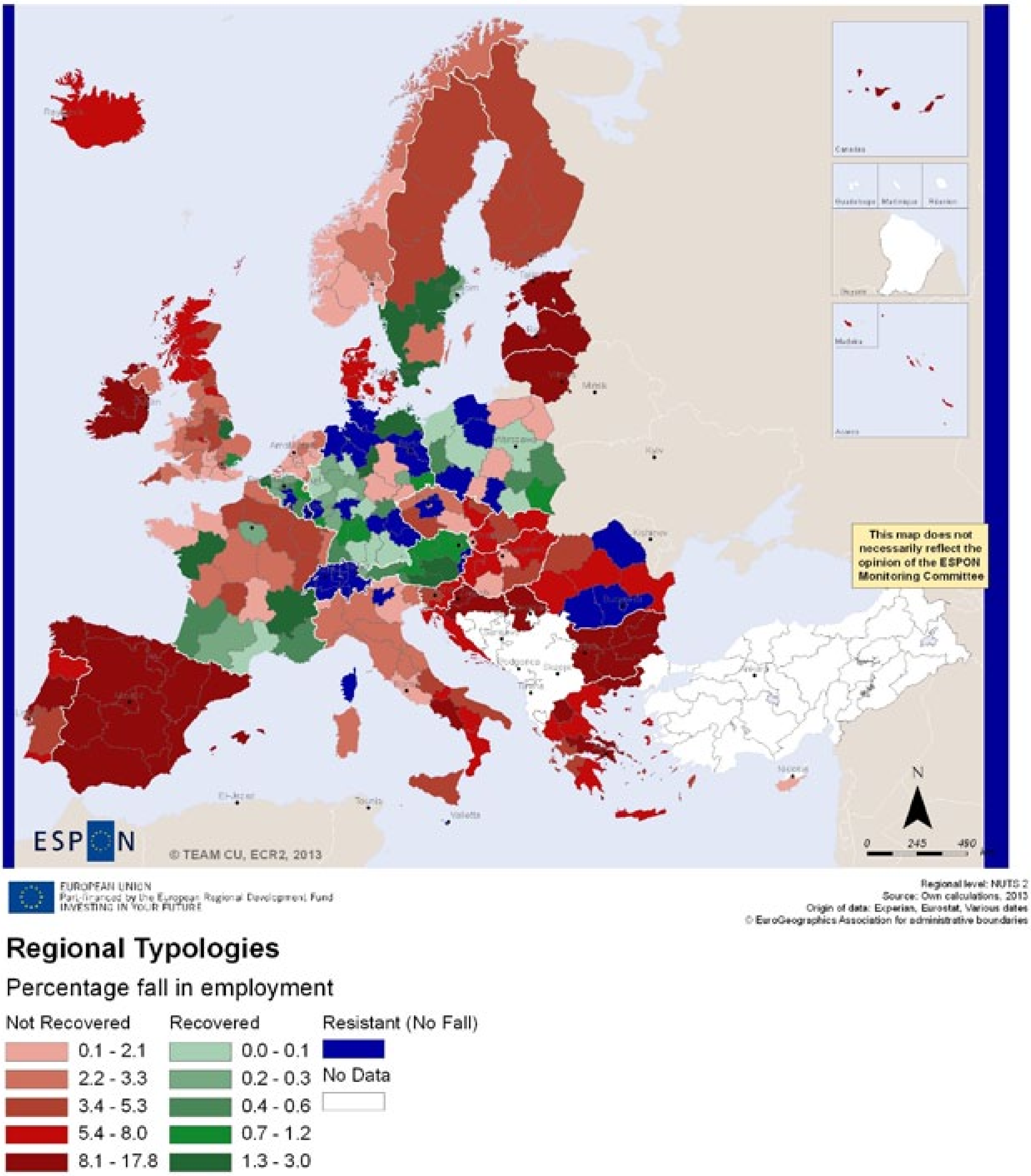
Impact of the Recession 2007-11

Source: European Commission (presented at ESPON Open Seminar, Dublin, 13 June 2013)

Impact of the recession	Average annual change in GDP and employment in %, 2007-2011	Countries		
Very High	< -1.5	Latvia	Ireland	Greece
		Lithuania	Estonia	Spain
High	> -1.5 and < -0.5	Portugal	Denmark	Hungary
		Bulgaria	Italy	Slovenia
Moderate	> -0.5 and < 0.5	UK	Romania	Finland
		France	Netherlands	Czech Republic
Low	> 0.5	Cyprus	Sweden	Belgium
		Austria	Germany	Slovakia
		Luxembourg	Malta	Poland

Annex 2: The resilience of regional economies to the 2007/8 crisis

Response to crises



Acknowledgements

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Further information

How have world shocks affected the UK economy: http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q206.pdf