Local growth evolutions: recession, resilience and recovery

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Capitalism as a shock-prone system

Change is one of capitalism’s constants. It never stands still, but is in a state of constant churning, as old firms, products and technologies decline or disappear, and new firms, products and technologies emerge. It is this constant process of mutation and flux, what Schumpeter famously called ‘creative destruction’, the ‘perennial gale’ of structural and technological change, that drives the evolution of the economy, “incessantly destroying the old one, incessantly creating a new one” (Schumpeter, 1942, 83). But this process is unlikely to be spatially neutral: the new does not necessarily emerge in the same places where the old is destroyed. Nor need it be synchronised in time: though over the medium to long run, creative aspects outweigh the destructive (otherwise, development would not occur), there may be episodes when destructive effects outweigh creative effects, especially in particular places. Furthermore, change under capitalism may be ongoing and incessant, but it is not simply incremental. The growth and development paths of an economy are punctuated and disrupted periodically by major shocks, both positive and negative. Even positive shocks such as a formative advance in technology, can have negative local effects, by virtue of rendering a locality’s industries or firms uncompetitive or even obsolete. And while a major economy-wide negative shock, such as deep recession, is likely to be felt almost everywhere, its impact may be much more severe, and longer lasting, in some localities than in others. It is this question, of how localities are impacted by and recover from major recessions, that is the focus of the papers in this issue.

Recessions, of course, are an inherent feature of capitalism. Ormerod (2010), for example, estimates that there were no less than 255 instances of recession in 17 Western countries between 1870 and 2007 The economic literature on recessions is vast, and various theories have been advanced as to why recessionary shocks occur and what sort of policies might mitigate their severity and duration. Most of this literature is macro-economic in orientation, and by comparison the study of the local and regional impacts of recessions is much less extensive. To be sure, during the 1970s and
early-1980s a number of economic-geography studies appeared concerned with measuring the varying sensitivity of regions and cities to the ‘business cycle,’ and seeking to explain those variations in terms of differences in industrial structure and other such characteristics. And the topic also attracted some interest in regional science and regional economics. But in general, interest in the subject waned somewhat. In regional economics the focus shifted to long-run regional growth patterns (and especially regional convergence), while in economic geography (and regional studies) attention turned to a plethora of issues, such as regional innovation systems, production networks, clusters, institutions, and the like. But over the past few years, interest in the local and regional impact of recessionary shocks has been rekindled (for a USA study, see Wilkerson, 2009; for the UK, see Fingleton et al., 2012; for Europe, see Montoya and De Haan, 2008; for Greece, see Panteladis and Tsiapa, 2011; for Japan, see Hayashida and Hewings, 2009). The Great Recession of 2008–2010, arguably the most severe and most prolonged economic crisis since that of the early-1930s, has undoubtedly fuelled this revival. Few localities, cities and regions have escaped the force of this historic shock, but its precise impact and implications have rightly become the focus of enquiry.

It is in this context that the notion of resilience is particularly relevant. This concept has attracted considerable interest within regional studies and economic geography in the past few years (see, for example, Bristow, 2010; Cellini and Torrisi, 2014; Christopherson et al., 2010; Fingleton et al., 2012; 2015; Hassink, 2010; Hill et al., 2008; Martin, 2012; Martin and Sunley, 2015; Ormerod, 2008; Simmie and Martin, 2010). Different definitions of resilience have been advanced in the regional studies literature, but all have to do one way or another with the ability of local, city or regional economies to recover from shocks and disruptions: how severely they are impacted, how fast they recover, and how they recover, for example in terms of self-restoring mechanisms, policy interventions and structural change and adaptation. Most of the papers in this special issue are concerned to a greater or lesser extent, and from one vantage point or another, with one or more of these aspects of resilience, and what it means for local economic growth and policy.

**Recession, recovery and long-run local economic growth**

While resilience is a broad and increasingly promiscuous concept, its application to regional and local economic growth raises a series of important questions about the performance and dynamics of local economies in times of crisis and stress. As Martin and Sunley (2015) argue the first task for geographies of economic resilience is to identify and explain how regions and localities have responded to shocks. The second task is to explain the causes of these responses, bearing in mind that these causes will be multiple and interactive. Many of the papers in this special issue start to address these challenging tasks. Existing research indicates that local responses to economic shocks are not constant across cycles but vary with the specific origins and character of each recession. Resilience not only involves mechanisms of change and robustness, but it is also something that itself appears to evolve through time. While many of the papers in the issue focus on the recent recession, and the immediate recovery period, they do so in the belief that this provides a window into longer term patterns of continuity and change in economic performance. The diversity of papers illustrates how resilience can be measured and operationalised in different ways. While many of the papers use standard economic indicators such as gross value added (GVA) and employment, others examine more specific forms of resilience as measured by indicators such as firm births or patenting. Doran and Fingleton (2015) examine the resilience of individuals’ wages to the Great Recession across local areas in the USA.
They find that both individual characteristics and local market potential are significant causes of the level of wage decline. By doing so their micro-perspective reminds us that recessions have distributional consequences and we need to specify resilience for whom.

One of the imperatives for local economic research is to understand how responses and outcomes during a period of crisis and recession shape, and are shaped by, longer term processes of change and adaptation. In most cases it appears that recessions act to further weaken economies in relative decline. For example, Lagravinese (2015) shows how the recurrent recessions in Italy have exacerbated the country’s severe regional imbalance as Southern regions have repeatedly failed to rebound. There appear to be few instances where a recession acts as a transformational force to trigger a rapid turnaround in growth. In regions with weaker growth, recessions do not typically represent an environment that is conducive to radical innovation and the generation of new technological paths. However, the relationships between recessions, markets and innovation are not straightforward as they are mediated by firm strategy, political agency and culture. Graddy-Reed and Feldman (2015) examine a North Carolina survey and conclude that enterprises committed to social innovation, irrespective of their legal or organisational type, were more proactive in recession and intensified their environmental and community support rather than prioritising cost-cutting strategies. Using local data on firm demographics for Britain between 2004 and 2011, Huggins and Thompson (2015) find that local culture and its openness and diversity may be more important to entrepreneurial resilience and the buoyancy of firm birth rates than a recent track record of growth. Bristow and Healy (2015) similarly argue that decisions emerging from co-evolutionary complexity may have long term consequences for growth. They suggest that the Welsh economy in the recent recession has been dominated by a ‘getting-by’ approach which has managed and restrained job reduction, but has not led to a transformational type of resilience that has launched new growth paths. The interactions between short-term resilience and longer term adaptability deserve more analysis. In some cases, these longer-term processes, economic adaptations and responses to slow-burn changes and pressures are also labelled resilience. According to Balland et al. (2015) such processes constitute an ‘evolutionary resilience’ which they define as the long term capacity of some regions to generate new technological knowledge. They use patenting in American metropolitan areas as an indicator of this capacity and explore which types of patented knowledge are most conducive to the maintenance of this resilience during periods of patenting decline and technological uncertainty. A research agenda is clearly emerging around the institutional and policy determinants of ‘evolutionary resilience’ and the territorial and institutional politics behind the growth of new industrial and paths.

This collection also makes a notable contribution to understanding the diverse set of causes of differences behind local economic growth and its cycles. We can classify the various types of determinants as compositional, collective and contextual factors (Martin and Sunley, 2015; Martin et al., forthcoming). Compositional factors broadly refer to the sectoral/industrial structures and the occupational mix of specified economies, while collective and contextual factors point to relationships between agents and the ways in which these are situated within institutions, networks and wider divisions of labour. Lagravinese (2015), for example, argues that Italian regions with a higher employment share in service and public-sector based sectors are more resilient. On the other hand, Di Caro (2015) examines local growth patterns in Italy over the past four decades and argues that certain types of diversified manufacturing have been more resilient and this has shaped the fortunes of local economies. Brakman et al. (2015) suggest that
Local resilience as a policy focus

Understanding more about the local and regional impact of recessionary shocks is clearly not just an academic exercise. It is essential if policy makers are to find ways in which to overcome the more negative consequences but also, importantly, build on the new opportunities that may emerge for regions. It is thus of great value to identify the factors that influence a region’s resistance and ability to recover. The evidence presented in this special edition suggests that the concept of resilience can make a contribution in this respect. There are some key points to highlight.

Resilience emphasises the importance of understanding how a region’s response to shocks is conditioned by where it comes from; its history and how economic change over a long-period of time has influenced its ability to adapt and adjust. There is now an emerging body of research that shows that this is not simply a matter of recognising whether a region has a highly concentrated or diversified economic structure (Martin et al., forthcoming). Rather, it is recognised that regional specific effects make a very significant contribution to the ability of a region to resist and respond to economic shocks in a way that builds their future economic momentum. These regional specific effects can take a number of different forms as Figure 1 shows, and each provides a rich and diverse array of possible opportunities for policy intervention.

The article by Pike et al. (2015) in this issue acknowledges the importance of governance and local institutions. They focus on the recent experience of the Local Enterprise Partnerships in England and highlight the complexity of managing successful local economic development in situations where there are evolving multi-agent and multi-scalar institutional environments that influence the ability of development agencies to manage, influence and shape economic development. Institutional endowments and legacies from the past have a significant influence on what can be achieved. As they comment “exhortations of localism...
alongside limited resources and capability meant that LEPs had to experiment, innovate and improve in trying to interpret and fulfil their centrally prescribed and locally influenced roles"; (201). We cannot therefore assume that localism and decentralisation inevitably act to enhance local economic growth and resilience. What matters is the form of decentralisation. Interestingly, **Xu and Warner (2015)** conclude that the decentralisation of fiscal responsibility to counties in the USA has been negatively related to employment growth. As fiscal austerity has been shifted to counties it has forced them to cut their developmental investments. **Dawley et al. (2015)** using the example of the promotion of the offshore wind in North East England and Scotland also highlight the importance in managing local development of “adopt[ing] a multi-actor and multi-scalar perspective, focusing on the roles of the state and regional policy interventions in mediating the creation of growth paths”; (257).

**Bristow and Healy (2015)** in this issue use insights from complex adaptive systems to understand more about agency and decision making within regional economies. They use the experience of Wales as a case study. They highlight the adaptive capacities of the region's actors as they have responded to the immediate economic crisis following the Financial Crisis but are unsure as to what are the implications for the ability of the region to improve the relevant economic and social outcomes over the longer term. They emphasise the importance of

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**Figure 1. How regions react to recession.**

*Source: Martin and Sunley (2015)*
developing proactive rather than simply reactive policy responses.

In their article Doran and Fingleton (2015) focus on the role of specific individual local labour characteristics on local labour market resilience in America over the period 2005–2011 using a measure based on actual wages in 2011 and a counterfactual obtained from a wage equation. They state that “In terms of economic policy, our findings relate to the debate as to whether intervention by Government should be place-based or people centred. It is apparent from our analysis that what matters are both people and places” (220). They point to the role for policies to increase investment in transport infrastructure to assist residents in “more isolated and deprived areas in addition to what could be achieved via channels such as education and training targeted at the individual” (221). The impact on resilience of a region having a relatively large share of its population within the commuting areas of large urban areas is a further theme examined by Brakman et al. (2015) and has implications for spatial planning.

Doussard and Schrock (2015) consider the evidence on the restructuring of US manufacturing over three decades and consider the implications for both understanding the changes observed and the role for policy intervention. They observe that “policy-relevant analyses of regional and industrial change need to account more clearly for the structured sets of contingencies giving rise to uneven spatial outcomes” (162). Building on concepts from evolutionary economic geography they “show how firm, technological, place and market-based contingencies shape divergent development paths within and, presumably, across industries” and conclude that “a renewed wave of comparative case study research is needed to assess which policy tools and institutions can influence regionally specific trajectories of industry growth and development over time” (163).

The articles presented in this issue seek to increase our knowledge of the determinants of local economic growth and the factors that influence the ability of areas to respond and adjust to the economic cycles that are such a dominant feature of capitalism. We are, as yet, only in the early stages of assessing how concepts drawn from evolutionary economics can assist our understanding but the objective must surely be to push on and build the required evidence base. This research imperative is reinforced by the focus in many countries on devolving to local areas and regions the responsibility for economic development policy. Thus, in England, the Local Growth White Paper (HM Government, 2010) initiated the localism agenda that Pike et al. (2015) in this issue discuss extensively.

The position in relation to the recently reformed EU regional development policy is also equally clear with its emphasis on the need to maintain an essentially local place-based approach. As Barca and McCann (2010) argue when it comes to promoting regional development a “place-based approach provides precisely the analytical lens required to properly tailor policy analysis, design and delivery to the context” (Barca and McCann, 2010). The thrust of the articles in this issue reinforces the need for those who formulate local policy to understand the core competencies of each local area as they have evolved and emerged across many economic cycles.

References


