Beyond the nation state: How European cities and regions responded to the financial crisis

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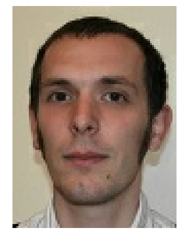
The financial crisis affected European countries in radically different ways, with some countries emerging relatively unscathed, while others suffered extreme economic problems that still persist today. But as **Riccardo Crescenzi**, **Davide Luca** *and* **Simona Milio** *outline, the effects were also substantially different between individual cities and regions. Based on recent research, they demonstrate which regions were best placed to weather the crisis and suggest that the presence of a skilled labour force was one of the key factors allowing certain areas to recover more quickly than others.*

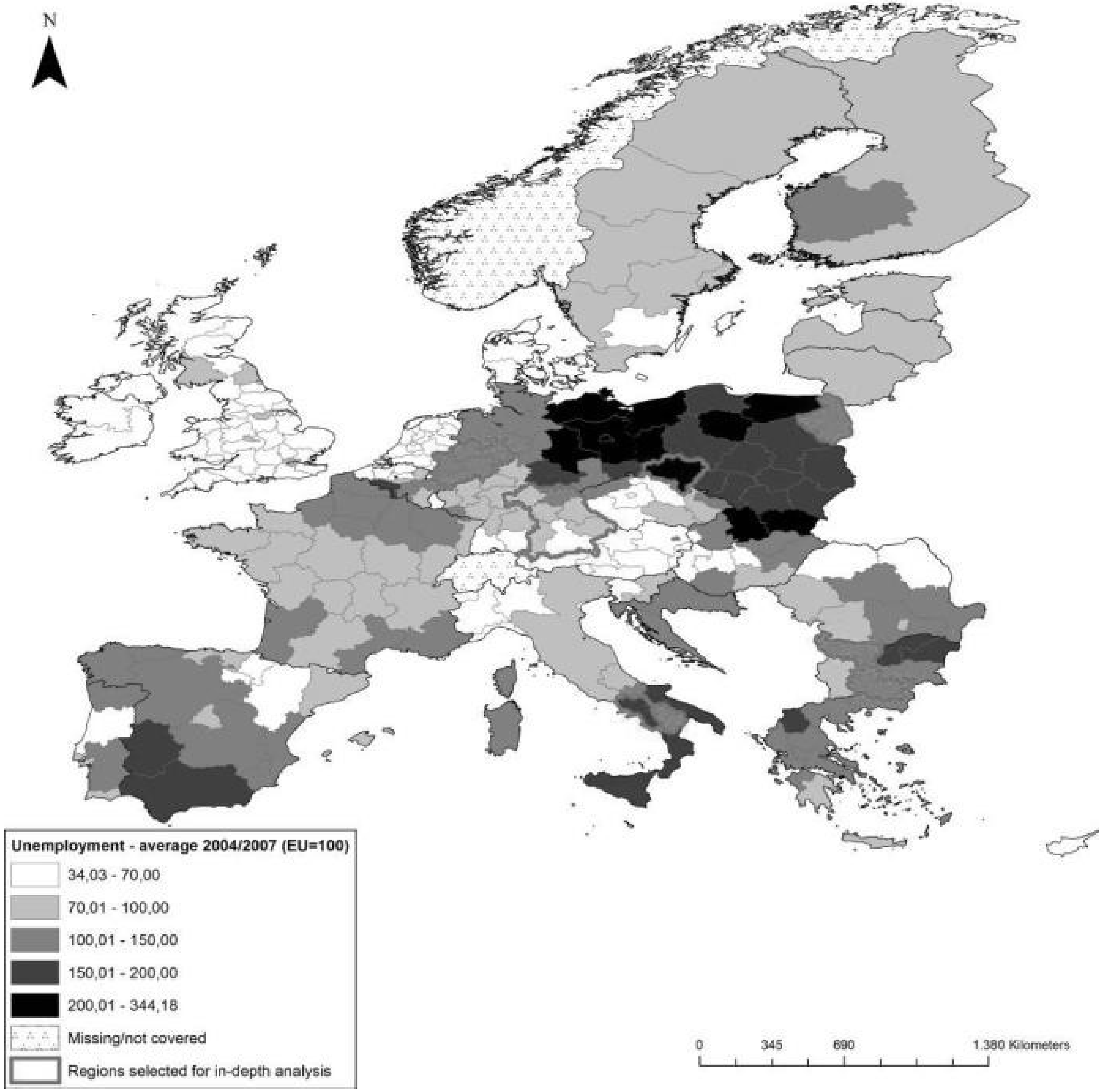


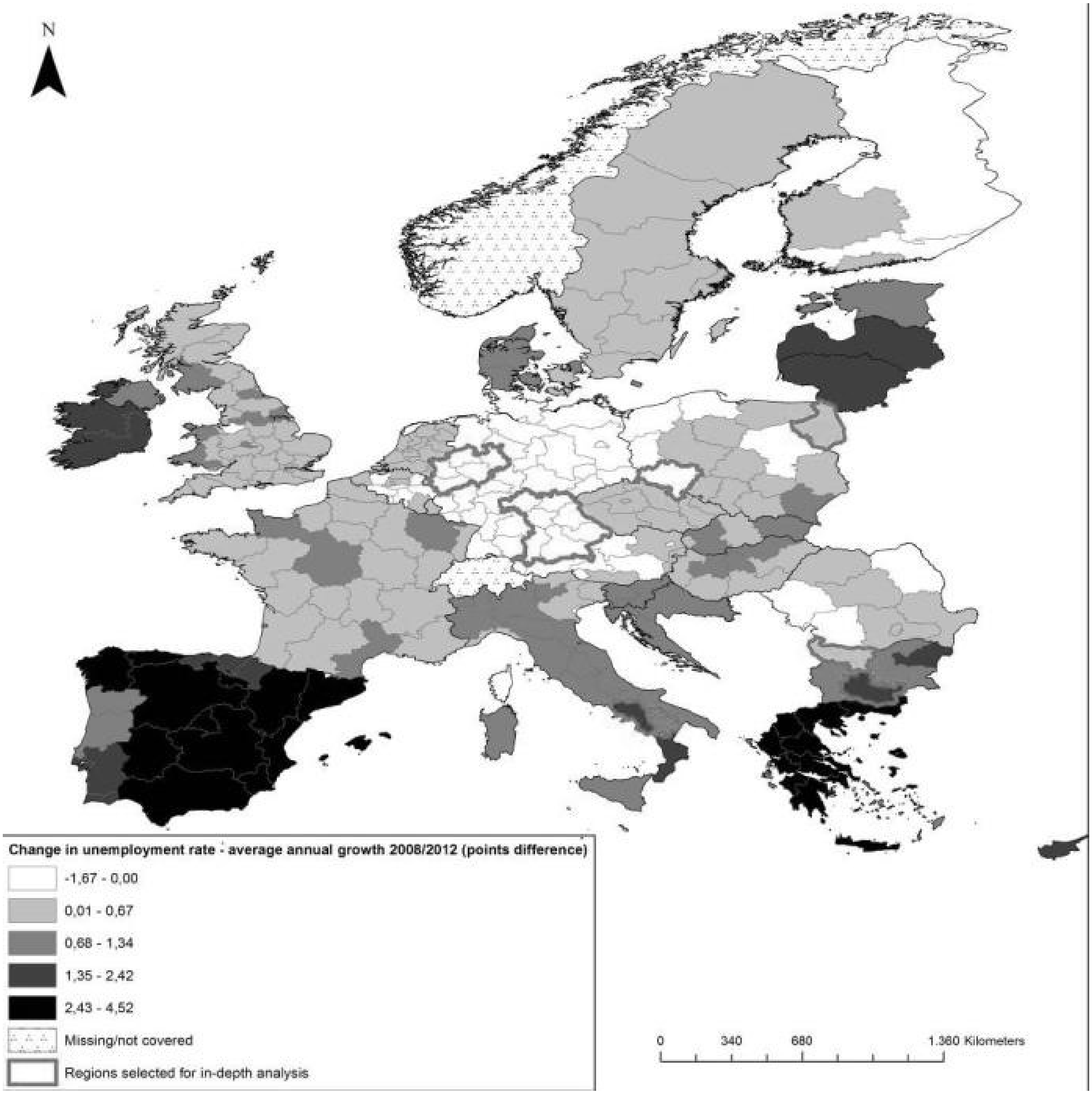
What regional variations have there been in the recovery from the financial crisis across Europe? In a recent study, we have mapped the impact of the crisis across 27 EU member states using key regional performance indicators. In doing so we explore the potential links between post-crisis economic performance, and pre-crisis economic factors that may have exacerbated or mitigated the negative economic impact of the crisis.

Four key conclusions emerge from this analysis. First, contrary to the common belief channelled by the media, the geography of the impact of the crisis cannot be captured by a simple North-South divide. The analysis of post-2008 regional economic trends unveils a core continental area, where the impact of the crisis has been low or moderately low.

This revolves around Germany, most of Poland, and partly stretches to neighbouring regions (such as most regions of Slovakia and the Czech Republic). This ‘core’ is surrounded by a ring of more peripheral areas where the impact has been high or very high and which include most of the regions of Ireland, Spain, parts of Italy, Greece, Cyprus, Lithuania, Latvia and Estonia, as shown in the figure below.

Figure: Average regional unemployment rate during 2004/2007 (above), and average annual variation of unemployment rates during 2008-2012 (below)


N
Unemployment - average 2004/2007 (EU=100)
34,03 - 70,00
70,01 - 100,00
100,01 - 150,00
150,01 - 200,00
200,01 - 344,18
Missing/not covered
Regions selected for in-depth analysis
0
345
690
1.380 Kilometers



Source: Crescenzi, Luca and Milio (2016) using Eurostat data.

Second, the evidence unveils a significant divide between the regions of the 'old' Europe and the new member states. In the 'new' member states – and in particular in the regions of Poland, Slovakia and the Czech Republic – the positive post-2008 economic performance seems to be driven by a process of structural and technological catching-up, while these countries still benefit from their relatively recent integration into the EU. Such processes seem to be able to balance the generalised downturn.

Third, the evidence highlights the importance of pre-crisis national trade patterns and government expenditure to the post-crisis recovery within individual regions. A healthy current account surplus is associated with a stronger economic performance and better regional employment levels during the post-2008 recession. Conversely, regions belonging to countries with a higher initial government debt did not experience worse economic performance in the short-run both in terms of economic output and employment. Of course, we do not claim any causal conclusion and this result does not necessarily suggest a sustainable long-term pattern. Yet, it provides preliminary evidence on the importance of active government policies before the crisis in mitigating the short-term impacts of subsequent recessionary shocks.

Finally, the results suggest that human capital is the single most important regional factor associated with better resistance to economic shocks. What matters is the capability of regions to identify short-term innovative solutions to a changing (and more challenging) external environment. This capability does not necessarily derive from technology-driven processes supported by research and development investment, but is more likely to be boosted by a skilled labour force.

While during the 2000s the EU invested copious resources in trying to raise research and development expenditure to 3% of GDP in all countries and regions, an increasing body of evidence has now shown that local research and development investments have only a weak association with regional innovation and growth, while human capital is a stronger predictor of long term regional growth and innovation.

This contrast is magnified when looking at short-term cyclical reactions to the economic crisis: human capital is key also to short-term resistance while regions with high investments in research and development are not necessarily in the best position to face a crisis. In the EU it is possible to identify several cases of 'cathedrals in the desert' where large (often publicly funded) research infrastructure remain completely disconnected from the needs of the local economic environment.

In order to assess whether the regional resistance factors identified in the study will be able to positively influence the recovery in the medium term, it will be necessary to wait for more up to date data on economic performance and employ more sophisticated statistical techniques. These results nevertheless provide European, national and regional policy makers with preliminary insights to assess the capabilities of their cities and regions to react to economic shocks and design adequate responses.

Hopefully, this new research will fuel a public debate on how to re-launch local growth and employment beyond austerity measures. The resistance of European cities and regions to economic shocks and their capacity to find a pattern of sustainable economic growth are premised on a combination of enabling macro-economic environments and balanced regional and urban policies. Whether current EU policies (from the macro to the regional level) can provide Europe with adequate answers to these challenges remains to be seen.

Note: This article is based on the authors' recent paper in the Cambridge Journal of Regions, Economy and Society. It gives the views of the authors, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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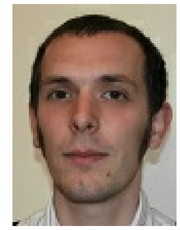

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