

ROUTLEDGE STUDIES IN THE MODERN WORLD ECONOMY

Global Economic Crisis and Local Economic Development

International cases and policy responses

Edited by
Jason Begley, Dan Coffey, Tom Donnelly
and Carole Thornley

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Global Economic Crisis and Local Economic Development

This book offers a collaborative investigation of the policies and practices which have redeveloped local and national economies in the aftermath of the global economic crisis which erupted in 2008. It explores 'localised' models of economic development, including problems of diversity and balance and the role of firms, industries and clusters, alongside comparative studies of policy responses to the crisis at local, regional and national levels.

Global Economic Crisis and Local Economic Development seeks routes for economic development in a post-crisis world. The roles of innovation, entrepreneurship, knowledge infrastructures, public policies, business strategies and responses, as well as global contexts and positioning, are explored as investigative themes which run throughout the collection as a whole. This text brings together a range of international disciplinary experts from economics, geography, history, business and management, politics and sociology. Its coverage is comparative and global, with contributions focusing on the USA, Japan, China and India, as well as European contexts and cases.

This book is of value both for the intrinsic quality of its individual studies and for the contrasts and comparisons enabled by the collection when viewed as a whole. It has an accessible but rigorous style, making it ideal for a range of users including academics, researchers and students who study economic development and regional development.

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1 Introduction

*Jason Begley, Dan Coffey, Tom Donnelly
and Carole Thornley*

This collection of studies is a collaborative investigation into the policies and practices that have sustained local communities in the context of the global economic threat which exploded in the economic and financial crisis of 2008–2009 (the first manifestations of which, particularly in the USA, were already becoming evident in 2007), and which offer routes towards building (or rebuilding) secure models of economic development. For this purpose, it brings together a range of international experts drawn from a number of disciplinary backgrounds: economics, geography, history, business and management, politics and sociology. Case analyses and policy appraisals carry the reader through the issues facing local economic development in the wake of the crisis, married with empirical and conceptual overviews of policy strategies, including strategies for innovation and less fragile forms of economic development. The coverage is global, with contributions focusing on China, India, the USA and Japan, as well as European contexts and cases, with levels of analysis ranging from cities to the national and international.

Faced with the difficult realities, the guiding spirit of this collection is to accept that there is ‘no single best way’ which all regions or localities should follow. It is intended rather to add to the research and policy-oriented materials now being debated around the world as to questions of resilience and recovery in the wake of the crisis. In keeping with this, no attempt has been made by the editors to coax a ‘consensus’ of inferences or conclusions from its contributors, since the aim is not to fix upon a formula. A variety of perspectives are offered: conceptually and empirically grounded approaches to a complex terrain where policy actions have ranged from state-sanctioned programmes of rationalisation and restructuring, nationalisation and pump-priming, to policies for sustainable growth and innovation at the more local, regional or sectoral level. The balance of the book emphasises the latter, but alongside broader purviews.

The economic and financial crisis and its fallouts

Precisely when writers tend to date the crisis partly reflects the point at which it manifested most obviously in their own economies. But its general contours, since rehearsed many times, are now familiar ones. There was a preceding

interval which even in its own time was being called 'the great moderation', a phrase that was popularised internationally by Ben Bernanke,¹ twice chair of the US Federal Reserve, to capture an empirical phenomenon of reduced year-on-year variability in national output indicators growing around a positive trend. This ostensibly began in the middle part of the 1980s. Events have since called for a rethink; but even in the midst of this interval we should recall not only that there were still sharp recessions in individual economies but that these years saw the South East Asian crisis, the travails of Japan, and so forth. It is not unjust to criticise proponents of the great moderation thesis not only for insensitivity to underlying problems, but also for prioritising America and Western Europe.

Be this as it may, the great moderation was posed partly as a question that hinged on the relevant sense of prosperous times. Explanations often ran in terms of structural changes successfully realised and improvements to institutions successfully accomplished, as well as new technologies. Other factors, owing more to serendipity than design, include an overlapping slump in oil and energy prices, the run-up to the crash being marked amongst other things by a surge in the trading value of oil. The prospects of new markets and access to resources, vis-à-vis the new policies of openness being pursued in India, China and parts of Latin America, and the fall of the Soviet Union, were also material factors, as too were developmental trajectories in North and South East Asia.

But nonetheless, by the time the crisis struck it was apparent that the Anglo-American model of liberalised capitalism had been riding a wave of rising household indebtedness, compensating an extended period of depressed wage growth to fuel a consumption binge for those able to access credit (sometimes on absurd and, in the case of American poor and minorities, discriminatory terms) on the back of housing bubbles. By the time the crisis entered its 'panic phase'² with the March 2008 bankruptcy of Lehman Brothers, and a series of major rescues including the likes of Merrill Lynch, American International Group (AIG), Freddie Mac and Fannie Mae in the USA, and while financial journalists struggled to explain debt swaps and derivatives to readers, there had already been major revelations that all was not well in American and European finance. As the scope of the crisis spread, it spilled over into real economy activity, with conditions best described as depressed growth following sharp contractions in the West, with differential impacts and national policy responses further away from the Western epicentres.

While national incomes have restored somewhat in the USA, Britain and Northern Europe, the southern expanses of the Eurozone region remained depressed by austerity; and even amongst seemingly recovered nations, best-case scenarios are notably fragile. Moreover, as the first shock of the crisis years of 2008–2009 has faded, and as familiarity has resigned commentary to Europe's unresolved problems, pessimism is already turning to the potential third wave in the series of shocks: the initial breakout of the financial crisis, and ensuing slump, being first; the crisis of the Eurozone second. Capital flight from emerging market economies, in a context of (once again) falling oil and commodity prices, and the eventual expected tightening of financial conditions – although the interest rates

set by central banks remain, like the yield on bonds newly issued to fund government borrowing programmes, suppressed in both America and Europe – is seeing pessimistic notes struck by the World Bank. As its chief economist notes, in a survey pointing to difficulties for low- and middle-income countries: ‘Global growth has yet again disappointed, especially but not surprisingly in oil exporters and large developing countries’ (World Bank 2015: xiii). How things might look even a year after this present collection appears in print – whether better or worse – is difficult to guess.

Resilience and recovery

But even radical uncertainty of this kind is not an excuse for failure to reflect on questions of local economic resilience and recovery, and on national cases and contexts. As will quickly become apparent, the contributions in this collection are concerned not so much with the details of the crisis to date, or global prophecy on crises to come, as with what has provided or will provide resilience, promote recovery and promise sustainability on the basis of selections of evidence and cases to date. In keeping with this, the micro-studies aimed at local, regional or sectoral levels in this collection show accordingly a preoccupation with policy and with what makes policy effective – most particularly, but not exclusively, from the viewpoint of business growth. The other side of this, of course, is that the absence of the requisite combinations of factors that contribute to desired outcomes means that some localities or regions, whatever the initial impact of the crisis, have since struggled to recover more than others. These are complemented by broader overviews of policies and outcomes on the national or supra-national plane, but likewise focused on question of aptness and sustainability.

Some prominent threads run throughout the individual studies. There is, for example, an awareness of the abiding importance of manufacture, whether in business innovation, an area in which net investment is known to have potentially significant spill-overs, or in the case studies of particularly (or potentially) successful post-crisis localities.³ The changing contours of the world economy and the balance of industrial strengths provide a backdrop, not least in the prominence given in a number of studies to Asia. This does not mean that services are neglected: diversity and balance are also recurring themes. The ways in which policy interventions affect growth – the role of firms, industries and clusters; entrepreneurship; knowledge infrastructures; skills; access to institutional support and resources – figure as prominently as one might expect. There are concerns too with inequalities, whether between regions or social groups. Another form of inequality highlighted is how differential access to central decision makers affects the ability of localities to leverage funding and make connections. The importance of further education, of graduates, of universities, is similarly evident, and likewise the central importance of the geographical dimension for policy issues.

While we will not attempt an exhaustive list, it is notable that the gendered aspects of policies and outcomes figure prominently in several of the studies, in each case in relation to the career prospects and rewards for women, explored in

both instances in connection with a discussion of the deteriorating position of wage earners. The overall effect of economic crises and policy responses on the position of women is a critically important question, albeit one that is sometimes still easily overlooked.

Taken together, the studies in this collection offer a series of perspectives on some of the most important issues that are essential to effective public policy formulation in the aftermath of the shocks to hit the global economy. The question as to whether local or regional strategies offer meaningful solutions in a context of global travails will be admitted by all readers, whatever their own vantage points, to be a key one: do models of more local forms of economic development, as too models drawing on industry specific experiences, exist as ways forward in light of still ongoing economic trauma? There are also questions as to the appropriate levels upon which to understand local economic development in its practical contexts, and here a broader sense of the major issues and dilemmas facing economies on the bigger planes is also essential. Sensible policy must accept practical complexity, with multiple layers of causation. With this as a guiding motto for the studies which follow, we turn to the individual contributions.

Chapter studies and progression

The individual chapter contributions broadly divide into several categories in terms of their thematic positioning within the organisation of this book. The first set relate to questions of renewed or continued growth and innovation, whether applied to businesses at large or to specific localities, regions or industries. The second relate to comparative national and supra-national responses and contexts vis-à-vis the crisis.

Chapter 2 by Jonathan Michie and Christine Oughton ('Creating local economic resilience: co-operation, innovation and firms' absorptive capacity') explores what is required to promote innovation that will rebalance an economy, foster corporate diversity and create regional resilience. It points to the increased significance of 'resilient regions'. Like economic balance and economic diversity, resilient regions are to be seen as national assets in the context of global competitive pressures. Drawing on the lessons of their previous research, Michie and Oughton highlight the importance of cooperation and collaboration between firms for innovation – expanding expertise and developing specialist products in pursuit of corporate objectives – and of developing public policies conducive to this. This includes public policy to also promote cooperation between firms and universities, to facilitate technology transfers for products and processes. The research question posed for purposes of econometric investigation is 'whether innovation performance can be enhanced by co-operation and, if so, what determines firms' propensities to cooperate with universities'. The authors propose that in practice cooperation and innovation are jointly determined subject to the absorptive capacities of firms; absorptive capacity in turn is measured by firms' ability to obtain a positive pay-off from cooperation. Hence, in addition to

promoting firm-university links, public policy must look to increase firms' absorptive capacity. This theme is rigorously explored using European Community Innovation Survey (CIS3) data.

In keeping with the observation that an assessment of what makes for success may point too towards factors that help explain failure, the authors of this opening study identify what they describe as a 'regional innovation paradox'. This is that lagging regions, where firms have the greatest need for innovation, are also regions whose firms are likely to demonstrate the lowest capacity to absorb the potential benefits of policy support, engage in collaborative innovation activities and exploit relationship incentives.

Chapter 3 by Rupert Waters and Helen Lawton Smith ('Global economic crises and local fortunes: the case of Oxfordshire and Buckinghamshire') explores how two dissimilar local economies in England have fared since the crash. Despite challenging times, each of these localities – Buckinghamshire and Oxfordshire – has in fact done well, despite some marked differences explored by the authors: in business demography, public sector employment and research assets. Drawing on comparisons based on national data-sets, the authors ask what explains their similarly strong performance notwithstanding such differences: Why has each proved resilient, notwithstanding obvious disparities in the resources open to them? In this respect Waters and Lawton Smith contrast positive policy responses and policy evolution, assessing the comparative exploitation in each locality of government-sponsored but locally rooted economic partnerships bringing together businesses, local government and other interested parties. It contrasts the strategies adopted by Oxfordshire, with its large and internationally renowned education base and substantial public sector (including the University of Oxford), as well as significant private sector employers in areas including automotive, with that of Buckinghamshire, less initially successful in winning funding from official programmes and, lacking Oxfordshire's advantages, reliant to a much greater extent on micro-businesses, but contriving nonetheless to create 'a unique set of economic development actors'.

Waters and Lawton Smith emphasise that both of these English regions, despite manifest differences, have not only done historically well in absolute terms, but are now pushing ahead of other British regions that have suffered more from the crisis. As with the opening study in this collection, knowledge-intensive sectors and knowledge infrastructures are also considered important, including for manufacture, as too levels of connectedness shown between firms and other key institutional actors. Another main lesson drawn is the significance of inherited industrial structures – of clustering and agglomeration, with associated patterns of entrepreneurship and innovation as well as access for businesses to resources and links with institutions.

Chapter 4 by Michael Best ('Regional capabilities and industrial resiliency: specialization and diversification dynamics in Lowell, Massachusetts') is a fascinating and highly detailed chapter which further explores similar questions of regional capabilities and industrial resilience, in an original and substantive fashion. Employing the case study of specialisation and diversification dynamics of

regionally co-located high-tech companies in Lowell, Massachusetts, this uses a 'dynamic capabilities perspective'. Here, Lowell's high-tech companies serve as an industrial laboratory to examine business specialisation and diversity, aided by an historical database of high-tech companies designed to discover regional production and technology capabilities. For Best, the experiences of Massachusetts in resilience and renewal continue to confound many, and require an understanding that the regional growth process is more complex and interactive than is commonly acknowledged. He demonstrates that today's high-tech companies are members of specialised groups that both leverage and renew long-established regionally distinctive production and technology capabilities and skills. More specifically, the region in question is particularly strong, today as yesterday, in instrument making, machine tools and industrial equipment. Renewal and self-organising scale-up processes are illustrated with recently established groups of network communication equipment and software tools companies.

It is proposed that both groups illustrate the contribution of an 'open systems' business model to the renewal of regional production and industrial innovation capabilities which underlie the Massachusetts region's resilience to the pressures of global competition. One notable feature in this highly thought-provoking chapter, which engages with subtle literatures in subtle ways, and which will also undoubtedly generate wider interest in the impact of local histories and cultures on local economic development, is the argument that economic downturn can actually be functional to regional renewal processes – an imaginative and vital insight in the context of global economic dislocations.

Chapter 5 by Ian Taplin and Minh-Trang Thi Nguyen ('From recession to re-industrialisation: a case study of employment changes in North Carolina') similarly explores the renewal of domestic US manufacture, while confronting a worrying dilemma that faces many of America's Southern states: Is this overly dependent upon low entry-level hourly wages, low tax rates, union-free sites, and state and local government subsidies, or do other avenues for recovery present themselves? To this end, the authors explore structural change in North Carolina, a Southern state historically prone to the pursuit of low-wage business strategies, and with particular regard to the revival of its manufacturing fortunes in its traditional industries of textiles and furniture, and in a range of other sub-sectors including household goods and appliances and precision instruments and equipment. In the broader context of America's prospects for reindustrialisation, they criticise wage-depressing strategies as sitting badly with the needs for sufficiently qualified workers possessing at least basic engineering and computer literacies and post-secondary levels of education. The critical issue, as Taplin and Nguyen see it, is whether the incentives packages offered by North Carolina to attract inward state investment will combine with the emergence of dominant high-road strategies – in which businesses provide more extensive worker training, in partnership as needs be with local community colleges and other institutional actors and incentivised through higher employee wages, autonomy and workplace involvement to underpin retention of skills – or whether the costs and the risks will prove too unattractive, and wage depression will continue.

While manufacture is again pinpointed as a key sector, full play too is given to the spread of economic activity across industries: finance and insurance, health care, real estate, rental and leasing, and agriculture are also essential to the state economy. But it is intriguing to note the weight that Taplin and Nguyen give to players on the international scene in co-determining the manufacturing prospects of the American state: the impact of the Asian export-led model of economic growth on North Carolina – including Chinese and Indian textile firms – runs as a thread through the study as a whole. In competition with America's rust-belt, and taking advantage of proximity to America's eastern seaboard and southern sun-belt markets, North Carolina has been directly impacted by the evolving balance of international advantages, another policy concern. This study is also notable for the weight given to changes in female employment prospects.

Chapter 6 by Anthony D'Costa ('Institutional change, industrial logics, and internationalization: growth of the auto and IT sectors in India') focuses on two sector-level studies for the Indian subcontinent: information technology (IT) and automotive. This takes us to the world as it seems from the other side, but looking not so much at the traditional staples of the Indian economy like textiles, as at newer successes. The case study sectors are chosen not only for their success but for their differences: one (focusing mainly on software services) is a highly tradeable service, the other (focusing on passenger cars) a high-value-added consumer durable manufacture. While developments in each represent seeming departures from earlier industrial trajectories in India, D'Costa explains how successes in each are only partly the outcome of institutional change in the form of new rules governing how the Indian economy works, and its increased integration into the international trading economy: there are also particular initial conditions and industrial logics at play that have also been essential to the dynamics of growth in each of these two sectors. D'Costa favours a vantage point that is influenced by a longer evolutionary perspective, and which acknowledges the Indian state as a critical and essential actor, initially protecting India's industrial sectors from exposure to the world market but gradually 'reconstituting itself'. In the course of this careful investigation, the author leads the reader through contexts, analysis of markets, industry structures and business models, foreign direct investment, outsourcing and the positive linkages between industrial development and macro-economic growth. The study also draws attention to and explores the impact of India's diaspora on its prospects.

If the Indian case studies serve as further conceptual and empirical contributions to the themes explored in the opening set of chapter contributions, they also bridge a change in focus in the second half of this book, towards questions of how national economies have positioned their overall responses to problems of economic dislocation. In D'Costa's study, the 'big picture' emerges in the contexts informing the complex trajectories of two rising industrial sectors that have helped change the face that India presents to the world. In the studies to follow, the exploratory lens is more squarely directed towards explorations of broader comparative features: for Japan, China, America and Europe.