



Recession, Recovery and Reinvestment : the role of local economic leadership in a global crisis

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Local Economic and Employment Development (LEED)



**RECESSION, RECOVERY AND REINVESTMENT :
THE ROLE OF LOCAL ECONOMIC LEADERSHIP
IN A GLOBAL CRISIS**

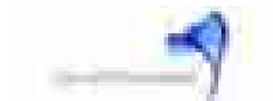
by

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on Development Agencies and Investment Strategies*



Ajuntament de Barcelona

Barcelon^activa



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FOREWORD

The OECD Programme on Local Economic and Employment Development (LEED) has advised government and communities since 1982 on how to adapt to global trends and tackle complex problems in a fast-changing world. It combines expertise from America, Australasia and Europe into pragmatic task forces that provide rapid responses and targeted advice on specific issues. It draws on a comparative analysis of experience from some 50 countries around the world in fostering economic growth, employment and inclusion. ***Much of LEED's accumulated expertise and research experience was born out of economic crisis.***

The work of LEED since 1982 to the present day has played a major part in establishing and gaining acceptance for the notion that local action, local policy flexibility and new forms of local governance in economic development are both desirable and essential as one element in meeting the challenges of economic crisis. While local action alone is not capable of solving acute local employment difficulties, it is clear that the resolution of such difficulties is harder in the absence of a local approach. A local community that lacks effective local action in times of crisis is a community impoverished in terms of its capacity to help itself escape from crisis conditions.

The local level is one of proximity to problems and stakeholders and thus one in which appropriate solutions can be sought. It is there that adjustments to the supply of and demand for jobs and skills can be made and particular types of incentives can be stimulated. This encompasses not only the design of policy measures, but also the mobilisation of policy agencies and users/beneficiaries as well. The local level is both the sphere of corporate competitiveness and the place in which unsatisfied economic needs and potential sources of jobs can be identified more easily. It is at this level that many job-producing projects, training schemes and social outreach programmes are formulated, selected, launched and sustained. The local level is also a place for the mobilisation and intervention of actors from the public sector, trade unions and employers, businesses, voluntary associations and community groups, co-operating within partnership arrangements.

It is no exaggeration to say that a "movement" emerged whereby, at the local level a broad spread of actors moved to create an environment of self-help

in dealing with the stresses caused in their locality by a rise in unemployment. All this took place against a background of crisis; there was an urgency about the action required which attracted the interest of national political leaders and the news media. This led to the adoption of a high profile for these initiatives and to the generation of a good deal of momentum to provide the financial and operational support required to create agencies at a local level whose defined objective was to create jobs through the promotion of enterprise.

This global crisis is like no other that we have experienced since the early 20th century. We have entered a period of great uncertainty whereby old values need to be reassessed. We are facing a global employment crisis which will demand action at all levels of government and require that all stakeholders are engaged – government, trade unions and business. This is the approach that LEED has advocated for the last 27 years. Our collaboration with Barcelona and The Work Foundation to analyse impacts, responses and challenges for the future in 41 localities around the world provides a new platform from which we can assert the value of local responses at times of economic crisis. The Barcelona Principles which emerged from a meeting in the city and which have been considered by the LEED Directing Committee are a clear foundation for recovery.

I am particularly grateful to Greg Clark, Chair of the LEED Forum on Development Agencies and Investment Strategies and to Debra Mountford from the LEED Programme who have led this work agenda over the last six months. In his capacity as Chair, Greg Clark, in collaboration with Joe Huxley and Emma Allen, has authored an outstanding and timely report which will be an invaluable aid to localities and national governments as they respond to this crisis. I would also like to thank Jordi William Carnes, Deputy Mayor of Barcelona, Mateu Hernandez, Executive Director of Economic Promotion for Barcelona and Alexandra Jones, Associate Director at The Work Foundation for their support and proactive membership of the LEED Partners Network. Sheelagh Delf and Helen Easton of the LEED Programme and Sarah Barnett of The Work Foundation have also provided invaluable support throughout the last six months. Finally, I would like to express my sincere thanks to all of the local leaders and practitioners that made have made this work possible and been key partners to the LEED Programme over the last 27 years.

Sergio Arzeni
Director of the Centre for Entrepreneurship,
SMEs and Local Development.



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EXECUTIVE SUMMARY

Local development in a crisis

Since the current economic crisis began in earnest in September 2007 with the collapse of banks in the UK and USA, we have seen the triggering of a global recession and wider processes of economic restructuring. The global recession itself took hold in 2008, with many countries experiencing a deep economic crisis early in 2009. In this context national governments and inter-governmental organisations have played the major role in tackling the crisis with both new developments in regulation of financial services, bank recapitalisation, fiscal stimulus packages, support for industries and companies, and assistance to workers displaced by the crisis. Regional level action has also been important in many countries and has added significantly to national efforts.

In this paper we address local economic development actions that have been taken to respond to the crisis. Local economic development leaders have met regularly over the past six months to discuss how their economies are being impacted by the crisis and what responses they have begun to take at a local level to complement what is being done at national and wider levels.

What has emerged most powerfully from this brief review is that local economic leaders

- Have taken a wide range of steps to protect and support their local economies in the past nine months.
- Have been innovative in using the resources and the assets at their disposal to support their local economies through new services, investment initiatives, and flexibilities.
- See the crisis, not just as a threat, but also as an opportunity to refine long term strategy, forge new alliances, and re-consider where local development can make the best contribution.

This review seeks to identify some of these most interesting practices and present them for wider discussion amongst practitioners and policy makers.

Approach

This paper offers a preliminary survey of how the economic crisis is playing out in a selection of local economies in which a “snap shot” of local impacts and responses has been undertaken.

This is a particularly difficult task because there is insufficient comparable data with which to make an overall assessment, and yet there is enough interesting local economic action being undertaken that is worthy of some observation and some comment.

Given the limitations of data and the consequent difficulty in drawing meaningful conclusions and comparisons the attention has been placed on the observed actions of local economic leaders during the crisis and their attempts to mitigate the worst impacts and take steps to help their local economies be ready for recovery.

Local economic development was invented in many countries as a means to address localised economic shocks, what we have observed in the recent months is a profound mobilisation of local economic development techniques to address some of the local impacts of a global crisis.

Our focus has been on 41 local economies that we decided to investigate based on a review of available information and the presence of helpful correspondents. The group is not an attempt to be representative of different kinds of places or of geographical interests. Snapshots were simply developed for places where there appeared to be a story to tell about local development responses to the crisis. . The absence of a municipality from our list does not mean that credible local development actions are not being taken there also.

Structure of paper

The paper proceeds by firstly discussing the nature of the crisis and its impacts on local economies and attempts to present observations on why local economies have been differently impacted and the factors behind such differences. It then goes on to address the range of responses that local leaders have taken, often in tandem with seeking support from national measures, and in

concert with macro-economic responses. The research identifies both short and longer term responses and articulates a set of principles (the Barcelona Principles) which were devised by groups of local leaders meeting at various points over the three months in which this study was conducted and these offer a simple way to assert the nature of the combined responses of local leaders and the things they have seen as important.

The paper proceeds through an assessment of the different types of actions taken and is completed by a series of short “snapshots” of the key impacts and responses in forty localities of different roles, size, location, and complexity. The cases were selected to provide variety and to illustrate of range of different impacts and responses. They are not selected either because of perceived depth of impact or veracity of response. What emerges from the initial survey and review is that local development is widely seen as an important additional tool in addressing the crisis and that local leaders are focussed upon the need to generate continued investment in their economies using new means and leveraging unique assets and otherwise untapped resources.

Overall, this paper suggests that the crisis represents something of an opportunity for local leaders that want to address local economic performance by focusing attention back on long-term drivers of prosperity and sustainability, and the need to embrace innovation in local development investment.

Leadership agendas and the Barcelona Principles

We have paid attention to the agendas which local government leaders have set out in response to the crisis. Their concerns often begin with unemployment and home repossessions, but they also evolve into a concern for a more resilient local economy, and the longer term position of their local economy in future patterns of trade and innovation which are not yet visible.

What emerges is a widespread conviction from such leaders that they take meaningful local steps to address the crisis. This paper seeks to set out what many of these steps have been. Table 1 offers a brief review of some of the many key statements of local economic leaders on this subject. We conclude with ten “Barcelona Principles” devised at a workshop in Barcelona in March 2009, by a group of leaders seeking to identify what the key issues for local development in the crisis are.

Table 1. What the local leaders are saying about the crisis and the local response?

Locality type	Locality	Name	Position	Quotation
Western Europe	Aarhus	Nicolai Wammen	Mayor	"We are focusing on maintaining the growth which is the basis for the city's prosperity and welfare, not least in a period characterised by headwinds in the financial markets in the entire Western world."
	Barcelona	Jordi Hereu	Mayor	"Barcelona, even in these times, especially in these times, is a solid project, a solid reality... construction of this solid reality will enable us to tackle, and overcome, a complex period of our economic and social history. So, building the future of Barcelona and fighting the crisis are one and the same thing."
	Birmingham	Mike Whitby	City Council leader	"Birmingham City Council will do everything in [its] power to help Birmingham through the recession and to prepare the city for the subsequent recovery — guided by [its] Birmingham 2026 clear vision for the future."
Central and Eastern Europe	Glasgow	Steven Purcell	City Council leader	"In these difficult economic times, we are going to need Team Glasgow to pull together more than ever. This is not a time for any of us to retreat into our bunkers, whether it's public agencies or private commerce, we must stick together and do what is right for our city."
	London	Boris Johnson	Mayor	"To create this Economic Recovery Action Plan, we have scoured every area of our operations to decide what we can do, and what will work. No stone has been left unturned."
	Marseille	Jean-Louis Tourret	Deputy Mayor	"We have created a momentum, our concern is not to slow down and to participate in national economic stimulation plan."
	Vienna	Renate Brauner	Deputy Mayor and Executive City Councillor	"On the SME campaign: 'In view of the very difficult economic situation, the purpose of this joint campaign is to restore confidence again, and to support Viennese enterprises with wide-ranging consulting. This represents an important concrete step towards kick-starting corporate financing again.'"
	Warsaw	Marcin Herra	Principal, PL, 2012 agency	"The global slowdown in investment increased developers' interest in key infrastructure projects, while falling prices of building materials should make the final price-tag lower."

North America	Los Angeles	Villaraigosa	Mayor	"Today, our path forward must focus on revitalising our economy, rejuvenating our middle class and helping our hard-working families weather this storm and emerge stronger on the other side. And in practically every decision we make, we are going to need to rebuild this economy on a foundation of shared values."
	New York	Bloomberg	Mayor	"If we have learned anything from the post-9/11 years, it is that cities cannot wait for national governments to take action... When Wall Street catches a cold, the rest of the city sneezes. That is not going to change anytime soon, but it is our job to prevent that sneeze from becoming pneumonia."
	Toronto	David Miller	Mayor	"Toronto continues to need a <seat at the table> with the federal and provincial governments to ensure priorities are set so our collective efforts go into the right places and build a sustainable, prosperous future."
Asia	Hong Kong	Donald Tsang	Chief Executive/ Mayor	"Hong Kong will not be stingy, and will increase relief measures in the middle of the year should it be necessary to ease the public's worries."
	Mumbai	Dr Jairaj Phatak	Municipal Commissioner	"The municipal government has braced itself for a decline in financial capacity, which will certainly affect our projects in hand and those to be undertaken in the future."

The review

We attempt to summarise the key negative and positive impacts of the global crisis on local economies and we observe the different dimensions of such changes and impacts in our snap shots. We group the impacts into positive and negative impacts as a simple means to illustrate the more general point that many leaders consider the crisis to be an opportunity, and as well as a major challenge.

Our assessment of the responses of local leaders is similarly grouped so that some direct translations can be made between impacts experienced and actions taken. However, we observe that as most of these responses operate within mutually reinforcing programmes of action and interventions it is important not to conclude that individual interventions will work on their own.

Are some local economies impacted differently from others?

Without doubt, different local economies are experiencing the current economic cycle in different ways. Though complicated because (1) the recession has not yet run its course and we do not yet see all of the impacts of it on all local economies; (2) different local economies have different sensitivities to the downturn; and (3) there is a lack of comprehensive local-scale analysis and data, it is possible to begin to suggest that some local economies are impacted differently from others because of their:

- Size;
- Economic composition;
- Location and global positioning;
- Social composition and culture;
- Global connectivity;
- Media cultures;
- Preventive and migration strategies; and
- Dependence and position in national hierarchy.

Though there are others, it is primarily the variance in these factors and overlap and interaction between them which influences both the onset rate of recession conditions as well as the breadth and depth of the recession conditions experienced.

One important observation from our investigation is that the local economies that entered the crisis with the biggest challenges (such as low skills or low employment levels) are those which are most likely to be most negatively impacted.

Local economies with lower skills, lower employment rates, and lower levels of specialisation are particularly exposed to the crisis because they offer limited compelling reasons to retain investment and jobs and are competition largely on priced based factors which erode significantly in a down turn. Higher skilled, more specialised local economies, with greater employment rates, and more differentiating factors are tending to fair better, even when they include significant financial services employment, because these economies are more diversified and more competitive.

The Barcelona Principles.

What principals emerge from an examination of the better practices already in train by local economic leaders across the world? The following ten principals were elaborated by a meeting of local leaders who met from around the world in Barcelona with the OECD LEED Programme and Barcelona City Government in March 2009. They are not prescriptive, nor exhaustive, as the economic downturn is far from reaching its final form, but they offer guidance to what localities are doing to prevent the crisis and mitigate its impact.

- i. **Don't waste the crisis, but respond with leadership and purpose**
'Provide pro-active and collaborative leadership at the local level'
- ii. **Make the case for continued public investment and public services and the taxes and other sources of investment required**
'Make the case for investment'
- iii. **In the long-term: build local economic strategies which align with long-term drivers and identify future sources of jobs, enterprise, and innovation**
'Robust long-term economic strategy'
- iv. **In the short-term: focus on retaining productive people, business, incomes, jobs, and investment projects**
'Purposeful short-term action is needed'
- v. **Build the tools and approaches to attract and retain external investment over the long-term**
'Investment attraction and readiness'

- vi. **Building genuine long-term relationships with the private sector, trade unions, and other key partners**
'Relationships matter and need increased attention'
- vii. **Take steps to ensure the sustainability and productivity of public works, infrastructure, and major developments/events**
'Effective public works and major investments'
- viii. **Local leaders should act purposefully to support their citizens in the face of increased hardship**
'Stay close to the people'
- ix. **Local economies have benefitted and should continue to benefit from being open and attractive to international populations and capital**
'Stay open to the world'
- x. **Communicate and align with national and other higher tier governments**
'Build national-local alliances'

In this paper we explain and illustrate each of these principles so that they can be better understood and observed in practice.

Two ideas merge most powerfully for the work we have concluded:

1. Local development responses to the crisis are a sign of leadership and innovation with many local economic leaders changing their programme of activity and inventing new tools and responses to support business, investment, people, and jobs in their local economies. The crisis has given rise to new leadership and new strategies and has 'reinvented local development' in several ways.
2. Whilst local leaders have begun with a desire to protect people, jobs, incomes, and homes, many have also seen the crisis an opportunity to embrace new strategic thinking about the future and to better align their long term economic strategy with principles and values that reach beyond the current or the next business cycle, and focus instead on sustainable, adaptable, and more distinctive local economies in the future.

INTRODUCTION

The role of local action

Why local action is necessary

The current economic crisis sweeping the world is different in character from previous crises. It is marked out by its depth and likely prolonged duration, its global reach and influence, and by the structural implications it has for the world's financial systems and investment regimes. It has also come at an important time in the evolution of the global economy and is likely to accelerate some processes of change which are already in train. It will give rise to profound hardship in many parts of the world, with uncertain consequences at this point. The uncertain nature of the crisis adds to its challenge, and gives rise to a need for leadership internationally, nationally, and locally.

Despite these unusually challenging dimensions, the economic crisis has not altered many of the long-term, global drivers to which local leaders must respond, but has added to them, in number and in intensity. Serving global markets with internationally competitive products, services, and firms, environmental sustainability; balanced global development, poverty reduction and tackling hunger; enhancing and utilising science, technology, and medicine; achieving peace and stability; and embracing a global economy with increasing returns to knowledge and innovation, will all remain global drivers of local development once this crisis is over, and they should continue to guide long-term action and strategy. This crisis is likely to add to the need for better global governance and regulation of world financial systems, and the requirement to address large scale and deeply-rooted unemployment, business failure, and home repossession, in many countries. The crisis is also going to leave many advanced and developing nations highly indebted for years to come, and prolong the period of time over which many populations have to work, and the level of taxes they have to pay.

National governments and inter-governmental organisations are taking the lead in defining what needs to be done at the macro-economic level.

The importance of local action

Local leaders have important contributions to make; both in informing and helping to shape national policies, and in promoting economic development and recovery programmes at the local level. Local economies are differently impacted by the crisis depending upon their starting point and structure, and those which have gone into the recession with challenges of unemployment or weak local economies and fiscal regimes, will find that these challenges are made much harder by it. In many countries, devolved financial systems mean that, due to the crisis, local governments find they have a smaller resource base of locally generated tax revenues, and this is resulting in major cut backs in local government services just at the point when they are most needed.

The recent period of extended growth in most OECD countries (c 1992-2008 but with some variables) heralded for the first time important new dimensions in local development. In many OECD countries:

- Local strategies emerged as a key means to shape local economic change and futures.
- New forms of public and private co-investment were established at the local level.
- Local economic leaders embraced globalisation as an opportunity beyond rigid national hierarchies.
- Land and property redevelopment and infrastructure became profitable and established vehicles for external international investment in many places for the first time.
- Large numbers of people moved from one country to another to pursue economic opportunities on a planned basis.
- Knowledge-rich activities and organisations became centre stage in new generation local economic strategies.

It was a long cycle of growth which spawned many new fields of local development action and saw more local economic leaders emerge in many different places. The ultimately unsustainable nature of the boom does not mean that these local development efforts were not worthwhile, but it does mean that they should now be re-appraised.

Delivering local development

Proactive local economic leaders have already created the capacity to engage in local economic development but not all local economies have such capacity. Indeed, the majority do not. Capacity to draw-up, and effectively implement, sound local economic strategies is not common. The crisis is a good time to mobilise and re-calibrate existing efforts, and to build up new capacity and competence in local development where it does not yet exist. Local economic leaders can learn from each other in pursuit of this aim.

Local economic development was largely invented to address crises periods such as these. It grew out of efforts in both Europe and North America to restructure local economies after the Second World War and the first wave of de-industrialisation in advanced economies. So, the crisis represents an opportunity to utilise and update local economic development approaches.

Local economic development can make an important contribution to national economic performance, and has become more critical with increased global competition, population mobility, technological advances, and consequential spatial differences and imbalances. Effective local development can:

- Reduce disparities between poor and rich places.
- Add to the stock of locally generated jobs and firms.
- Increase private sector investment overall.
- Improve the information flows with investors and developers.
- Increase the coherence and confidence with which local economic strategy is pursued.

This can also give rise to a better diagnostic assessment of local economic assets and advantages, and lead to more robust strategy assessment, development and delivery.

Local development is often led or facilitated by local governments, but local development is not a task to which local government arrangements are well suited. Local development is not like service provision, representation or regulation. It is a "market-facing" activity which operates over longer time frames, broader geographies, and wider institutional collaborations than is usual for orthodox local government activity.

It is a specialist “vision driven” activity which seeks to define a path into the future and to shape the behaviour of other actors, most of whom are not in the control of local governments leaders. It also requires sensitive understanding of external factors such as “contested investment” and “investment returns”, “business cycles” and “market forces” as well as a deep appreciation of local assets, endowments, and distinctiveness. Effective local strategies also require deep cross-border and cross-sectoral collaboration, as well as the effective and compelling communication of choices made and investments taken. They should look to inspire confidence in order to act as co-ordination vehicles.

This requires exceptional leadership skills amongst local government leaders and their partners if local development is to succeed. The skills of visioning, communicating, partnership and alliance building are to the fore. Working with businesses and investors to reduce the risks involved in investing or expanding in a location is a key attribute of local economic leadership. Stakeholder engagement is key. Local economic leadership also requires the mobilisation of active support from residents (who have a right of veto through the ballot box) for processes which will often involve change, growth, diversification, and the challenge of relinquishing old customs and habits in favour of new ones which may be unfamiliar or even disadvantageous.

Local economic leadership should also recognise that many of the economic stakeholders in a local economy do not exercise a vote in local elections. Businesses, commuters, tourists, investors, students, infrastructure and logistics providers, are not enfranchised in local elections despite the fact that they are major economic stakeholders. Important implications arise from this: local leaders could find means to engage them in local economic strategies despite having no mandate to represent them or lead them, and, local leaders must seek to reconcile their interests with one another through visioning and agenda building, as well as aligning their needs and interest with those of residents. Reconciling the needs and aspirations of residents with those of economic stakeholders is not usually straightforward, especially in a context where economic growth and quality of life are perceived to have major tensions and trade-offs between them.

The “Barcelona principals” for local recovery and reinvestment

What principals emerge from an examination of the better practices already in train by local economic leaders across the world? The following ten principals were elaborated by a meeting of local leaders who met from around the world in Barcelona with the OECD LEED Programme and Barcelona City Government in March 2009. They are not prescriptive, nor exhaustive, as the economic downturn is far from reaching its final form, but they offer guidance to what localities are doing to prevent the crisis and mitigate its impact.

- i) **Don’t waste the crisis, but respond with leadership and purpose.**
“Provide pro-active and collaborative leadership at the local level.”
- ii) **Make the case for continued public investment and public services and the taxes and other sources of investment required.**
“Make the case for investment.”
- iii) **In the long-term: build local economic strategies which align with long-term drivers and identify future sources of jobs, enterprise, and innovation.**
“Robust long-term economic strategy.”
- iv) **In the short-term: focus on retaining productive people, business, incomes, jobs, and investment projects.**
“Purposeful short-term action is needed.”
- v) **Build the tools and approaches to attract and retain external investment over the long-term.**
“Investment attraction and readiness.”
- vi) **Building genuine long-term relationships with the private sector, trade unions, and other key partners.**
“Relationships matter and need increased attention.”
- vii) **Take steps to ensure the sustainability and productivity of public works, infrastructure, and major developments/events.**
“Effective public works and major investments.”
- viii) **Local leaders should act purposefully to support their citizens in the face of increased hardship.**
“Stay close to the people.”

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- ix) **Local economies have benefitted and should continue to benefit from being open and attractive to international populations and capital.**
“Stay open to the world.”
- x) **Communicate and align with national and other higher tier governments.**
“Build national-local alliances.”

Aims and methods

The following brief review of the impact of and responses to the economic crisis in selected local economies was compiled during spring 2009 (April – June 2009).

It is designed to offer a helpful “snap shot” of the *present* situation on the ground, rather than a comprehensive and quantitative assessment for a number of reasons:

- The impact of the crisis is complex, affecting different localities in numerous different ways.
- The crisis is dynamic and continues to unfold on a month by month basis.
- There is a distinct lack of quality and real-time data to precisely describe the impact of the crisis.

In other words, a full and accurate numerical picture of recession impacts and responses will likely only be possible beyond 2010, when there is enough comparable data available to make a meaningful assessment and when the initial cycles of impact are fully complete. One feature of the crisis is that it is playing out in different sequences in number of countries.

This paper takes the view that useful practical insights can be extracted now from a preliminary review of how local leaders are responding.

The meaningful unpicking of the crisis at this present time better lends itself to a more top level and qualitative study. Through this methodology, it is possible to rapidly review and disseminate key principles and promising practices to guide local leaders now and through the remainder of the crisis.

Focussing on breadth, we selected 41 local economies which varied by location, size, economic composition, connectivity, geography, and social composition to capture the impact of and response to the crisis in a range of local economies.

Table 2. Local economies selected

Geographical grouping	Locality
Western Europe	Aarhus
	Barcelona
	Basel
	Berlin
	Bilbao
	Birmingham
	Brussels
	Cardiff
	Cologne
	Glasgow
	Hamburg
	Helsinki
	Lille
	Liverpool
	London
	Lyon
	Marseille
	Milan
	Munich
	Paris
Rome	
Turin	
Zurich	
Central and Eastern Europe	Budapest
	Prague
	Riga
	Warsaw
	Vienna
North America	Los Angeles
	Miami
	New York
	Pittsburgh
	Toronto
Africa	Cape Town
Asia	Beijing
	Hong Kong
	Mumbai
	Shanghai
	Singapore
Australasia	Tokyo
	Auckland

The local economy “snap-shots” were compiled using various sources: (1) public sources; (2) seminars and conferences; and (3) direct contact with local authorities involved.

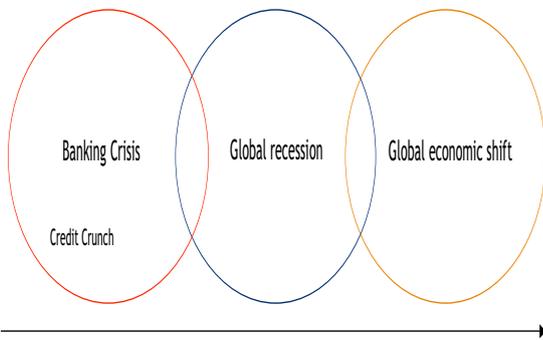
Comments and suggestions from local authorities not only informed our analysis but also shaped how and what analysis is presented in this document. For instance, as a result of helpful discussions with certain local leaders we have omitted material thought to lack robustness and focussed on material which is more informative.

Figure 1. Map of selected local economies



Figure 2. Conceptualisation of the current recession and its implication for local economies

Conceptualisation of the current recession and its implication for local economies



Characterised by:	• Difficulty obtaining credit	• Globalisation of economic difficulties	• Globalisation of economic difficulties
Which localities?	➢ Financial hubs ➢ Debt 'users'	➢ Most, if not all localities	➢ Most, if not all localities
Local impacts:	<ul style="list-style-type: none"> Housing market decline SME sector weakened Public borrowing Retail slowdown 	<ul style="list-style-type: none"> Lower tax yields Higher social costs Reduced trade and tourism Job losses 	<ul style="list-style-type: none"> New investors New partners Reorganisation of old urban settlement hierarchies
Medium-term success:	COMPETITIVENESS & DIVERSIFICATION	RESILIENCE AND READINESS FOR THE UPTURN	OPEN AND AWARE LOCAL ECONOMIES
Long-term success:	SUSTAINABLE LOCALITIES WITH A CLEAR VISION / IDENTITY		

Analysis: impacts of and responses to the recession by local economies worldwide

Impact of the economic crisis on local economies worldwide

Overview

Our analysis of the current economic crisis suggests three inter-connected processes are at work:

- A global banking crisis, triggered by sub-prime lending and over gearing of banks.
- A global economic recession, triggered by the banking crisis.
- An acceleration of global restructuring between regions, nations, and continents.

In this section, we view all three of these as relevant to local economies, but with different kinds of impacts and implications depending upon the nature of the local economy itself. This approach is summarised in Figure 2.

The chief observation is that local economic leaders who develop responses to all three of these trends and their impacts are more likely to develop effective long-term economic strategies, than those who look at only one.

Towards a coherent picture

Because different local economies are impacted in different ways by the global economic recession and because the downturn is yet to run its full course, it is difficult to offer a very detailed picture of the ways in which the economic crises is affecting the world's local economies. Because of the diversity of local economies worldwide there is a high level of variety in the rate at which and the breadth and depth to which they are affected. None the less, with data and information improving, progress in relation to understanding the impact of the recession in local economies is being made.

Though there is undoubtedly overlap, it is helpful to categorise the principal effects of the recession into (1) five thematic impacts; (2) negative and positive impacts; and (3) tangible and intangible impacts. It allows the emergence of a more coherent picture of what is a complex situation on the ground at present. This picture could inform local leaders what to expect over the course of 2009 and 2010 and thus shape their response.

Negative impacts: the key trends

Table 4 considers the principal negative impacts of this recession experienced at the local level. It is not a comprehensive listing of all the effects. Rather, it gives a top level indication of the primary impacts of the economic crisis in the selected localities.

Though there are undoubtedly others, we identify five main thematic negative impacts of the crisis and 15 subcategories (Annex Table 3). These groupings show that the global economic crisis is having a broad-ranging and complex negative impact on local economies at the present time. New negative impacts may emerge. It is important to note here that though we divide these impacts by category, they interlink and will likely change over time, adding to the complexity of the picture on the ground.

By categorising the negative effects, however, it is possible to make helpful observations that can shape local policies which could mitigate present impacts and prevent further impacts. This highlights the importance of effective socio-economic surveillance at the present time. It helps to create a basis for effective intervention. From our work, we identify a number of key trends:

- *People and Labour Markets*: across all of the impacts, unemployment and job losses have been the most prevalent impacts of the recession thus far. Just 12 of the 41 local economies reviewed did not report this sub category as a principal impact. It is also felt sharply across the city as it is so tangible. The evidence shows that social concerns such as crime, acute poverty and civic unrest are lagging behind unemployment. However, cities which have been particularly badly impacted are already showing signs of social unease.
- *Local Economic Resilience*: The local economy itself has experienced the broadest range of negative impacts as a result of the crisis. The effects are both tangible and intangible and range from tourism reduction and growth rate declines to the weakening of financial sectors and reductions in consumer confidence. The evidence suggests that of all these factors the closure and downsizing of firms as well as tourism reduction and worsened business conditions are the most widespread principal impacts.
- *Quality of Place*: Property market decline and construction and investment decline are the two most prevalent negative impacts of the crisis at the local level at this time. Falling house prices and repossessions coupled with disinvestment affect the city sharply. Should these trends continue it is likely that other negative impacts would appear under this category. For instance, though too early now, if rates of investment remain low, it is likely that the physical urban fabric would fall into a state of poor repair. This would likely tarnish a cities image and long-term positioning – thus providing an example of how these five themes are interlinked.
- *Long-term Strategy and Positioning*: Though difficult to measure in quantitative terms, the impact of the recession on the long-term strategy and positioning of the local economies reviewed is no less important. It is likely that most local economies have had their status, competitiveness and identity weakened. However, it is the larger, globally orientated localities which have seen this theme as a principal impact of the crisis.
- *Local Governance and Leadership*: At a time when social costs are rising it is poignant that many local authorities are becoming more constrained in a fiscal sense. Many localities report budget reductions as a principal impact of the recession. Less tangibly, and tied tightly to many of the impacts in other categories, uncertainty represents another important effect of the

crisis. It affects a number of local economies but few as a principal impact. Given its relations to many of the negative impacts recorded, leadership efforts to reduce uncertainty are key.

Positive impacts: the key trends

Table 5 considers the principal local positive impacts of this recession. It is not a comprehensive cataloguing. Instead it provides a top-level overview across the full range of the 41 localities selected.

The key trend is that there is lower variance in the types of positive impact experienced by localities. We identify 12 principal positive impact subcategories compared to the 15 of the principal negative impacts. Despite this, it is important to note that the global recession can produce and is producing beneficial impacts in a variety of local economies. Indeed, a number of localities experienced many positive impacts, suggesting that positivity in one sector catalyses or is catalysed by others. The localities which experienced the largest number of positive impacts are Warsaw and Pittsburgh.

- *People and Labour Markets:* Under the subcategory of employment there are a number of cities which are experiencing both employment stability and growth. A number of cities, such as Paris and Warsaw are benefitting from the return of skilled diaspora. Though Glasgow seems to have added financial sector jobs, most positive impacts relate to sectors outside financial services such as healthcare, IT and higher education. Employment has been maintained in certain localities as the result of a decrease in working hours.
- *Local Economic Resilience:* As with the principal negative impacts, the local economy is the area which sees the broadest range of positive effects. Local economies such as Budapest, Turin and Miami have experienced tangible gains in areas such as trade and tourism. Toronto and Warsaw even report positively on their financial services sector and local growth rate respectively. There are also examples of where business and consumer confidence has been maintained despite harsh economic realities. In particular, the British localities of Birmingham, Glasgow and Liverpool represent good illustrations.
- *Quality of Place:* There are a number of cities which have so far expe-

rienced a strengthening as well as stabilisation in property and investment markets. Localities such as Pittsburgh and Warsaw are benefitting from the current circumstances, particularly in the investment markets.

- *Long-term Strategy and Positioning:* Because the crisis has overwhelming negative connotations for local economies, very few experience a strengthening of their status and identity. At the same time, because of the relative scarcity of success stories in the category, when there is one it stands out. For different reasons Toronto, Warsaw and Pittsburgh are all considered to have on balance experienced an improvement in their global standing as a result of the crisis.
- *Local Governance and Leadership:* Despite the general trend of rising social costs and decreasing tax revenues, a number of localities are reporting improving or stable fiscal budgets. For instance, Helsinki reported a positive fiscal budget in 2008 and this is also expected in 2010 in Basel. Many localities are experiencing positive leadership impacts. Bilbao, Glasgow, Hong Kong and Tokyo in particular are benefitting from a new period of collaboration and the opportunity to set new strategic objectives.

For a full description and further examples of the principal local negative and positive impacts of the crisis please see the appendix.

Table 5. Principal local positive impacts

Geo-graphical grouping	Locality	Principal impacts				
		People and Labour Markets	Local economic resilience			
		Employment	Growth rates	Financial sector and business conditions	Trade	Tourism
Western Europe	Aarhus				Port ended 2008 EUR 44mi in profit	
	Barcelona			Recession could work in favour of some high-tech and service industries	Exports to eastern Europe and Asiatic economies increased.	Cruise ship passengers increased 17.5% in 2008.
	Basel					Above-average growth of 6.9% in 2008.
	Berlin	Reliance on service sector and reduced working hours means minor impact		Businesses used credit moderately meaning business conditions are stable.		
	Bilbao					
	Birmingham					
	Cologne	Moderate optimism because local economy is well diversified				
	Glasgow	New jobs being created in the Financial Services District				
	Helsinki					
	Liverpool					
	Marseille	Focus on the development of services means conservative increase in unemployment				
	Munich	Unemployment grown slowly because companies introduce reduced working hours instead.				
	Paris	Return of talented professionals from overseas				
Turin					increase of 7.8% compared to 2007	

Local economic resilience	Quality of place	Property market	Principal impacts		
			Long Term Strategy and Positioning	Local Governance and Leadership	
			Business and consumer confidence	Construction / Investment	Identity or status
			With other cities faltering Aarhus has the chance to improve global presence.		
				Careful budget management has put Barcelona in a relatively strong position	Encouraging international cooperation and collaboration.
				Positive balance of payments expected in 2010.	
					Concern about downturn created new spirit of cooperation between the public and private sectors
¼ young professionals confident about future.	Exploiting the opportunity to develop and implement more innovative financing mechanisms				Renewed focus on what is already being done in the locality.
Spending has maintained a good momentum					Rapid and targeted response.
				Tax revenues increased in 2008	
17.1% increase in pedestrians in the Central City in 2008					

Discussion

Q. Are some local economies impacted differently from others?

Without doubt, different local economies are experiencing the current economic cycle in different ways. Though complicated because (1) the recession has not yet run its course and we do not yet see all of the impacts of its on all local economies; (2) different local economies have different sensitivities to the downturn; and (3) there is a lack of comprehensive local-scale analysis and data, it is possible to begin to suggest that some local economies are impacted differently from others because of their:

- Size
- Economic composition
- Location and global positioning
- Social composition and culture

Though there are others, it is primarily the variance in these factors and overlap and interaction between them which influences both the onset rate of recession conditions as well as the breadth and depth of the recession conditions experienced.

Size

The relationship between locality size and the recession is one that is not clearly defined. In other words, local economies of the same size in terms of population and business base may be affected very differently.

Evidence suggests, though, that disproportionately large local economies have experienced the onset of recession conditions more rapidly than small to medium-sized local economies as more of what happens within these local economies is of a global nature. London, for instance, is more tightly tied into global financial services markets and patterns of trade and visitors because it is a large locality and comprises industries, infrastructures and attractions which engage with, facilitate and appeal to global flows of capital. As a result, London has been affected quickly by financial instabilities in the United States and by reductions in trade with and visitors from other localities, regions and

nations. By contrast, small to medium-sized local economies, such as Aarhus, Lille and Basel tend to have a smaller number of globally orientated industries, infrastructures and attractions and so have not experienced the worst of the downturn both in terms of depth and rate of onset.

Of course, factors other than size are critical in determining the sensitivity of a locality to economic instability. As will be discussed later in this section, economic composition, for instance, will also determine the rate and depth of a locality's experience of recession. However, in broad terms, we can suggest that the larger the locality the more diverse its economy is likely to be and therefore the more resilient the local economy will be to a very deep recession. In smaller local economies, the likelihood of there being a critical mass of healthy sectors to see the rest of the municipality through the recession is reduced.

Size also impacts on the centrality of a local economy and its position in urban hierarchies. In other words, as locality size increases the importance of the local economy as a hub for business and population increases. For instance, the catchment area of Paris is greater than that of Liverpool. This, in turn, magnetises the locality and draws in talent. With recession marking the decline of old and ineffective businesses and working practices there will be a reliance on talented individuals to have the strategy, vision and insight to survive and thrive, and bring local economies and their businesses out of crisis. With larger local economies attracting more talent, it is likely that they have a better chance to mitigate the worst effects of the downturn and position themselves for long-term recovery. Indeed, Mumbai's new branding initiative attempts to reinforce its domestic and international presence to attract the necessary talent and investment to support its ambition of becoming a global financial services hub.

Economic composition

Perhaps more than any other, the structure of the local economy is critical in determining the depth to and rate at which a locality enters into recession.

The depth of the recession is much more a function of local scale processes. First, the severity of the downturn and its affects will largely be a function of to what extent the local economy relies on a sector which is in crisis. For instance, the London economy is reliant on financial services. The gross value

added (GVA) of London financial and professional services in 2006 was GBP 63.2 billion (39.8% of UK GVA).¹ Financial and professional services represent c.750 000 jobs – half of the total central business district (CBD) jobs in London.² So, it is likely that a crisis in this sector will have a strong impact on the locality's economy. The economy of the City of Aarhus – built around education, ICT (information communication technology) and health, however, is likely to avoid a deep economic crisis as these sectors (even ICT) are fundamental human requirements and the demand for such products is likely to remain relatively stable.³

In the UK, research undertaken by The Work Foundation has linked vulnerability to recession conditions to the degree to which a local economy is orientated towards the public or private sector. Large private sector-orientated local economies, such as Manchester, it argues, are likely to feel the impact of the recession more acutely than public sector dominated local economies of a similar size such as Sheffield.⁴ When it comes to the upturn, however, the more dynamic, skilled and entrepreneurial local economies such as London and Manchester are expected to recover more rapidly.

Localities with broad-based economies such as Paris are less likely to experience a very deep recession as there is a higher likelihood of there being a critical mass of healthy sectors in the locality to provide important productivity, employment and tax revenue. Localities with narrow economies do not have this privilege. If they specialise in one or two sectors and these sectors suffer in the recession the impacts are likely to be more acute.

Diversity in itself though is not necessarily a recession safety net. More precisely, it depends which sectors make up the diversity of the local economy. For instance, if a local economy was considered diverse yet this diversity was constituted by sectors hit hardest by the recession (banking and retail for instance) then the locality would not be well-placed. On the other hand, a relatively narrow local economy, based around relatively healthy sectors (ICT and education for instance) would still be considered healthy. Indeed, certain sectors are generally considered more recession-proof than others. Public sector activities such as governance, healthcare and education tend to be the most stable sectors during downturns. Even these sectors, however, may be affected due to a reduction in the local tax take.

One important observation from our investigation is that the local economies that entered the crisis with the biggest challenges

(such as low skills or low employment levels) are those which are most likely to be most negatively impacted.

Local economies with lower skills, lower employment rates, and lower levels of specialisation are particularly exposed to the crisis because they offer limited compelling reasons to retain investment and jobs and are competition largely on priced based factors which erode significantly in a down turn. Higher skilled, more specialised local economies, with greater employment rates, and more differentiating factors are tending to fair better, even when they include significant financial services employment, because these economies are more diversified and more competitive.

In reality, though, local economies are more complex than the examples given above and are constituted by a mixture of poorly performing and healthy sectors. Our evidence supports the idea that the impact of the recession on a local economy in terms of economic composition is dependent on the ratio of healthy to poorly-performing sectors and the relative sizes of these sectors.

Location and global positioning

It is also possible, at the local level, to differentiate between the precise nature (as opposed to the degree) of the global connectedness of a locality and the pace and depth with which it is experiencing or may experience the downturn. In other words, different local economies engage with global processes in different ways according to the nature of the local economy or their "place in the world" / "global positioning." For instance, African visitor centres such as Cape Town rely in part on international tourism for jobs and wealth creation, Chinese manufacturing centres such as Beijing rely on healthy export markets to sell the goods they produce and knowledge hubs such as New York and Zurich rely on fluidity of capital to lubricate their financial and business services sectors.

Because the rate at which each of these global flows (tourists, manufactured goods and financial services) is affected by the recession differs, and the economies of the localities described above have a reliance on them, Cape Town, Beijing and New York, for example, will be affected at a different rate by the recession. For instance, New York and Hong Kong were affected extremely quickly by the sub-prime crisis in the United States both because the crisis started in a sector where the localities were invested but also the

banking sector is extremely globalised: capital and crises of capital can flow extremely quickly between interconnected local economies.

It should also be noted that physical geography can influence the position of a locality within global supply chains and in relation to global flows of capital. Less globalised local economies with low levels of virtual connectivity, poor access to national and international transport hubs have limited access to global capital flows and therefore likely to respond more sluggishly to the global recession as they are relatively isolated from it. Many African localities, particularly inland places such as Lusaka, Gaborone and Windhoek, for instance, have yet to report serious recession conditions due to their relative isolation from global flows of capital. For similar reasons, some long-haul destinations such as Auckland and Cape Town may experience a decline in visitor and business traffic as a result of their relatively isolated geographic locations. Indeed, falls in air traffic in Miami are thought to have been caused by longer-range jet aircraft looking to save costs by bypassing the locality and travelling directly to their destination.⁵

Without doubt, some of the distribution of local economies which are experiencing recession conditions can be explained by their location. Though geography can account for some of this variation, it is rather a given locality's position in the world's urban hierarchy and position in supply and demand chains which provides the most comprehensive explanation to how local economies are affected by the crisis.

Social composition, conditions and culture

The composition of a locality's population will have important consequences for the way in which it experiences recession. It is likely that economic hardship will manifest itself in different ways according to the social composition, conditions and culture of the locality. For instance, open local economies, with large migrant populations could experience an increase in ethnic tensions.

Global, national and regional connectivity and dependence

At the global scale, there is a notable distribution of local economies experiencing recession conditions with a focus in the United States of America and Western Europe. There is an undeniable correlation here between the level of connectedness of a given local economy with global flows of capital and the rate and depth at which the same locality has experienced and is experiencing the downturn. Therefore, local economies which are not highly globalised such as Helsinki, Aarhus and Basel, for instance, are not over-exposed to economic instabilities beyond their municipal boundaries and have not as yet experienced the worst of the crisis. To an extent, they may even be bypassed by it. At the same time, local economies such as London, Shanghai, Hong Kong and New York, perhaps the most connected local economies in the world, will be more vulnerable to these same drivers and are likely to experience the onset of the downturn more rapidly and perhaps more deeply. It is ironic that this same connectedness which makes local economies such as London and New York vulnerable to global recession is the same connectedness which has made these local economies so successful over the past 100 years.

At the national and regional scales, connectivity is also a factor in determining the rate at and depth to which recession conditions are experienced by a locality. The key factor here is trade. Patterns of consumption and production can be complex and tend not to be localised within municipal boundaries. As such local economies which trade nationally and regionally are more exposed to instabilities elsewhere in the economic system. For instance, though global processes are also involved, a lack of national and regional demand for vehicles UK-wide led to the loss of jobs at LSUK (Lucas Service UK) in branches across localities across the West Midlands: Birmingham (9 staff); Tipton (17 staff); Hereford (14 staff); Gloucester (13 staff); Shrewsbury (11 staff); Warwick (3 staff); and Wolverhampton (12 staff).⁶

Though this is a rather negative picture, by contrast, connectedness beyond municipal boundaries to healthy sectors may well prove vital to pulling local economies through the recession. As earlier discussion has suggested, with their economies relatively less effected, local economies and businesses from the emerging markets could prove vital trading partners with recession-hit localities in terms of corporate investment, municipal finance investment or even tourists.

Media cultures

Evidence suggests that there is a strong role to be played by the media as a feedback mechanism at times of economic crisis. Crucially, the media can help to link distress in one area of the economy to another and erode consumer and business confidence. For instance, instabilities in financial services sectors could have perhaps remained slightly more contained were it not for the intensity and negativity of the media coverage. Instead, with messages of doom and gloom, consumer and investor confidence has been badly affected which means that knock-on implications for retailers, manufacturers and the wider SME sector have been worse than they could have been. Examples of this come from many places such as Auckland. By contrast, Asian media coverage tends to be less intense and negative.

Preventive and mitigation strategies

The impact of the economic crisis is also a function of the effectiveness of the strategies (or lack of) to *prevent* the onset of or *mitigate* its effects. Before launching into the evidence it is perhaps helpful to explain what these two terms mean:

- *Preventive strategy*: Group of measures taken to prevent the onset of recession in local economies where the downturn is not yet felt strongly (e.g. New Zealand National Government). In response to the coming recession and future projections for New Zealand and its local economies, Prime Minister John Key, announced on Thursday 15th January 2009 that the:

“Government wasn’t going to do nothing while [a negative] scenario played out and number of options were being considered.”⁷

- *Mitigation strategy*. Group of measures crafted and delivered in a locality where recession has already struck to minimise the depth of the downturn (e.g. London: Mayor’s Economic Recovery Action Plan in December 2008).

It is too soon to tell the effectiveness of most anti-downturn strategies in local economies. The negative impacts of the recession are likely to resonate more strongly in local economies with poorly organised response strategies than in local economies which have built effective anti-downturn plans. Time will show the effectiveness of such strategies.

As shown by the recent riots in Paris, at its most extreme, a lack of action, or of perceived action can result in serious implications. On 29th January 2009 Parisians took to the streets in a Trade Union organised response to a perceived lack of effective action by President Sarkozy in response to the recession.⁸

Dependence and position within the national settlement hierarchy

The dependence on another local economy for trade is critical to how quickly and deeply a locality will be affected by the crisis. Because recession affects consumer confidence and demand, shockwaves can pass rapidly through supply chains. For instance, smaller localities typically depend on the people and businesses of larger localities. As a result, should recession strike in a large locality to which a smaller locality is heavily dependent on for trade, the smaller local economy will suffer acutely.

Timing

A principal complication to this analysis is that the recession has not yet run its course. As a result, we are observing impacts at a snap shot in time which may not reflect the situation when the dust settles. In other words, the lack of severe impacts in some local economies may be a function of time (recession conditions may not yet have reached these local economies) rather than their robustness to the downturn. None the less, important observations can still be made.

Summary

To summarise this complicated phenomenon we can make a number of preliminary observations.

The rate of the onset of downturn conditions in a locality is a factor of:

- What sector the crisis started in.
- How globalised the sector is.
- How connected the locality is with this sector.
- The intensity and negativity of media coverage.
- Degree of dependence on a larger local economies in the national urban hierarchy.
- Preventative measures.

The depth of the downturn conditions in a locality is a factor of:

- What proportion of the locality economy is reliant on the sector in crisis.
- Whether the local economy is reliant on one or more sectors in crisis.
- The intensity and negativity of media coverage.
- Degree of dependence on a larger local economies in the national urban hierarchy.
- Mitigation and recovery strategies in the locality.

Q. Can the economic crisis have positive implications?

Whilst the overwhelming impact of the economic crisis has been negative in many local economies within OECD member countries, the processes of change which it has accelerated do present themselves as opportunities in locations which are less exposed to more intensive negative impacts. This means that local leaders in some locations have also experienced opportunities to drive forwards on local economic strategies and to make adjustments which are positive for their local economies.

The local economies experiencing the largest number of positive impacts are Warsaw and Pittsburgh. Although these localities are different in their composition, they are both relatively isolated and emerging cities rather than occupying positions at the top of the global urban hierarchy. Furthermore, the negative impacts which these localities experienced were relatively specific, clearly without major repercussions on the wider economy. For example, they have not been affected by fiscal budget reduction, reduced growth rates, unemployment and job losses, construction / investment reduction / pause and property market decline, whereas most localities saw at least one of these impacts.

In general terms, positive impacts can be split into two types:

- **Type one:** A locality which is maintaining momentum in the downturn *despite* the economic crisis.
- **Type two:** A locality which has significantly improved *because of* the economic crisis.

For the majority, the current success in both these characteristics is linked to previous strategies put in place by local leaders which are now serving them well. For example, New York's tourism business is doing well because of an aggressive marketing strategy undertaken last year. In Helsinki, the buoyancy of the entrepreneurial sector - supported by the regional government - and population growth have contributed to strong growth rates this year.

This suggests that as well as mitigating and preventing negative impacts, local leaders should look to capitalise on the positive opportunities that the crisis may present.

Q. What is the impact on investment in local economies?

The current economic situation has many important implications for local economies as described above and specifically for investment in them. In broad terms, after a period of widely accepted success, urban investment gaps remain and are at risk of remaining for the medium term in the face of the global economic downturn. It is essential that the public and private sectors remain in constant dialogue to think of new and innovative ways to finance local development, even in the face of reduced fiscal liquidity.

The most recent business cycle (c. 1992 to c. 2008 - which represents the period from the end of the last recession and the start of the current one) has generally been good for local economies and urban investment. The broad transition towards a knowledge and services mode has enabled many local economies to become more internationally competitive and to attract contested mobile investment and talent. Progress has been made in the re-investment into city centres, urban transport systems, housing and higher education, science and medicine, energy efficiency, and into digital and other infrastructures, as well as a vast range of amenities which support creative and visitor economies. Local economies, especially in Europe, have generally seen some significant programmes of reinvestment, despite the remaining investment gaps and challenges.

This period of economic growth has also coincided with the emergence of much more sophisticated and ambitious real estate investment companies and instruments, and urban real estate has established itself as a long-term traded investment asset in new ways. Similarly, the emergence of new means to finance urban infrastructures (such as PPPs, Value Capture Techniques and dedicated fiscal instruments) has been a key feature of the recent business and investment cycle.

However, the current context will make sustaining this momentum very difficult, if not impossible.

Firstly, the banking crisis itself impacts directly on the amount of capital available in both public and private sectors to invest in local economies. Debt financing is not just an important source of local investment capital, but it is also a key component in wider investment strategies which involve other forms of capital. A prolonged restriction in the amount of debt financing available will have an impact on all forms of urban investment, not just those which are primarily debt financed.

Secondly, the wider economic recession will severely hamper the appetite of investors and developers to make investments in local economies to service the consumption activities of urban citizens and visitors (who will have decreasing disposable income and a lower propensity to spend/consume for the next few years). Even as far away as New Zealand, investor confidence has degraded significantly. Amongst private, rich New Zealand financiers – a major investor in businesses and urban infrastructure, confidence dropped a record 35% in

the last quarter of 2008. According to ING New Zealand Investor Services manager, Steven Giannoulis:

*“many investors in this country had taken a more cautious and conservative approach to investment in the latest quarter, saying they had felt the impact of the global credit crunch.”*⁹⁹

The numbers of new homes and offices built or refurbished, retail and entertainment centres created, and brownfield sites redeveloped for such uses will also be hampered by a fall off in aggregate demand as a result of a loss of consumer and investor confidence.

Thirdly, there is an important international dimension to the crisis which will see changes in the global distribution of where assets are owned and held. Some nations are entering the recession highly indebted, others enter with trade surpluses and large stocks of foreign currency. The recession will accelerate the processes of global restructuring which are ongoing, giving rise to many more investment opportunities for the more newly rich nations, their local economies and their larger corporations with stronger balance sheets. As a result, America’s and Europe’s local economies will need to adjust to new investment partners as well as to compete effectively for investment with established partners who may have greater choice and less capital to invest. The same is true for localities.

Building on these points, there is a strong possibility that recession conditions will damage emerging and established fruitful relationships between local economies and their investors. New economic realities will test relations between the public and private sectors. Questions emerge as to how robust and sustainable are existing relationships and whether each party will be capable of openness, trust and placing themselves in the position of the other to come up with necessary solutions. In more trying times, when profits are in decline, it may become easier for the private sector to blame the public sector of inflexibility, for instance. As a result, with the risk of a breakdown of important collaborative efforts between the public and private sectors comes an increased risk of a more acute investment gap in local economies.

Overall, our conclusion about the general impact of the economic climate is that it will:

- Increase the aggregate gap in local investment by reducing the quantum of capital immediately available, even if capital is available later.
- Foster a deep environment of uncertainty in which only the most confident investors and local economies will take on larger and riskier projects.
- Require considerable re-appraisal of existing and planned investments to check that they are relevant to longer term strategy for both local economies and investors.
- Increase the importance of making public-private sector collaboration genuine, robust and sustainable whatever the economic realities.
- Reveal that some of the investments recently made in local economies were not well considered and need to be re-evaluated (*e.g.* over-provision of certain kinds of housing in local economies, or hotels in some locations).
- Provide some investors and some local economies with exceptional opportunities to succeed in finding new partners if they prepare effectively (*e.g.* new investors from local economies in the East).

The recession requires all local economies and investors to review their investment strategies and to develop distinctive and precise tactics for the next few years as the economy emerges from the shocks of the past year.

However, our main conclusion is that local investment has become both more important for local economies across the world as a result of this crisis, and more difficult to do. More than anything, the current crisis creates a powerful imperative to improve our investment strategies and to reduce the investment gap.

Q. Do local economies in Europe face particular issues or challenges? What about local economies in OECD countries more widely? And local economies in emerging markets?

As has been suggested, there is a relatively strong spatial element to the ways in which local economies are impacted by the recession. This section will summarise some of the broad impacts under the heading of European local economies, OECD local economies and emerging local economies.

European local economies

- *Credit crunch.* Many European local economies are “debt users” which means the lack of availability of credit will impact strongly on local investment, business sectors, and consumers (*e.g.* UK, Spanish and Irish local economies).
- *Migration.* With conditions worsening in many of Europe’s established local economies, many migrants who took advantage of labour freedoms in the EU are likely to return to their nations of origin (many in CEE). This represents a significant reorganisation and potential challenges for the host nations in losing a significant number of lower and higher skilled workers, and opportunities for many new EU member states which will see their diaspora population returning with recent employment experience and perhaps some savings for investment. Though this will provide a boost to these nations the influx of a large number of returning diaspora could overburden local service provision (*e.g.* in Polish local economies).
- *Banking crisis.* With so many European local economies having strengths in the banking and finance sectors, financial centres and financial hubs are likely to suffer acutely from the banking crisis.

Wider OECD local economies

The consumer confidence graph shows that OECD member nations, and the local economies within them are affected by perturbations in the global economy, no matter where they occur. At the local level, we can broadly distinguish between two types of OECD local economy and the impacts of the recession upon them.

- *Robust and regulated local economies.* Though they trade closely with the US and US local economies, Canadian local economies such as Toronto are relatively isolated from the recession at present.

One reason for this is that Canadian Financial Service firms have been more tightly regulated, and are less over geared, making them more robust to the recession, even though recession will still come. There is a real opportunity here for Canadian local economies and the Canadian banking sector to improve their competitive position in relation to US local economies and banks during the crisis.

- *Anglo-American model local economies.* Without doubt American local economies will suffer acutely but also, local economies with the same model are likely to suffer. For instance there are many American banks in Mexican local economies and so the recession has impacted relatively severely here too. Local economies in Australia, New Zealand, Korea and Japan will also suffer for the same reason – they are engaged in the same global flows of capital and similar sectors to Anglo-American local economies.

Emerging local economies

- *Trade, currency, and oil rich local economies.* Instead of being new debt users, some foreign currency, trade and oil rich local economies in the East have had trade and budget surpluses coming into the recession. This means that these local economies will have relative freedom of manoeuvre to invest in their own progress and the progress of other local economies globally.
- *Major trading partners.* Though many local economies in surplus are experiencing relative isolation from the recession they will eventually begin to see a fall off in aggregate demand. As economies which purchase the oil and goods of local economies in the east such as Dubai and Beijing slow down, demand will fall and the negative effects of this will be felt in the supplying local economies.

Responses to the economic crisis by local leaders worldwide

Overview

Better than at any other time during the crisis so far, local leaders are organising to build and deliver effective initiatives to respond to the downturn. Many are striking an effective balance between short-term so-called “fire-fighting”

initiatives and longer-term strategies to position their local economies for sustainable recovery. As will be explored, though we may categorise the responses to the crisis in the same way as its impacts, local leaders are tending to develop a holistic and integrated approach to combatting the downturn, where measures act in sequence and combination with one another.

Towards a coherent picture

Between just three and six months ago, a clear analysis of the responses of local leaders to the crisis was particularly difficult. This was largely due to the fact that many local economies were in shock as a result of global economic instabilities and few had crafted any sort of coherent response.

Though complexities undoubtedly remain particularly in relation to the variety of responses crafted, building a coherent picture of the responses of local leaders to the crisis is now more straightforward. One reason for this is that local leaders have been more effective at communicating their response to the crisis rather than its impact. Another reason is that more localities have now formulated a more coherent response.

Nonetheless, as with the impact of the crisis, it is still helpful to categorise the responses to provide a structure for analysis. Two main criteria are used: (1) five thematic responses; and (2) short-term and long-term responses (Annex Table 6).

Table 6. Principal local responses to the economic crisis

Theme	Response	
People and Labour Markets	<ul style="list-style-type: none"> - Workforce investment - Tax cuts or freezes - Social initiatives 	Short-term
Local Economic Resilience	<ul style="list-style-type: none"> - SME support - Rate relief - Tourism promotion 	Short-term
Quality of Place	<ul style="list-style-type: none"> - Innovative financing and PPPs 	Short-term
	<ul style="list-style-type: none"> - Long-term strategy - Innovation promotion - Green sector investment - Branding - Hard infrastructure investment 	Long-term
Local Governance and Leadership	<ul style="list-style-type: none"> - Recession strategy - SPV creation or direction - Budget adjustments - Cost saving - Central and regional government alignment. 	Short-term

Local responses to the economic crisis: the key trends

As with the impacts of the crisis, it is possible to group the variety of responses into: (1) People and Labour Markets; (2) Local Economic Resilience; (3) Quality of Place; (4) Long-term Strategy and Positioning; and (5) Local Governance and Leadership. Unlike with regard to impacts, there is a clear clustering of responses in particular sub-categories, namely workforce investment, SME support, infrastructure investment and special purpose vehicle (SPV) creation or direction. It is also noteworthy that these responses display a range of different time-scales in terms of their intended effects. It appears local economies recognise the importance of striking a balance between short-term mitigation and long-term gain.

- *People and Labour Markets:* As we have seen from the impacts discussion, unemployment and job losses represent a common impact and relate directly to social concerns. Therefore it is unsurprising that workforce investment is so high on the agenda for many localities. There are many ways in which workforce investment responses have been articulated on the ground across the 41 local economies reviewed. They include: (1) Job creation and placement; (2) Rapid and targeted response; (3) Skills development and training; and (4) Careers advice and targeting young people. Though significant social initiatives were observed in localities such as Milan, Warsaw, Cape Town, they tended to be less prevalent than the other types of people and labour market responses recorded.
- *Local Economic Resilience:* SME support is by far and away the most prevalent response of local leaders to the downturn in this category. Just 15 of the 41 localities reviewed did not consider it one of their primary responses to the crisis. Rate relief and tourism promotion were key responses for localities such as Cardiff, Prague, Riga and Auckland. The responses in this category tend to be short to medium-term in relation to their intended outcomes and impacts. Tourism promotion, however, could be considered part of a long-term strategy and positioning initiative depending on the locality's relation to the sector.
- *Quality of Place:* Innovative financing and PPPs is a reasonably popular method of responding to the crisis, particularly in North American and Asian local economies such as Los Angeles, New York, Beijing and Hong Kong. At this time of reduced public finance, this

response is critical to the maintenance of investment into the local economy. Without it the attractiveness of place will decline, damaging the localities longer-term image and status.

- *Long-term Strategy and Positioning:* Infrastructure investment is highly regarded as a sustainable long-term strategy in dealing with the recession, keeping workers employed and ensuring the locality will be in a good position when the economy picks up again. It is no surprise that all but 11 localities describe it as a principal response to the crisis. A number of localities are re-orientating their economies to embrace the likely post-recession global economy. As a result, innovation promotion and green sector development has been a popular key response in cities such as Aarhus, Budapest, Hong Kong, Vienna and Zurich. To pull together these themes and promote them to the world to achieve better international positioning localities such as Beijing, Hong Kong, Helsinki and Barcelona have or are adopting long-term strategies coupled with branding exercises. Branding is particularly popular in Asia and Central and Eastern Europe; localities which are not as globally connected and well known.
- *Local Governance and Leadership:* Along with SPV direction, central and regional government alignment is the most popular strategy, with the vast majority of localities undertaking such an initiative. Local economies which have created or directed SPVs tend to also have a distinct recession strategy. For instance, Hong Kong's "Task Force on Economic Challenges" has a role in shaping and delivering the localities Economic Stimulus Package.

Table 8. Principal local impacts of and responses to the economic crisis

Theme	Negative Impacts	Response
People and Labour Market	<ul style="list-style-type: none"> · Unemployment and job losses · Civic unrest and social problems · Social concerns 	<ul style="list-style-type: none"> · Workforce investment · Tax cuts or freezes · Social initiatives
Local economic resilience	<ul style="list-style-type: none"> · Tourism reduction · Decline in growth rates · Trade reduction · Business confidence reduction · Consumer confidence reduction · Firms closing/downsizing · Worsened business conditions · Financial sector turmoil 	<ul style="list-style-type: none"> · SME support · Rate relief · Tourism promotion
Quality of Place	<ul style="list-style-type: none"> · Property market decline · Construction/Investment reduction/pause 	<ul style="list-style-type: none"> · Innovative financing and PPPs
Long-term Strategy and Positioning	<ul style="list-style-type: none"> · Identity, competitiveness or status weakened 	<ul style="list-style-type: none"> · Long-term strategy · Innovation promotion · Green sector investment · Branding · Hard infrastructure investment
Local Governance / Leadership	<ul style="list-style-type: none"> · Fiscal resources and budget reduction · Uncertainty 	<ul style="list-style-type: none"> · Recession strategy · SPV creation or direction · Budget adjustments · Cost saving · Central and regional government alignment.

Local impacts of and responses to the economic crisis: the key trends

- The evidence suggests that the impacts of and responses to the economic crisis are many and varied. However, it is possible to group both the impacts and the responses into five categories which include: (1) People and Labour Markets; (2) Local Economic Resilience; (3) Quality of Place; (4) Long-term Strategy and Positioning; and (5) Local Governance and Leadership.
- This analysis suggests that to an extent, it is possible to link the response of local leaders to the impacts of the recession (Annex Table 8). For instance, the Long-term Strategy and Positioning category suggests that the negative impact “Identity, competitiveness or status weakened” could be addressed using a combination of the five responses “Long-term strategy”; “Hard infrastructure investment”; “Innovation promotion”; “Green sector investment”; and “Branding”. This hypothesis is also borne out on the ground. London is an excellent example here. London’s identity and status has been questioned. As a result, it is pushing forward hard infrastructure projects such as CrossRail and improving its international promotion strategy as well as undertaking a process which could lead to the creation of a new Economic Development Strategy (EDS).
- There are many other examples of how negative impacts in a given category are met with a response in the analogous category.
- Nonetheless, it is important to note that isolated solutions to singular negative impacts has not been a strategy pursued by local economic leaders. Local development is a complicated and integrated science. As a result, local leaders tend to develop a package of solutions which operate in sequence and combination to mitigate the short-term impacts of the crisis and position localities for long-term recovery. Following the London example, local leaders are addressing the negative impacts of the crisis in a holistic way, utilising a range of solutions from the full range of the five themes we identify in this paper.

Table 9. The leadership agendas of selected localities

Locality type	Locality	Leadership type		
		Anti recession strategy	Taskforce or Advisory or Focus group	Event/Campaign
Western Europe	Aarhus	New urban strategy	-	-
	Barcelona	Re-articulation of existing urban strategy.	-	Commitment to the new European Urban Investment Network. They are to hold the October 2009 meeting. The OECD LEED programme will meet twice in Barcelona.
	Berlin	Regional development organisations published «Berlin Trotz der Krise» or «Berlin despite the Crisis»	-	-
	Bilbao	Economic Acceleration Agreement, to be developed over four years.	-	-
	Birmingham	Published document «Birmingham: Global Slowdown - Local Solutions», the locality sets out its intention to focus on two themes: (1) supporting Birmingham's businesses; and (2) supporting Birmingham's people.	-	-
	Brussels	-	A special unit, called «Médiateur de Crise»	-
	Cardiff	-	Cardiff Ambassadors Programme	-
	Glasgow	-	Glasgow Economic Advisory Board	A meeting in November 2008 brought together more than 400 people with discussions covering a wide range of issues related to the crisis
	Liverpool	-	-	-
	London	Mayor's Economic Recovery Action Plan	London Business Advisory Council	RRRLEL network meeting at the Department for Communities and Local Government
Warsaw	No written document but a definite strategy	-	-	

RECESSION, RECOVERY AND REINVESTMENT : THE ROLE OF LOCAL ECONOMIC LEADERSHIP IN A GLOBAL CRISIS.

Leadership type		Overall leadership style
Alignment and collaboration	Communication	
City focusing on developing a new long-term strategy in response to the recession rather than short-term fixes.	-	Calm, strategic, confident
The OECD LEED programme, together with the City of Barcelona, is launching a one year network of local leaders who want to take practical action to address the economic crisis.	Re-communication of certain elements of long term strategy. Mayoral speech making.	Strategic, collaborative, and humanistic
High level of cooperation at the regional level between key stakeholders.	The relaxed approach of the city has led to a low level of communication emerging from the City Council	Confident, relaxed
Enhanced vertical collaboration between the regional government of Bizkaia and the Basque government as well as increased horizontal collaboration with other regional governments in the region, Gipuzkoa and Alava. Rejuvenation of public / private relationships	-	Collaborative, considered, visionary, strategic
-	Very thorough written document. Part of the strategy has been the re-communication of what is already being done.	Determined, entrepreneurial, confident and thorough.
«Médiateur de Crise» groups together most of the significant economic actors in the Brussel-Capital region and gives enterprises strategic guidance so that they may overcome the current crisis. Designed to promote the city's «offer» to potential investors, it was launched by the Cardiff & Co public-private partnership in partnership with Cardiff University, UWIC and the University of Glamorgan in March 2009. High profile ambassadors from the world of business, academia, sport and entertainment are tasked with positioning the city as a destination of choice for potential investors and conference organisers.	High-profile communication style	Bold, innovative
The collaborative approach of the locality has been galvanised by the Council Leader. Many key stakeholders include: City Council, Scottish Enterprise and Glasgow City Marketing Bureau, and the Glasgow Economic Partnership	The Council Leader has been excellent in delivering his messages, particularly verbally.	Confident, decisive, rousing, proactive
Liverpool City Council is pooling resources and data with Liverpool Vision (the locality's development agency), The Merseyside Partnership, Liverpool Chamber of Commerce, Business Link, and Regional Development Agency	-	Vigilant, steady as she goes, and calming.
-	Written documents and Mayoral speechmaking.	Thorough, responsive, vigilant
The Mazowsze Region has obliged local officials to act along a set of specific principals	Lack of written and spoken communication likely because of the relative lack of negative impacts the locality is experiencing.	High level regional involvement, positive

RECESSION, RECOVERY AND REINVESTMENT : THE ROLE OF LOCAL ECONOMIC LEADERSHIP IN A GLOBAL CRISIS.

Locality type	Locality	Leadership type		
		Anti recession strategy	Taskforce or Advisory or Focus group	Event/Campaign
Central and Eastern Europe	Budapest	-	Budapest Development Council	Panel discussion with Hungarian Minister for National Development and Economy, chief architect of Budapest and chairman of Budapest Business Region in March.
	Vienna	Anti-recession Package	-	Week-long campaign for Vienna's small and medium-sized enterprises (SMEs) from 16 to 20 February 2009.
North America	New York	Federal Economic Recovery Bill: Priorities for the City of New York	-	-
Asia	Mumbai	-	-	-
	Hong Kong	Economic Stimulus Package	SAR Task Force on Economic Challenges	-

The leadership agendas of selected localities: the key trends

Local leadership is fundamental to building and delivering an effective response to the economic crisis. It facilitates key strategic relationships and collaborations, sets short-term goals and unites local actors, builds business, investor and consumer confidence as well as setting the longer-term agenda for recovery.

Building on Table 9, we identify a number of key actions undertaken by local leaders to tackle the economic crisis, capitalise on the opportunities it provides and stimulate effective short-term responses and long-term recovery:

Public communication: The impact of good public communication cannot be under-estimated. It galvanises key stakeholders into action and can create the necessary sense of unity within a locality which is needed to see it through the worst of the downturn. Effective communication can take either a written or verbal format. Either way, however, it should balance style with

Leadership type		Overall leadership style
Alignment and collaboration	Communication	
The central government and the Budapest local council have established a body to coordinate development plans.	-	Innovative, collaborative, outward-looking
Good level of collaboration at the city scale. The SME campaign was supported by The City of Vienna together with the Vienna Economic Chamber, the Vienna Chamber of Labour and the five largest Vienna banks	Open style from senior city politicians. Events help to attract positive media attention	Collaborative, responsive,
Alignment with National Government stimulus package	Mayor Bloomberg has a high level of media exposure and makes passionate speeches on the subject.	Proactive, united front, determined
The Indian Financial Ministry will take up 49 recommendations for restructuring the country's financial regulations after the forthcoming general election. The aim is to make Mumbai the world's new financial services hub.	The City is publishing a number of strategic documents which support the process of positioning of Mumbai for long-term recovery.	Opportunistic, positive, confident, strategic
City Chief Executive has called for regional economies to act together upon the principals of openness, transparency and fair competition.	Communicating a change from the big market, small government philosophy to regular and appropriate government intervention to protect citizens	Responsive and strategic

real substance. Some leaders' communication has been directed purely at an internal city audience, whilst others', more innovatively, have used it to attract external attention from popular media (e.g. New York's Mayor Bloomberg); from investors (e.g. Cardiff's Ambassador's programme); or from other scales of leadership (e.g. Toronto's Mayor David Miller). The example of the communication "Birmingham: Global Slowdown - Local Solutions" illustrates that a revitalised communication strategy of existing initiatives can be as valuable as creating new initiatives. A speech by Steven Purcell, Glasgow's City Council leader shows how speech making can set goals behind which local actors can unite. Purcell argues that:

"In these difficult economic times, we are going to need Team Glasgow to pull together more than ever. This is not a time for any of us to retreat into our bunkers, whether it's public agencies or private commerce, we must stick together and do what is right for our city."

Transparency is a further issue to address in relations to public communication. New York in particular has seen this as a priority. As Mayor Bloomberg proclaims that:

“Transparency allows the public to see exactly how their elected leaders are performing, and to hold them accountable for results. Particularly in a down economy, it’s important to know that your tax dollars are being put to the best possible use.”¹⁰

New York City has launched a tool that lets citizens track how the city is using the stimulus dollars from the American Recovery and Reinvestment Act. They’ve also made city government more transparent through the “Citywide Performance Reporting Online System”.

Event/Campaigns: As much as persuasion and influence by inspiration and well articulated strategy is key, the significance and complexity of the crisis mean that communication must be underlain by tangible campaigns and events. Many cities have articulated solid policy recommendations within an “anti-crisis strategy”. Other initiatives have taken the format of more discrete campaigns such as in Glasgow where free parking was provided in all Council car parks and Strathclyde Partnership for Transport park-and-ride car parks on the last Sunday before Christmas 2008.¹¹ Other localities have decided to take a more practical approach and organise events, hence facilitating interaction, and public awareness of both the impact of the recession and the proactive stance that the local leaders are taking. A good example is an initiative in Pittsburgh where the Mayor called on local residents to “build wealth, not debt” by signing up to be a “Pittsburgh Saver” - part of a weeklong, national initiative, called “America Saves”. The initiative aimed to increase awareness of the need to save money and commit to a financial goal such as buying a house. It was coordinated locally by the Financial Education Consortium of Southwestern Pennsylvania and NeighborWork®. Other localities have recognised and acted upon the importance of collaboration in dealing with the economic crisis, by sharing best-practice and pooling resources. As such, a number of localities have participated in and hosted networks (e.g. Barcelona), panel discussions (e.g. Budapest) and large local meetings (e.g. Glasgow).

- *Strategies:* To provide direction, a sense of unity behind and coherence around responses to the crisis, it is important that local economies build strategies in response to the recession. Strategies assign

specific roles to stakeholders in local development, such as development agencies. Without such strategies it is difficult for individual organisations to react and reorganise to combat the recession in an effective way.

- London released its “Economic Recovery Action Plan” in December 2008, New York City has its “Financial Recovery Bill: Priorities for the City of New York” Report, and Lyon has published its “Au-delà de la crise? Aider les entreprises à garder le cap” (“Beyond the crisis ... helping companies to stay on course”) in December 2008. Other local economies, which haven’t been affected as rapidly as European and American localities, such as Auckland, are in the process of developing their strategies. Others, whilst having not articulated a specific anti-crisis package, have a good range of complementary measures in place, such as Warsaw. Some localities’ response to the recession has been the alteration of their long-term strategy, such as Barcelona, whilst others, such as Aarhus and Bilbao, have used the crisis as an opportunity to devise a new urban strategy which will be implemented over a number of years. Cape Town has a different circumstance. Without alteration, its long-term strategy is already supporting the locality through the recession.

Taskforces: Hong Kong and Glasgow are good examples of local economies which have set up taskforces to support the crafting and implementation of local scale policies to combat the crisis. These are usually composed of business leaders and talented economists. The Glasgow Economic Advisory Board comprises of Sir Tom Hunter, Willie Haughey, Jim McColl, Akmal Khushi and Dr Lesley Sawyers.¹² Morgan Stanley Asia Chairman Stephen Roach and Li & Fung Ltd. Chairman Victor Fung were among ten people installed at the head of a public-private task force set up in Hong Kong to respond to the credit crisis. Proposals from task force members have been aimed to turn the crisis into an opportunity for the SAR, enhancing its international competitiveness. The SAR’s Task Force on Economic Challenges has examined the industries in which Hong Kong has a globally competitive edge, subsequently inviting experts to put forward concrete suggestions. London has also set up a London Business Advisory Council including representatives of business, the Greater London Authority group and other partners to assess the needs of London’s economy and to tackle emerging issues.¹³

- *Alignment and collaboration:* With the recession such a complex issue, learning from other actors and leveraging a variety of resources is essential to combat it successfully. Collaboration can take a number of forms.
- With the recession being a national as much as a locally-based problem and with vast resources at its disposal, local governments are exploiting the opportunity to leverage support from national and federal governments. Cologne authorities have based their anti-crisis strategy mainly on obtaining additional funds from the national stimulation package. In other localities, the regional government has taken a particularly prominent position. For example in Warsaw, the Mazowsze Regional Government has announced a succession of anti-crisis measures which will impact upon the locality¹⁴. Likewise, Bilbao will be strongly influenced by the Economic Acceleration Agreement, signed by the Basque Government and the three Regional Governments of Bizkaia, Gipuzkoa and Alava. There has also been international cooperation. In May 2009 Singapore announced its support for a plan whereby Malaysia will build an enlarged economic zone incorporating the city-state that would foster closer economic co-operation between the two countries after years of animosity. The Iskandar Malaysia project in southern Johor state has been backed by the government at recent bilateral talks, and would triple the effective size of Singapore, playing a comparable role in regional economic development as Shenzhen/Guangdong performs for Hong Kong.¹⁵

Collaboration between local Council Departments has also been enhanced. In Tokyo, the TMG is joining with support organisations such as Tokyo Metropolitan Small Business Center and the Tokyo Chamber of Commerce and Industry, to launch the Tokyo Project for Management Improvement. This project employs business consultants to visit 2,000 companies during 2009/10 to provide advice for better management.¹⁶ Another example is from Paris where various municipalities have coordinated their activities to support employment and business activity during the economic crisis.

The evidence shows that the process of engagement of local economies with regional and national governments thus far can be described as both active and passive:

- *Active local engagement with regional and national governments:* the locality is proactive in making its case for central government investment and support.
- *Passive local engagement with regional and national governments:* the locality waits for central government guidance and resource allocation and attempts to shape outcomes.

Because the leading local economies in the world tend to be at the top of their national urban hierarchies and their health has far reaching impacts, they find it far easier to make a case for central government funding in a proactive way than smaller, less confident localities and regions. For instance, New York has been very proactive in lobbying central government for funding support.

Discussion

Q. What should local economic leaders do now to make the most of the situation?

Local economic leaders are the figureheads of the fight against the downturn. Figures such as Boris Johnson (Mayor of London); Cllr Steven Purcell (Council Leader of Glasgow); Michael Bloomberg (Mayor of New York); and Petra Roth (Lord Mayor of Frankfurt); Donald Tsang (Mayor/Chief Executive of Hong Kong), Renate Brauner (Executive City Councillor of Vienna); Nicolai Wammen (Mayor of Aarhus) and David Miller (Mayor of Toronto) have all very different leadership styles. Yet, on closer inspection, similarities between what they are doing begin to emerge. Key lessons include:

- *Communicating effectively.* Communicating what is already happening and what new initiatives are being undertaken, either in hard copy or speech format is an important task for the local economic leader. It creates a sense of unity, civic pride and purpose, and can galvanize stakeholders and residents into action in the face of the downturn. Jordi Hereu, Mayor of Barcelona, is particularly effective at passionately and powerfully articulating his vision for Barcelona through the recession;

“Barcelona, even in these times, especially in these times, is a solid project, a solid reality...construction of this solid reality will enable us

to tackle, and overcome, a complex period of our economic and social history. So, building the future of Barcelona and fighting the crisis are one and the same thing.”

- *Use expertise.* It is important to use the know-how and expertise of economists and business leaders. As well as style, leadership should have substance and impact. By organising teams of key informants and stakeholders it is likely the locality will be better placed to emerge from the downturn. Donald Tsang, the mayor of Hong Kong, in setting up his public-private task force to respond to the credit crisis, ensured that it included business leaders Morgan Stanley Asia Chairman Stephen Roach and Li & Fung Ltd. Chairman Victor Fung.
- *Engage with the business community.* As critical pillars in the system of local development and major employers efforts must be made to understand the situation of business leaders from all sectors and of all sizes. This will allow the locality to retain more businesses and to craft packages to isolate them from the downturn to an extent. Positive and genuine relationships during a recession are likely to be lasting and positive with the capacity to deliver positive results around investment attraction in the recovery and upturn phases of the business cycle for instance.
- *Innovate or be visionary.* The recession will reorder many traditional patterns of trade and reorganise old urban hierarchies. This will give local economies with clearly articulated visions and identities the opportunity to thrive if they act on opportunities and deliver on their strengths. For instance, new trading partners will emerge from the east – these local economies should be engaged with to pull the struggling local economies out of the downturn.

Q. How can national governments, trade unions and private sector partners support localities at this time?

Apart from the action of local economic leaders and councils, the other two key stakeholders in pulling local economies out of recession are national governments and the private sector. We summarise below the ways in which they can support the process of making local economies resilient and stimulating recovery.

National governments

- *Be decisive and set the agenda.* Often, an effective response requires national government to take the first steps. This sets the agenda and budgets and lends confidence to those within the urban development system that what they are doing is right under the given circumstances. Without this decisiveness, many key organisations and stakeholders are left waiting, which will only deepen the downturn.
- *Resource programmes which promote resilience and recovery.* It is important to both plan the action needed to pull local economies through the worst of the recession and to allocate resources (funding, time and expertise) to help facilitate this process. National government can by providing explicit guidance on what it has available and what local economies should look to do to secure resources.

Collaborate to compete. Excellent vertical collaboration should take place between all levels of governance to ensure that resulting strategies and coherent and complementary. This will maximise their impact in the long-term. Helsinki Governance has heeded this lesson. There is a new dialogue between the cities in The Helsinki Metropolitan Area and the state government. A Competitiveness Strategy for the Helsinki Region has very recently been drawn up by the municipalities of the area in cooperation with other stakeholders.

Prioritise. Though difficult, national government must prioritise where, when and who it supports. Strategic sectors, failing and resource scarce local economies should be given priority support by central government for instance. It is important that governments conduct an honest assessment of where local economies and sectors within them stand. This should be used to justify interventions. Equally, national governments should offer local economies more power when appropriate. A recent bill approved at the end of April by the Italian Parliament devolved fiscal powers to local governments. A special measure was issued for Rome. This reform, called “*Rome Capital*” has given to Rome for the first time more powers over taxes and spending. It will see Rome receiving national funding of over EUR 500 million per year.¹⁷ As a result, Rome will be administratively and financially autonomous and have more powers in sectors as tourism, trade, environment, urban development and transports.

Trade unions

Trade Unions have a key role to play in both identifying where companies and whole industries are in trouble and in considering how they best be supported. They also play key roles in building worker participation into company restructuring and in supporting people who have lost their jobs.

Local jobs pacts. Trade Unions have a crucial role to play in supporting local jobs pacts which bring Government, Business, and Trade Unions together at the local level to ensure that jobs are retained in the local economy wherever possible through flexible collaboration. In the case of the Barcelona motor industry the process of downsizing has started but the two main companies have compromised - after negotiations with the trade unions and the public authorities- to produce new models in their Barcelona plants in the next few years.

Using the intelligence function fully. Trade Unions often foresee how a company is performing from the “shop floor” perspective. They are often able to see challenges ahead and debate them with company leaders before they become major problems.

Acting early to support company re-engineering. Company restructuring works best with active trade union support especially at speed and flexibility are often required to implement changes quickly.

Supporting displaced workers. Trade unions can play key roles in supporting people who lose jobs and are often well placed to run advisory services and advocate for re-training. They are also often in a good position to support and help with temporary and intermediate employment programmes.

Private sector partners

Build robust relationships. There is a strong possibility that recession conditions may damage emerging and established fruitful relationships. New economic realities will test relations between the public and private sectors. Questions emerge as to how robust and sustainable are existing relationships and whether each party will be capable of openness, trust and placing themselves in the position of the other to come up with necessary solutions. In more trying times, when profits are in decline, it may become easier for the private sector

to blame the public sector of inflexibility for instance. As a result, with the risk of a breakdown of important collaborative efforts between the public and private sectors comes an increased risk of a more acute investment gap in local economies worldwide.

Be proactive. Local government often does not have the tools to engage effectively with the private sector even given its importance the system of urban development. Business leaders should actively approach key public sector organisations and figures to broker deals, reaffirm common goals and set visions of where the locality could and should be. Business leaders should also approach the public sector with an agenda of their own and not necessarily wait to be given one.

Q. Are there particular implications for local development agencies?

As the orchestrators of the local development and investment promotion system, local economic development agencies have a fundamental role in increasing the resilience and ensuring the recovery of the local economy in the face of recession conditions. In the face of the recession Barcelona Activa, the local development agency, is particularly important. Formally it has four strategic pillars to its work (1) employment policies, (2) human capital, (3) business creation, (4) business growth. All these pillars are reviewed regularly to ensure the response to the recession is as effective as it can be.

The need for a local-scale solution to the problem of recession is recognised by many. As Councillor Margaret Eaton, Chair of the Local Government Association (UK), suggests, the recession will hit different parts of the country in very different ways.

“It is clear that a national, one-size-fits-all approach to dealing with the recession simply isn’t going to work. The research shows that the fastest way to get out of recession is for more decisions about the economy to be taken at the local level...With greater freedoms over transport, infrastructure, planning, economic development and skills, councils would be able to do even more for local people.”¹⁸

As Cllr Eaton suggests, councils have their role to play, but the tools at the disposal of development agencies position them to add real value to the crafting and implementation of resilience and recovery strategies. Specifically, local development agencies are able to:

- **Aggregate** otherwise disparate economic development efforts within one body which can generate real expertise and track record of delivery.
- **Increase the pace** of the locality's response to investors/developers.
- **Enlarge the scale** of the implementation which is possible, often by enabling delivery on multiple programmes and projects simultaneously, by commissioning additional resources quickly.
- Enhance the **reputation and credibility** of locality "negotiators", giving an external investor confidence in the process of decision taking.
- Find appropriate means to **share costs and risks** between those promoting developments and investments.
- Develop mechanisms for **value and benefit capture**, enabling some of the fruits of economic development to be recycled within local budgets and programmes.
- **Unlock otherwise under-used assets**, for example in real estate or infrastructure.
- Devise wholly **new sources and instruments for investment**, perhaps in partnership with private financiers.
- **Improve the investment-readiness** of key local projects, developing the propositions to make them more attractive to external investment.
- **Increase efficiency** in the utilisation of land, property and local investment markets.
- **Overcome "co-ordination failures"** arising from fragmented jurisdictions.
- **Promote and market** the locality or sub-region better, overcoming information gaps and asymmetries and building a clearer image and identity.

From our review of international experiences we can identify a number of key principals which will underline success for development agencies in tackling the recession. These include:

- **Focus on implementation at pace and scale:** a feature of development company success is that they pursue investment opportunities faster and at a larger scale than would normally be possible within a locality or local government.
- **Aggregate otherwise separate interventions to add value:** economic development efforts within local economies or regions are often subject to fragmentation of effort due to the multiplicity of funding streams and policy agendas which they support. They can act to aggregate otherwise disparate efforts, overcoming potential co-ordination failures and information asymmetries.
- **Focus on the customer:** an important reason for placing economic development activities within a corporate entity rather than a municipal structure is the ability of the Development & Investment Agency to offer a business-like environment and service offering, and the scope to manager customer relationships in a business-to-business model.
- **Adopt flexible spatial scales:** They can operate at a locality-wide scale but are also able to function at either more local or wider levels where appropriate. This is a source of significant value added, given that economic development challenges are often focused at local or sub-regional levels.
- **Achieve confidence of external investors and other businesses:** confidence of investors, developers, and business customers is an important ingredient in maintaining market position for local and sub-regional economies. They can act as the "commercial attachés" to business for a locality.
- **Become a tool maker and utilise existing tools fully:** economic development tools need to be utilised fully and new tools need to be made to fit new imperatives. These tools often involve the interplay of public and private interests and assets. They can be effective tool makers and tool users, combining different powers, resources and assets to make development happen.

- **Share risks and costs actively with partners:** they can operate as joint venture vehicles between different sectors and between different tiers of government.
- **Leverage assets and investment:** assets and private capital are key to reinvestment markets and Agencies can help to leverage them towards local economic development goals.
- **Refresh image and identity and communicate development progress:** image and identity is supported by branding and marketing activity which needs to be a focus of concerted action; co-ordination is essential.
- **Apply leadership to problem solving:** problem solving is key to making economic development successful. They are often able to supply the skills and approaches required, unencumbered by other mandates.

The range of tasks which agencies pursue varies enormously. It is not yet fully seen where development agencies will focus their efforts in combating the recession. It is likely that the menu will include some of the following roles and activities:

Strategic roles

- Fostering coalitions for growth initiatives.
- Co-ordination/leadership of local actors.
- Co-ordination/leadership of regional, national and international investors/donors.
- Monitoring the local/metropolitan economy.
- Strategic planning for economic and territorial development.
- Infrastructure and investment advocacy.

Asset and investment roles

- Land and property redevelopment and management.
- Fund management and direct lending/investment in firms and/or investment projects.
- Other forms of financial intermediation and income/resource generation.
- Management of grant aid for businesses and other organisations.

Innovation, enterprise, skills and employment roles

- Promotion of technology, creativity, and innovation.
- Workforce development and skills development.
- Employment creation and job brokerage.
- Fostering entrepreneurship and SMEs.

Promotional roles

- Territorial branding, marketing and facilitation of foreign investment promotion of other forms of external investment (tourism, events, trade, sports, students, etc.).
- Co-ordination of local marketing with multiple partners.
- Making the case of the locality to higher tiers of government and other jurisdictions.
- Project management and design of major projects or bidding for events.

Capacity building roles

- Capacity building and technical assistance for other local organisations and identification of good practices and learning models, cross-border, inter-regional, and international co-operation.

Balancing the short-term with the long: What are the implications for local economic development and investment strategies?

As well as being flexible enough to sure up the economy in the short to medium terms to limit the depth of the recession, it is important that local development and investment promotion strategies maintain a longer-term focus.

In the short-term, it is important that key dimensions of any strategy are recalibrated to make the local economy more robust and resilient to recession and its impacts. This means that local economic strategies should be renewed to retain jobs and investment, support SMEs and skill building agendas and to focus on improving the “product” (the locality). We see evidence of this, not necessarily in the retuning of strategies such as the London Plan and Economic Development Strategy or Step Change in Glasgow but by the addition of smaller and more flexible “top-up” plans or measures in the form of the Economic Recovery Action Plan in London and the clutch of measures announced by Council Leader Stephen Purcell in Glasgow. It should also be noted that there is some scenario and forecasting work built into the London Plan with one of the scenarios dealing with the threat of recession.

In the more medium term, it is important that there is a robustness to local economic strategy which focuses the locality’s energies behind a set of criteria which will ensure the locality succeeds across a full business cycle. These factors, which are listed below, describe what the locality should look like coming out of recession and so local economic strategies should look to build around them in the medium term. In particular, it is important to note that this recession will see a reorganisation of global capital in such a way that the mayor municipal investors of the future will most likely come from the East. Local economies such as Sheffield in the United Kingdom and Toronto in Canada are in the process of building strategies with this in mind.

The list below describes the themes common to successful local economies in the medium term.

- Connectivity and space to grow.
- Quality of life and place (e.g. urban design).
- Skills of labour force.
- Innovation and creativity.
- Entrepreneurship.

Long-term local economic success, across many business cycles is different, however. It is about maintaining and marketing the locality as open and attractive, as having a deep entrepreneurial spirit and about building a genuine local brand which is consistent with the locality’s distinctive historical and local assets. In this way, the local economic strategy should be robust enough to the recession to maintain focus on the key pillars of long-term local economic success. Singapore’s recession strategy seems particularly advanced in this manner. The city-state was considered to have had few tools at its disposal, given its typically strict policy on limiting budget deficits, and dependence on global growth and trade (and not on domestic consumption). Officials nevertheless announced a SGD 20.5 billion (USD 13.6 billion) stimulus package in January 2009, which at 8% of GDP makes it among the biggest of local economy stimuli in Asia. 2009’s budget deficit of SGD 8.7 billion is expected to amount to 6% of GDP as a result. The stimulus programme’s main aim was to save jobs and prevent the current unemployment rate reaching 4.5%. Over the longer term it is set to help Singapore’s ambitious pre-recession plan to a private banking and gambling hub rivalling Monaco.

A successful local economic strategy should focus on international positioning, sustainability, openness, branding, leadership, and the arts. Very interestingly, one of the factors identified in long-term success is the ability of a locality to adjust to shocks such as recession conditions, which highlights the need for local economic strategies to address the issue front on to ensure resilience and to promote recovery. As many other local economies across the world are allocating significant resources to reduce the negative impacts of the recession, Aarhus is looking to directly benefit from the downturn by planning to establish itself a more important position in the European and global settlement hierarchy. As local economies which have suffered acutely through the recession emerge less sure about their roles in these hierarchies, there is a distinct opportunity for Aarhus to emerge relatively unscathed, with confidence and a clearly articulated offer, brand and renewed sense of purpose.¹⁹

In all, the recession is an important time to plan and bring forward long-term thinking which differentiates the locality from others and make a compelling case for the future. Longer term goals such as environmental sustainability and quality of life should not be forgotten; they are key to future investment.

Q. How should investment agendas be organised?

From the results of our analysis and discussion, we have devised a number of steps which localities can take to better withstand the recession and to retain investment and development momentum. Though there are many other, Table 10 also identifies a number of promising finance practices which seem to be working in spite of the crisis.

- *Focus on retaining investment, business, incomes and job.* A major effort should be on retaining and supporting firms and investors in order to retain jobs and incomes in the local economy. These are critical to retaining populations which is important for longer-term investment overall. "The Vienna labour market package" for 2009 was presented in February by Executive City Councillor of Finance, Vice-Mayor Renate Brauner and Federal Minister of Labour, Social Affairs and Consumer Protection Rudolf Hundstorfer. Of the additional EUR 33 million in this year's package, EUR 10 million of this will be provided by the City of Vienna and the remaining EUR 23 million by the Vienna labour market service. The new package should benefit around 2 500 people. In Shanghai vocational training plans have been instituted to help more than 150 000 local students who graduate in 2009 to find employment.
- *Manage assets and resources differently.* Public assets such as land and buildings can be important ingredients in making investment work. Localities can consider how to use "none-cash" resources better to incentivise private investors.

Use the time to develop long-term investment strategies and investor relationships. The recession is an important time to plan and bring forward long-term thinking which differentiates local economies from others and makes a compelling case for the future. Longer term goals such as environmental sustainability and quality of life should not be forgotten: they are key to future investment. In addition to the intensive building plans, Zurich is continuing to concentrate on green investment. The city has committed itself to the 2000 Watt-Society and agreed in May 2009 on a CHF 200 million credit line for wind-energy projects.

Localities in the wider Mumbai region - including Thane, Kalyan and Dombivli – are to become part of an international branding exercise aimed at raising the locality's profile to attract infrastructure investments. Branding of Mumbai is also gaining new ground so that it can attract more investment for its financial institutions.²⁰

- *Make public investments which will attract private investment.* Public investments should be designed to attract private investment not substitute for it. The basic rule for achieving both high ERR and IRR from developments should be observed.
- *Make improvements in the three other drivers of investment and in integrated planning.* When capital is tight it is important to address other investment drivers and ensure that they are performing optimally. Therefore, attention to skills and knowledge, the institutional framework, and to effective collaboration are essential during the recession.
- Overall, Local governments have several key roles to play in using resources and assets differently to innovate in local investment:
- Maintaining key local investment projects may require local government to shoulder more of the financial burden than previously anticipated. Structure borrowing by local governments is one way to keep mayor projects going.
- Applying flexibility to partnership and costs sharing agreements with private sector is essential given that few business models for collaboration anticipated the scale of the current crisis.
- Using local government land assets in more flexible ways to encourage co investment or to defer payment for land into the future is also.
- Reducing the direct costs of some local services is also a means to support people who have lost jobs of income.
- Using tax increments and subsidies to incentive investment by making otherwise unprofitable opportunities worthwhile.

Going forward the economic crisis is likely to herald a new period on innovation in local development financing, partly as a result of cash constraints coupled with the need to rebuild local economies. This is an important opportunity to find new ways to invest in local development so that it produces wider returns for public and private investors.

Table 10. Promising practices: finance mechanisms during the downturn

Promising practice	Detail
Municipal bonding to facilitate new and stalled infrastructure projects *Miami – Miami Marlins Stadium Roof*	From April 2009, Miami-Dade County began a bonding process to finance a USD 633 million new retractable-roof stadium for the Miami Marlins during the heart of the crisis. Enabled by the improving market for municipal bonds, the city commission authorised the administration to sell up to USD 698 million in bonds. USD 70 million are to be sold backed by convention development tax revenues. A further USD 237 million will be backed by tourist development and professional sports facilities franchise tax revenues. A ceiling for interest rates will be enforced that would necessitate withdrawing from the deal before 1 July 2009. The debt will be structured over 40 years, and depends upon a return to normal growth by 2012-2013, although the county's general fund will act as a secondary pledge on the bonds, to increase investor confidence. ²¹
Use of guarantees to secure credit for SMEs *Brussels – Fonds Bruxellois de Garantie*	To ensure the liquidity of SMEs during the crisis, the Brussel-Capital Regional Company for Investments (Société Régionale d'Investissement de la Région de Bruxelles-Capitale - SRIB) and its affiliates Busat, Busoc and BZE offer short-term loans to SMEs and employers in the Region. To secure part of the risk related to these investments, the Brussels Guarantee Fund (Fonds Bruxellois de Garantie) will follow up and secure the short-term loans requests introduced by SRIB. This is a temporary measure, effective from 15 February 2009 until 31 December 2009. ²²
Tax levies and increments *Los Angeles – «Measure R»*	According to the Los Angeles County Economic Development Corporation, «Measure R» will help fund dozens of long-delayed critical transport and highway projects. It will also create more than 210,000 new construction jobs and redirect up to USD 32 billion back into the local economy, according to. The Measure represents a half-cent surtax and will provide USD 40 billion funding for traffic relief and transportation upgrade throughout the county up to 2040. The Measure was pushed through against the odds following a two-thirds approval from the public in November 2008 and will go live in July 2009. The largest proportion (35%) of the funds will be spent on new rail and/or bus rapid transit capital projects. USD 241 million has been earmarked for 2009-10 alone in this area, with almost USD 3 million planned over the next ten years. Early work is likely to include an extension of the Expo Line from Culver City to Santa Monica, an extension of the Gold Line from Pasadena to Azusa and placement of a light-rail line along Crenshaw Boulevard in South Los Angeles. A further 20% has been established for highway investment, and another 20% for general operations. It also includes fare freezes. ²³ In the first full year of implementation (2009-10), 88 local jurisdictions in LA County are expected to receive a total of over USD 100 million (15%) for urgent projects such as pothole repairs, street resurfacing, left-turn signals, bikeways, pedestrian improvements, streetscapes and traffic signal synchronisation. ²⁴
Value Capture Finance *Birmingham – Section 106 Agreement brokering*	Section 106 is the UK's voluntary system of negotiating and agreeing development contributions to local planning authorities at the time when planning permission is given. Section 106 has delivered huge gains to the UK taxpayer in the form of affordable housing, and social and transport infrastructure. As a result of the downturn, many developers have threatened the withdrawal of their development plans. Responding flexibly, Birmingham has undertaken a process of recalibrating a number of Section 106 agreements in the city. By reducing the demands on developers to contribute to the wider public good in exchange for planning permission, the city has ensured that development progress in Birmingham will be maintained. One such example relates to the developers ADC which are overseeing the construction of the first phase of the GBP 500 million Birmingham Arena Central. ADC refused to set a start date «in the current climate», raising fears the scheme could stall. In a bid to keep the scheme on track, Birmingham City Council has let the company stagger a GBP 5 million payment towards transport improvements, rather than pay the whole sum upfront. ²⁵

CONCLUSIONS

This paper has examined the impact of and responses to the global economic crisis across 41 local economies.

Because the profile of each of these localities differs they are each impacted by the economy in different ways: some subtle, some profound. Nonetheless, more of a convergence exists when we examine local responses to the economic crisis. This paper identifies five main categories of local response: 1) People and Labour Markets; (2) Local Economic Resilience; (3) Quality of Place; (4) Long-term Strategy and Positioning; and (5) Local Governance and Leadership. Within these categories there are a range of more specific initiatives which, even though the recession is still complex and unfolding, are yielding success.

The Barcelona Principles for promoting recovery and reinvestment

The purpose of this paper is to provide rapid intelligence of successful responses crafted by local leaders from around the world to prevent, mitigate and even capitalise on the impacts of the economic crises in other localities.

To guide this process, ten principles to recovery and reinvestment in the world's local economies have been developed. Conceived at the network's March 2009 meeting in Barcelona with local leaders, the OECD LEED Programme and Barcelona City Government, these "Barcelona Principles" represent an aggregation of the approaches of many local leaders in different places.

Because many local approaches to the crisis remain underdeveloped, these principals offer further support and guidance in the construction of crisis prevention and mitigation strategies. They are crafted to underpin successful recovery and reinvestment into local economies to make them sustainable and successful over the long-term.

The Barcelona Principles include:

i) Don't waste the crisis, but respond with leadership and purpose
"Provide pro-active and collaborative leadership at the local level"

Purposeful leadership is required at the local level for many reasons. Working to understand, interpret and communicate the local impact of the crisis is a fundamental first step to recovery. Because the local impacts of the downturn will be diverse and distinctive from the overall national impact this will begin to reduce uncertainty, restore confidence and establish a foundation from which a rationale of how to respond can be set out.

Local leaders should embrace this process of evidence-based assessment, with rigour and precision. Such assessment should consider both the impact on places and on people, and they should recognise that both are important. It is through the clear and confident communication of such evidence that local leaders can energise and bring together diverse stakeholders to further build a picture of the impact of the recession but also build and deliver appropriate downturn management strategies.

Few leaders have control over all of the levers of local economic performance

so by fostering this sort of collaboration and achieving influence they are better able to achieve coordinated and integrated action against the recession.

Collaboration should also not just cover sectors within the local economy but should embrace inter-municipal and inter-local efforts. The needs of the whole economic space, and not just the municipality, should be the focus.

Overall, local economic leaders may wish to maintain focus on the key long-term drivers as well as short-term challenges, differentiate between long and short-term responses and embrace the need for both to begin immediately. They should seek to understand the difference between social and economic imperatives, subsidies versus investments, temporary versus permanent approaches.

Make wider changes which are needed now, do not **"waste the crisis"**. Local leaders should recognise that the recession is an opportunity to do better than in the past and to embrace fresh long-term thinking about the local economy and take time to consider long-term strategy especially in respect of investments, markets and the long-term geography of trade.

Crises are times to change the rules and terms of engagement for the long-term.

Most local economies have inherited some unhelpful customs, practices, or rules which hinder long-term economic performance. This crisis is a good opportunity and rationale to make changes in the institutional and operational framework which are good for the future.

ii) Make the case for continued public investment and public services and the taxes and other sources of investment required.
"Make the case for public investment."

Continued public investment and services, and the taxes and other sources of investment required to fund them. During a recession public investment becomes even more important and less affordable than usual. Demand for public support increases from people and firms who are no longer supported by the market. It is essential for local leaders to make a vigorous case for public investment, for taxes and levies, and for the services they resource.

Without sustained public investment local economies will slip further into degradation than they otherwise would and require massive later reinvestment if they to come out of the cycle of decline.

iii) **In the long-term: build local economic strategies which align with long-term drivers and identify future sources of jobs, enterprise, and innovation.**

“Robust long-term economic strategy.”

Build sustainable and long-term local economic strategies which align with long-term drivers and identify future sources of jobs, enterprise, and innovation. Local economic leaders should bring forward strategies which are based on an evidence-based evaluation of what is working elsewhere and has worked during past crises. Strategies which recognise the long-term drivers of growth and change and which identify future sources of innovation, growth, and productivity will be the most successful. Though tempting and politically valuable, short-term measures can perpetuate the economic un-sustainability which is at the heart of most recessions. Long-term goals such as productivity, innovation, sustainability, equality, and creativity do not disappear, but are made more important by this crisis. Drivers such as knowledge economy and innovation systems, population diversity, environmental sustainability, global trade, human development and enrichment (including tourism, entertainment, and culture) will remain long-term sources of productive job growth.

Local economies will re-emerge through investment based on sound platforms which encourage and resource entrepreneurs, innovators, sustainable job creation, and productive services.

iv) **In the short-term: focus on retaining productive people, business, incomes, jobs, and investment projects.**

“Purposeful short-term action is needed.”

Helping people to adjust to changing opportunities and forms of employment and housing is a key opportunity and requirement. Many people are losing either their jobs or their homes or both. Local economic leaders cannot house and employ many of them, but they can make sure that help is at hand to adjust and settle them into new arrangements quickly.

Retaining and supporting firms and investment in order to keep jobs and incomes in the local economy should be a central focus of local leaders in the short-term, but should not to the detriment of long-term stability. This is seen as critical to retaining population which is important for longer term investment overall. Local leaders should endeavour to be realistic and targeted. They recognise that it may not be possible to protect all locations, jobs, projects, investments, and sectors but it is important to focus on those which have long-term productive potential.

In general, local economic leaders are promoting good supply side interventions which make the local economy more productive in the medium and long-term rather than trying to subsidise or artificially stimulate jobs and activities.

There is great scope for intermediate and social employment programmes which advance environmental sustainability or other public goals and add to the performance of localities.

v) **Build the tools and approaches to attract and retain external investment over the long-term.**

“Investment attraction and readiness.”

A critical short and long-term issue is reinvestment. Making local economies attractive for reinvestment requires a clear strategy and a balance between investment opportunities, investment readiness and investment tools.

Local leaders should engage actively in mechanisms to retain and maintain investment and protect jobs over the longer term if they are sustainable. When capital is tight it is also important to review other investment drivers such as the use of assets, brand, collaboration, project preparation, project management and ensure that they are performing optimally.

Supporting relationships with investors, image and identity, skills and knowledge, the Institutional Framework, and to effective collaboration are also all essential during the recession.

Local leaders have to **make the most of what they have already**. This means using existing resources and investment tools fully or communicating existing initiatives more effectively. Local leaders are recognising that some developments, infrastructure and assets will be under-utilised during the recession and are taking active efforts to identify intermediate uses and other asset management strategies to ensure that they are fit for purpose when demand improves.

Public assets such as land and buildings are seen as important ingredients in making investment work. Localities should consider how to use “none-cash” resources better to incentivise private investors.

Most local economies have inherited some unhelpful customs, practices, or rules which hinder long-term economic performance. This crisis is a good

opportunity and rationale to make changes in the institutional and operational framework which are good for the future.

Where appropriate, leaders should identify investment opportunities which localities can take directly in their own long-term interests (*e.g.* acquiring strategic real estate which is currently discounted) and look to develop partnerships with new investors coming from non-traditional sources.

vi) Building genuine long-term relationships with the private sector, trade unions, and other key partners.

“Relationships matter and need increased attention.”

Local economic leaders should recognise that new models of partnership will be necessary in the future. These relationships should bring inclusive dialogue and support together from a wide range of sectors.

Engaging directly with private sector employers and investors is critical to understanding the conditions they face and to encouraging their active participation in recovery. Engagement with Trade Unions is essential to ensure active policies which support work and incomes over the long-term.

This type of mature and open debate with private sector employers and investor is critical to maintaining long-term momentum in local economies and to managing short-term challenges.

Partnership with trade unions is critical to job retention and future expansion.

vii) Take steps to ensure the sustainability and productivity of public works, infrastructure, and major developments/events.

“Effective public works and major catalysts.”

Where programmes of “public works” are undertaken, local leaders should focus on those which have a long-term alignment with the localities development objectives. They should not support the short-term rationale of creating jobs which may not be sustainable. Public investments which can attract private investment not substitute for it, should be pursued. Local leaders are seeking to use public works to promote wider goals of innovation, energy efficiency, economic inclusion.

It is important that infrastructure investments undertaken will deliver productivity and sustainability goals and that employment is really generated

by them. There are important local development actions required to ensure that job benefits flow to those who are otherwise excluded from work.

Localities which are hosting international events such as Olympics, World Cups, and others will find that these “public works” have both short-term benefits and the long-term potential of helping to re-position their local economy. Exploiting the short-term benefits fully as well as the long-term requires dedicated planning and skilful intermediation.

viii) Local leaders should act purposefully to support their citizens in the face increased hardship

“Stay close to the people.”

Local leaders know that, ultimately, local economies are about the people who work, visit and live in them. Recession threatens directly the quality of life of these people and therefore the health of the locality as a whole. Local leaders should put in place new and additional support to help citizens deal with the changes and challenges which recession and economic crisis bring.

A strong focus of citizen long-term interests is essential for local leaders. The quality of local services and support directly impact on the experience of the crisis.

ix) Local economies have benefitted and should continue to benefit from being open and attractive to international populations and capital

“Stay open to the world.”

There are pressures to adopt “local protectionist” approaches as well as national ones. Perceptions that international workers and immigrants, or international firms, are part of the problem and should not now be welcomed, may become rife. It should be remembered that local economies have benefitted enormously from being **open and attractive to international populations and capitals**, and having a distinctive appeal internationally will be important throughout and after the crisis. So, local leaders can demonstrate and promote the importance of remaining open and enlisting continued investment and immigration as a future source of growth.

Being open is more than embracing global flows of population and capital, it is also about learning from and sharing in the lessons and experiences of others.

x) **Communicate and align with national and other higher tier governments**

“Build national-local alliances.”

Whilst local economies have specific needs which will vary within any national context, they also need national support if they to succeed in the long-term, and many of the responses to the current crisis need to national and international.

Local leaders are working in **partnership with national and higher tier governments** to ensure that the national responses are both worthwhile and deliverable on the ground, and have every opportunity to succeed. Local leaders can help ensure that national solutions are sensitive to local needs and variables and that they are deliverable in all locations.

The principles in practice

The following illustrations provide some selected examples of how local economic leaders are taking actions which illustrate the ten principles well.

i. **Don't waste the crisis, but respond with leadership and purpose.**

“Provide pro-active and collaborative leadership at the local level.”

New York

New York has worked to obtain maximum resources from the national stimulus package through swiftly drawing comprehensive and convincing plans for their intentions for the funds. Leadership transparency has been a key strategy to retain support throughout the recession and Mayor Bloomberg, with his effective communication style, has successfully leveraged global media attention, energised partnerships and rallied support.

When President Obama pledged an economic recovery package which will cost a minimum of USD 800 billion over two years,²⁶ New York drew up “Financial Recovery Bill: Priorities for the City of New York Report” - a wish list of items Mayor Bloomberg wanted to finance in his locality. By setting out the case action and detailing specific priorities, New York showed itself to be purposeful and investment ready, making it more likely to receive the lion's share of the recovery package.²⁷

Mayor Bloomberg has become something of a spokesperson for the role of local economies in combating the recession. His media exposure, combined with a passionate and emotive communication style, means he is effective at rallying support. These points are illustrated in the following speech excerpts:

“If we have learned anything from the post-9/11 years, it is that localities cannot wait for national governments to take action. In New York, financial services account for only 10% of our workforce, but 35% of all wages. When Wall Street catches a cold, the rest of the city sneezes. That is not going to change anytime soon, but it is our job to prevent that sneeze from becoming pneumonia.”²⁸

“More difficult times may lie ahead but time and again, our unity, spirit, and willingness to stay focused on improving this locality for the next generation have brought us through every storm, of every kind.”²⁹

New York has also been at the leading edge of increasing the transparency of local government and leadership during the economic crisis. Mayor Bloomberg proclaims that “transparency allows the public to see exactly how their elected leaders are performing, and to hold them accountable for results. Particularly in a down economy, it's important to know that your tax dollars are being put to the best possible use.” The locality has launched a tool that lets citizens track how its leadership is using the stimulus dollars from the National Recovery and Reinvestment Plan. It can be found on the city's website. Local government has also been made more transparent through the Citywide Performance Reporting Online System.³⁰

ii. **Make the case for continued public investment and public services and the taxes and other sources of investment required.**

“Make the case for public investment.”

Barcelona

Barcelona has remained committed to its long-term strategy, ensuring the sustainability of investments rather than relying on quick fix projects and weak financial arrangements. Certain elements of the long-term strategy have however received renewed attention.

Rather than transform it, the economic crisis has brought into focus certain elements of Barcelona's long-term strategy. Barcelona's leadership remains

committed to the locality's long-term ambition of building on the success of the 1992 Olympic Games and completing its transformation from a relatively unknown textile city to a world class knowledge economy. A key current issue for the local economy is to ensure the long-term sustainability of its investments during the downturn, rather than rely on short-term quick fix projects and weak financial arrangements, which may perpetuate current economic instabilities. This shrewd approach has seen Barcelona achieve an AA+ credit rating. The leadership believes that the ethos of sensible and sustainable investment that it has previously followed must continue to be the foundation of Barcelona's urban economic policy in the future, regardless of the context. Local leaders are committed to recalibrating public private partnerships in the face of the crisis to yield new mechanisms for and sources of investment. At the same time, the requirement to better communicate the benefits and importance of local taxes is also acknowledged.³¹

iii. In the long-term: build local economic strategies which align with long-term drivers and identify future sources of jobs, enterprise, and innovation.

"Robust long-term economic strategy."

Aarhus

As well as formulating short-term plans to counteract the crisis, Aarhus is currently focussing on the preparation of a new long-term urban strategy, which plans for exceptional growth.

As well as formulating short-term plans to mitigate the impacts of the recession, the Aarhus City Development Team is currently engaged in the process of preparing a new urban strategy for the local economy. It builds on the previous economic development action plan "Growth in Aarhus IV". This new urban strategy sets key targets and presents a vision of exceptional growth in Aarhus over the next 20 years. It sees the locality growing by 25%, gaining 75 000 more inhabitants, 20 000 new homes, 50 000 more jobs and 10 000 more students. At the same time, it sets Aarhus the goal of being CO₂-neutral by 2030.³² According to Mayor Nicolai Wammen:

"We are focusing on maintaining the growth that is the basis for the city's prosperity and welfare, not least in a period characterised by headwinds in the financial markets in the in the entire Western world."³³

iv. In the short-term: focus on retaining productive people, business, incomes, jobs, and investment projects.

"Purposeful short-term action is needed."

Vienna

Throughout 2009 and to a large extent in response to the economic crisis, Vienna will be pumping an additional EUR 33 million into its labour market. The principal aims of the 2009 'Vienna Labour Market Package' are to support: (1) Young people; (2) Apprentices; (3) Re-employment schemes; and (4) Individuals on training leave.

Of the EUR 33 million package, a total of EUR 10 million will be provided directly by the City of Vienna. The remaining EUR 23 million will be provided by the Vienna AMS labour market service. All in all, the new package will support the working population in a number of ways and is predicted to benefit around 2 500 people across the locality.

Some of its key compentes include: (1) the creation of 350 new re-employment scheme places designed to assist small and medium-sized enterprises in particular; (2) increasing the range of qualifications which the Vienna Employment Promotion Fund traditionally already offers; (3) increasing the number of apprenticeships offered in conjunction with the AMS labour market service from its current level of 3,500 to 3,750; and (4) paying 50% of external training costs for companies suffering a short-term decline in orders or temporarily in economic difficulties due to the economic crisis.³⁴

v. Build the tools and approaches to attract and retain external investment over the long-term.

"Investment attraction and readiness."

Toronto

Invest Toronto was created in November 2008 to strengthen the attraction of investment to and retention of investment in Toronto. Though not specifically incorporated to counteract the crisis, timing meant that its development has been shaped by the present economic situation. As a result of its downturn calibrated new tool to secure long-term investment in the local economy, Toronto is well placed to respond to the global recession.

To make Toronto the world class, competitive gateway to North America it wants to be, local leaders initiated a process of re-organisation and recalibration of its system of economic development and investment promotion in the summer of 2008. The result was the creation of a new dual-development agency system. Specifically, the incorporation of Invest Toronto in November 2008 and its subsequent development against the back drop of the global economic crisis positions the locality to respond effectively. Invest Toronto's primary roles will be to attract and retain external investment to and in Toronto over the long-term.

vi. Building genuine long-term relationships with the private sector, trade unions, and other key partners.

"Relationships matter and need increased attention."

Barcelona

At the same time, Barcelona has launched an innovative new agreement between the public, private and trade union sectors, making it a role model for tripartite engagement.

The Urban Investment Network is an initiative developed by the Urban Land Institute in collaboration with a group of leading cities and private sector organisations in Europe. Launched in September 2008, the Urban Investment Network is a new cross-sector European network designed to promote and facilitate world class investment in urban development. The network's Founding Partners included Allianz, ECE, Eurohypo and ING Real Estate as well as the City of Barcelona. Since its launch a number of other leading organisations and cities have joined such as the European Investment Bank and the OECD.³⁵

The Agreement for Quality Employment in Barcelona 2008-2011 is an instrument based on which the City Council of Barcelona, Comissions Obreres (Trade Union) of Barcelonès, the UGT (Trade Union) of Catalonia, Foment del Treball (The Department for the promotion of Work), PIMEC (the organisation for promoting SMEs) and, for the first time, the Generalitat de Catalunya define and agree the framework and priorities for developing active employment and local development policies in the capital of Catalonia.

Renewing past agreements, the pact was signed in May 2008 and has become increasingly effectively employed since. It has the main objective of promoting a:

*'quality and inclusive labour market, with a high level of productivity and one that generates professional opportunities for everyone, committed to the economic growth of the City of Barcelona that incorporates more added value and innovation and that allows the reaching of high levels of competitiveness, welfare and social and territorial cohesion.'*³⁶

vii. Take steps to ensure the sustainability and productivity of public works, infrastructure, and major developments/events.

"Effective public works and major investments."

Miami

Miami is in the process of updating its new zoning code to encourage developers with projects in the pipeline to continue work. Local leaders have also brought forward planned public investments, including transport projects, a port of Miami Tunnel development and a new roof stadium for the Miami's baseball team. These have been financed by different means, ranging from federal funding, to the creation of innovative advertising spaces to selling municipal bonds.

Miami's Downtown Development Authority has proposed changes to the City of Miami's new zoning code in order to protect existing properties and guarantee property owners more development rights. The revision is intended to help developers who have projects in the pipeline but who cannot move forward in the current economic climate. The authority's conditions include:

- Providing specific details on the city's methods to calculate fees under Miami 21's public benefits programme, whereby developers looking for development bonuses in height or capacity pay a fee for such bonuses.
- Ensuring that rights downtown developers have received for projects under the existing zoning code are not lost.
- Extending automatic extensions for existing development permits and approvals to six years from the code's inception, with potentially unlimited extensions beyond that time.³⁷

Miami is also benefiting considerably from three concurrent federal funding programmes. Miami-Dade is to receive USD 69.8 million toward transport projects as part of the federal stimulus programme. The majority of the planned projects are geared toward circulator and trolley services, as well as bus shelters. The initial aim is to fund the busiest areas with the biggest transport needs. In order to fund the bus-trolley systems long-term, the city is considering making vehicles a chargeable advertising space. The transportation authority board has also proposed a 25% across-the-board increase in Tri-Rail fares, the first rise since 1995, to close the revenue gaps.

The delayed USD 1 billion Port of Miami Tunnel project has been pushed back onto the agenda. Local elected officials and the Downtown Development Authority have been extremely active in keeping the tunnel project alive in recent months.³⁸

viii. Local leaders should act purposefully to support their citizens in the face of increased hardship.
“Stay close to the people.”

Glasgow

As a practical and symbolic gesture in support of people across Glasgow, the Leader of Glasgow City Council, Councillor Steven Purcell launched the “Glasgow Living Wage” in March 2009 set at GBP 7 per hour.

The “Glasgow Living Wage” represents a guaranteed minimum wage for all Council employees. It will mean that the basic salary of the lowest paid Council workers will increase by over GBP 1 100 per year.

According to Cllr Purcell:

“It is simply unacceptable that almost one in five of Glasgow’s workers are paid less than GBP 7 an hour and the Glasgow Living Wage has the potential to make a huge difference to thousands of families across the city... In times of economic difficulties, we know that the lowest paid workers suffer disproportionately. I believe that the introduction of the Glasgow Living Wage is the right thing to do and it is another vital step towards ensuring that all of our citizens can share in the city’s success... We will work with employers in the public, private and voluntary sector to encourage them to pay low paid workers a decent wage, potentially affecting up to 80 000 people across the city.”³⁹

ix. Local economies have benefitted and should continue to benefit from being open and attractive to international populations and capital.

“Stay open to the world.”

Auckland

With the aim of improving employment opportunities among newcomers to Auckland, the Future Auckland Leaders (FAL), an alliance of urban leaders, launched the Opportunities for Migrant Employment in Greater Auckland (OMEGA) initiative in March 2008 to integrate skilled foreign workers into the local labour market. Though inaugurated before the recession the initiative is gaining momentum and has reported some impressive statistics in spite of the global

The OMEGA programme is designed to match migrants with mentors who can provide advice, support, information and contacts, so that each migrant can obtain employment in the industries in which they are qualified. It consists of three initiatives: (1) The Omega Internship Programme: Paid Internships of three to six months, designed to give skilled immigrants meaningful Kiwi work experience and tackle the initial barrier of “*No New Zealand experience, No work*”; (2) The Omega Mentoring Programme for Skilled Migrants: matching new kiwis with mentors who can provide advice, support, information and contacts. It’s also an opportunity for mentors to develop leadership capabilities and fine-tune their coaching skills; and (3) An Inter-Government Relations Group: a think tank designed to inform government planning and programming work.

OMEGA is endorsed by more than 30 of Auckland’s top employers, both from public and private sector, including the City Council, Deloitte, Vodafone and Air New Zealand. Since its launch in March 2008, over 50% of the migrant applicants have been matched with Mentors; over 70% of mentees that have completed the programme have found relevant employment; and the overall programme satisfaction is high for both mentors (90%) and mentees (87%).⁴⁰

x. Communicate and align with national and other higher tier governments.

“Build national-local alliances.”

Toronto

Toronto’s local leadership is convinced that the sharing of expertise and effective distribution of funding through collaboration with higher

tiers of government can undoubtedly build a more robust approach to the crisis at the local level.

In a letter to Dwight Duncan, Minister of Finance in the Ontario Provincial Government, Toronto Mayor David Miller called for unity of approach between the city, province and national governments in response to the economic crisis:

“The current recession and unprecedented economic uncertainty are having a profound effect on our communities. All orders of government should look to work together to combat current economic challenges. In view of the Federal Budget and upcoming Provincial Budget, Toronto continues to need a ‘seat at the table’ with the federal and provincial governments to ensure priorities are set so our collective efforts go into the right places and build a sustainable, prosperous future.”⁴¹

Final remarks: The crisis is also an opportunity

Whilst no local or national leaders wanted or hoped for this economic crisis, it has provided an important opportunity to:

- Recalibrate and revise long term local economic strategies based on the fundamentals of competitive advantage.
- Accelerate the drive for local economies to be better aligned with long term drivers such as sustainability, openness to international populations, distinctiveness of pace, and knowledge economy.
- Make programmes of support for people more flexible and intensive.
- Pursue local investment with greater innovation and vigour.
- Identify new catalysts for investment and development.

Several local leaders have responded with great courage to this challenge and have, as a result, begun the process of developing deeper and more robust local economic activity.

The last business cycle represented a prolonged period of growth that brought opportunities to many places. This crisis requires local economic leaders to work hard for jobs, investment, and development, and it requires greater targeting and more precise tools.

Local economic development will not, of itself, effectively counter the crisis, but local action of this kind was invented to respond to such shocks to the system and can make an important contribution to support national and wider efforts.

In particular, it is necessary for local economic leaders to work with business and other partners, in tandem with national governments to:

- Mitigate the worst impacts of crisis, support people and help with the process of adjustment to changed circumstances.
- Learn from the crisis about future economic strategy and positioning so that future local development efforts will be in tune with global and national drivers and be credible in attracting new external investment.

The drivers of local development and investment promotion remain the same. Long-term local success is driven by (1) Globalisation and trade; (2) Human capital, mobility, and diversity; (3) Demographics; and (4) Governance and environmental sustainability. Indeed, many of the responses localities have developed and kick started to fight the crisis are interventions which would have been happening anyway, but not with such pace or scale:

- Supporting leading sectors to re-emerge from the crisis.
- Promoting existing and future economic diversification better.
- Workforce investment.
- SME support.
- Long-term strategy and vision.
- Infrastructure investment.
- Innovative financing and PPPs.
- Alignment.

The economic crisis gives to local leaders the opportunity and obligation to instigate and deliver effective local development programmes. For the first time in a decade, they have the compulsion to innovate, sharpen strategies, tighten visions, position for long-term prosperity, and to unite citizens and stakeholders behind well-crafted local development agendas.

It is true to say that the crisis has stalled some progress, shaken confidence and requires some new approaches but it also provides an opportunity to

catalyse change at a breadth, depth and scale which has not been seen for a generation.

The vital ingredient is local leadership. Local leaders who see this crisis as a means to achieve and accelerate progress on longer term goals and to make reforms which overcome narrow vested interests and institutional rigidity, will prove that there are important dividends to be won from leadership in a crisis, which cannot be won at many other times.

**APPENDIX:
DETAILED COMPARISON OF THE IMPACTS OF
AND RESPONSES TO THE RECESSION AND CRISIS**

Description of principal negative local impacts	
THEME: PEOPLE AND LABOUR MARKET	Social concerns
<p>Civic unrest: As the recession deepens in local economies worldwide the likelihood of civil unrest increases as residents and workers take to the streets to air their grievances. They could be dissatisfied with the way the recession is being handled or could scapegoat certain minority groups, for instance.</p> <p>Crime: As citizens' access to capital, through employment, credit and so on declines some are forced to turn to crime to obtain an income. This impact tends to lag other impacts of the crisis.</p> <p>Poverty: The recession has brought an increasing marginalisation of poor communities. These are often the first to be impacted by increasing unemployment and consequently are unable to afford basic social amenities such as clean water, food and so on. This results in an increase in those requiring social assistance.</p> <p>Unemployment and job losses: As firms restructure to mitigate the impact of the recession and close or downsize, the most obvious result is the loss of employment. The ILO estimates that 59 million jobs will be lost in 2009.</p> <p>Reduced working hours: Some firms, in the hope of staying off the need to make large numbers of redundancies, reduce the numbers of hours worked per week by each employee.</p>	<p>Example(s) Riga: In January, Riga's citizens went to the streets to show their disapproval of the government. The gathering of around 10,000 demonstrators was the largest in the country since 1991. Following this large outburst of frustration, Riga experienced many other protests. Although demonstrators do not protest against the local government, the impact of such actions remains distinctly local.⁴²</p> <p>Heisinki: The economic downturn has led to a surge in reports of economic crime in the Helsinki region, with irregularities concerning bankruptcies having experienced a particularly sudden surge. The economic and property crime unit received 35 reports of suspected crimes in February 2009, compared 20 in the same period last year. Most of the recession-driven crimes focus on the construction industry, with nine out of ten requests for an investigation involving businesses in the construction business.⁴³</p> <p>Toronto: The figures for the number of people requiring social assistance per month have been rising since December 2007. In that month there were 72 784 cases, which rose to 81 067 in January 2008, which rose to around 90 000 at the start of the year.⁴⁴</p> <p>Example (s) Brussels: In March 2009 the unemployment rate increased by 6.5% in comparison to the same month in 2008, this growth represents also a month-to-month increase of 1.1%.⁴⁵</p> <p>Berlin: This has been a popular strategy, with 280 firms declaring this rate for 6 000 of their employees in February.⁴⁶</p>

THEME: LOCAL ECONOMIC RESILIENCE	Example(s)
Decline in economic growth rates Because urban areas are the fundamental drivers of national economies, a recession, defined as a «decline in Gross Domestic Production for two or more consecutive quarters», ⁴¹ and the decline of local economic growth rates go hand in hand.	Turin: According to the Prometeia figures, between 2008 and 2009, the Piedmont regional GDP will slow down and the signs of recovery will be visible starting in 2010. Recovery will accelerate in the following two years, a period when the average annual growth should be around 1.1%, with the Turin economy such a driver of regional GDP, the same trends are highly likely to be seen in the locality itself.
Worsened business conditions The crisis in the banking sector has resulted in many businesses finding it increasingly difficult to obtain credit, or the conditions offered are out of their capacity to meet.	Cologne: In April 2009, around 25% of surveyed companies declared that they suffer more difficult financing conditions compared to the year before. Furthermore, the number of firms which have been declined credit recently increased to 3.8%, compared to 1% the year before. ⁴⁸
Firms closing/downsizing There have already been a number of high profile victims of the present global downturn. With the recession originating and gaining speed within the financial services sector, this was the first area to be struck by closures and downsizings. The problem has now spread across sectors and is affecting businesses of all sizes.	Hong Kong: Fewer orders and tighter credit have meant that a high number of the 70 000 Hong Kong-owned factories in the Pearl River Delta have gone out of business. Lyon: During the first quarter of 2009, 2,926 employees were affected by bankruptcy procedures; an increase of 1213.95% over the first quarter of 2008.
Financial sector turmoil The financial sector was the first sector to be hit by the effect of the economic crisis. The degree of severity with which local economies' financial sectors have been affected varies greatly, depending on, for example, their global connectivity and previous lending conditions.	New York: In 2008, the securities industry rewarded USD 18.4 billion in bonuses to its New York City employees, 44% less than 2007, which totalled USD 32.9. Losses are projected to total over USD 35 billion in the sector. ⁴⁹
Trade reduction Changes in the global macro-economic environment can have important implications for local economies. For instance, fluctuations in the value of currencies can have important implications on international trade – a pillar of many local economies.	Marseille: The economic crisis has hit France's biggest port – Marseille-Fos with full force and it threatens social unrest. Traffic at the port has fell by 21% year-on-year since the beginning of 2009. Such drop in activity has been in part explained by the crisis in the steel industry and a decrease in shipping between Asia and Europe, which represents 60% of the container traffic at the port.

Tourism reduction With fluctuations in currency values and declines in purchasing power and consumer confidence, tourism can be hit hard by economic crises.	Cardiff: A Deloitte hotel occupancy survey showed that occupancy rates in Cardiff during the first quarter of 2009 stood at 59.6%, down from 64.8% last year. ⁵⁰ Paris: International passenger arrivals at the city's two airports were down 8.1% year-on-year in February, and hotel occupancy rates dropped 10%. Even visits to the Eiffel Tower have fallen 7% from last year.
Business confidence reduction Stung by the impact of unsuccessful speculation either by themselves or others, financiers at the current moment are tending to sit on, rather than invest their funds. As with a decline in consumer spending, a reduction in investment drives up important capital liquidity in the local economy and can create an investment gap in local economies.	Lille: The majority of entrepreneurs in the region participating in the survey conducted in the end of the year answered that they expected the next months to bring a slowdown. A study discovered that 35% of managers expected a fall in turnover, 39% flat results and 21% an increase. Industry exhibited a higher degree of pessimism (47% managers expected a decrease) while business services were slightly more optimistic (30% expected an increase).
Consumer confidence reduction In part driven by the tangible effects above and in part fuelling them, consumer confidence is integral to the health of local economies. By feeling comfortable enough to purchase (from local businesses), which leads to employment, profits and reinvestment, consumers can create a bottom up stimulus to the local economy. However, with the threat of job losses (which can be a disproportionate fear created by the media and by a general climate of concern) and the requirement of individuals to keep up mortgage repayments, many prefer to save than spend, which sucks the oxygen out of the local economy. This loss of consumer confidence is the key factor in completing the vicious cycle which could hold local economies under recessionary conditions until 2011.	Barcelona: The turnover for retail commerce fell by 5% in 2008. The inter-annual variation of the consumer price index was situated at the level of 1.8% in December 2008, and has continued to decline in 2009 (in March it reached 0.7%).

THEME: QUALITY OF PLACE Construction/investment reduction/pause	Example(s)
<p>Construction reduction/pause: As credit dries up and the property market stalls, many previously organised construction projects are cancelled or significantly delayed. This is a significant issue in many of the localities investigated.</p> <p>Investment reduction/pause: As credit is increasingly difficult to obtain or business conditions are no longer favourable in a given local economy investors can either halt their plans altogether or look to invest elsewhere.</p>	<p>Mumbai: The redevelopment of Asia's largest slum, the 535-acre Dharavi, has been stalled. Furthermore, a city government project to construct India's first offshore wind-power project near the Bandra-Worli sealink has collapsed.</p> <p>Prague: A reduction in local tax revenues in Prague will likely result in the delay of the construction of transport infrastructure, especially the metro extension and the inner ring road. The state funding of the locality's outer ring road, which will connect all the highways and fast roads near Prague and reduce traffic on the inner city routes, is also threatened. The realisation of some smaller infrastructure projects will also probably be delayed.⁵¹</p> <p>Auckland: Business investment intentions weakened in the December 2008 quarter with a net 48% of businesses expecting to invest less in buildings and a net 40% expecting to invest less in plant and maintenance in the next 12 months relative to the last 12 months.⁵²</p> <p>Shanghai: While Shanghai's foreign investment figures remain comparatively strong, especially in tertiary and state-owned industries, investment has fallen considerably in other areas. Investment from local hubs Hong Kong, Macao, Taiwan fell by RMB 18 billion (USD 2.5 billion) in the first quarter of 2009, down 23.9% year on year. Investment in primary industry fell 16.9%, while in secondary industry (mainly industrial investment) fell 5.9%.⁵³</p>
<p>Property market decline</p> <p>The knock-on effect of the downturn in general has been that the house price increase bubble has to a large extent burst. In the worst hit local economies, reports of significant depreciations in the value of the housing stock have been reported as the market readjusts.</p>	<p>Example(s)</p> <p>Edinburgh: house prices plunged by 10% in the last quarter of 2008.</p> <p>Turin: In the first quarter 2009, Turin registered one of the worst results in Italy with a reduction in the number of sold residential properties by some 20%.⁵⁴</p> <p>London: One impact of falling house prices means many elderly Londoners who had planned to release house price equity for their retirements now cannot.</p>

THEME: LONG TERM STRATEGY AND POSITIONING Identity, competitiveness or status weakened	Example(s)
<p>Competitiveness weakened: The onset of this recession marks the decline of an economic and urban settlement hierarchy orthodoxy which has prevailed since the last recession in the early 1990s. Indeed, with the emergence of the Chinese economy, there are those who argue this downturn could mark the watershed between the hegemony of western nations and a new and emerging hegemony in the East. Whatever the precise case, the prevailing global urban settlement hierarchy, and each individual locality's role within it, is undoubtedly evolving.</p> <p>Identity weakened: Many local economies, whether proactively or passively, have developed a strong national and international brand over the last few years. Often this brand has developed as a result of the economic success of the locality. With a weakening of the economic sectors which brought the local identity to prominence, the local identity itself is also weakened.</p>	<p>Zurich: The relatively high dependence of the Zurich economy on the financial sector could impact upon the local economy's competitive position within the national hierarchy as manufacturing, commodities trading and biotechnology sectors help make western Switzerland more diversified in comparison and hence more resilient to the economic crisis. If the financial sector continues to underperform over a long period Zurich may lose its competitive position as the nation's economic powerhouse to its close rival Geneva.⁵⁵</p> <p>London and New York: Confident local economies such as New York and London, whose economies were defined by their financial services cluster and high levels of global connectivity, now question the inevitability of these perceived strengths. Some would suggest that the identity and future of so-called global economies is now in question in the light of the global downturn.</p> <p>Los Angeles: The cumulative effect of job losses and project declines mean that Los Angeles' cultural pull as one of the world's film and art capitals has been irreversibly tarnished by the entertainment industry slowdown.</p>

THEME: LOCAL GOVERNANCE/LEADERSHIP	
Fiscal resources and budget reduction	Example(s)
<p>Declining tax receipts: As businesses close, people lose their jobs, consumers spend less money on the high streets and house prices fall, local economies suffer from a loss of tax receipts. This can have important knock on effects for the volume and the quality of local service provision which local economies can provide.</p> <p>Savings wiped out: The collapse of some banking institutions has caused the savings of a number of local authorities to be wiped out. This can present a threat to the stability of local government budgets.</p> <p>Uncertainty</p> <p>With an increase in real and perceived pressures associated with the risk of failure, there is a tendency for leaders at all levels in the public and private sectors to lose their way to some extent.</p>	<p>Zurich: 35% (2007) of the local tax income is derived from institutions such as UBS, Credit Suisse or Swiss Re, and 2008 tax incomes from financial service sector were CHF 400 million (around EUR 270 million) lower than budgeted for the last fiscal year. The consequence of such was that although local authorities initially expected a surplus of CHF 59 million, they closed the year with a deficit of CHF 179 million. It is the first negative year for Zurich after nine years of generating surplus.</p> <p>UK councils: Following the collapse of the Icelandic banking system, 123 councils in the United Kingdom are owed around GBP 920 million from money deposited in accounts held in the country.</p> <p>Example(s)</p> <p>Auckland: Because the tone of the response to the crisis was set by central government in New Zealand a number of local economies and the residents, businesses and other organisations within them were forced to delay their own plans to mitigate the impact of the recession. As soon as a clear sense of direction was given by central government local economies responded very effectively.</p> <p>Lyon: At the other end of the scale, leadership in the SME sector is also critical, particularly because many businesses in this sector sometimes lack the strategic thinking required to remain profitable through troublesome times. This subject is tackled head-on by the Lyon Chamber of Commerce and Industry, which suggests it to be a problem.⁵⁶</p>

Description of the principal positive local impacts	
Improvement in locality identity	Example(s)
<p>Though the transformation of the current urban hierarchy is potentially a challenge for established local economies, it presents an opportunity for local economies with less of a global presence. Many are looking to emerge from the recession with a clear and confident identity in order to establish themselves on the global stage.</p>	<p>Pittsburgh: Pittsburgh's success during the recession has been recognised worldwide. Indeed, the locality is ranked No. 6 on Business Week magazine's list of the best places to ride out a recession. Many experts to wonder if Pittsburgh could serve as a model to localities currently feeling the effects of the recession⁵⁷ and specifically Roberta Brandes Gratz, author of two books on urban development has declared that Pittsburgh's development is «something of a model». Pittsburgh is excited by this newfound global recognition and suggests the recession provides the locality with a unique opportunity. «As other localities founder, now is the time to bring new workers and life into our locality».⁵⁸</p> <p>Toronto: Toronto's conservative philosophy is now being recognised as less of a constraint and more of strength, and the locality is emerging with a more positive global image.</p>
<p>Employment</p> <p>Improvement in workforce composition. As workers lose their jobs or are no longer incentivised to work overseas because of declining remuneration packages, the attraction of a particular locality may disappear. Consequently migration between localities as workers move to those with more promising prospects of employment has increased. Alternatively, with a global economic decline, other factors such as proximity to family become more important. As a consequence, many localities are seeing an improved composition in their workforce in terms of education and skill.⁵⁹</p>	<p>Warsaw: There has, as a result of the financial crisis, been a flux of skilled workers back into Poland and particularly Warsaw from Western Europe where they were occupying low-skilled jobs at the bottom of the labour market, and with no protection from contracts. Many over-qualified Poles ended up working long hours in poor conditions. Now however, booming wages have meant that some workers are paid more in Warsaw than in parts of western Europe, analysts say.</p> <p>Paris: The locality has witnessed the return of considerable numbers of talented finance professionals from London.</p>

<p>Financial sector performing well: In past years, whilst certain locality's financial sectors were lending and investing freely, others were pursuing more conservative investment strategies. These have now served them well as the sector and locality is consequently less exposed to the crisis. These financial sectors have risen up the global financial hierarchy, further attracting investors who are looking for safe havens for their capital.</p> <p>Investments carried out more cheaply:</p> <p>In some localities, officials are finding that the economic downturn is helping them complete planned public investments at lower cost.</p>	<p>Example(s)</p> <p>Toronto: In contrast to much of the banking world, Toronto's banking sector has pursued more conservative investment strategies, leaving it less exposed to the recession. As a result, over the course of the recession, Toronto Dominion, has leaped from 15th largest bank in North America to the 5th largest.</p> <p>Example(s)</p> <p>Warsaw: Because of firms demanding lower costs, the locality has so far saved PLN 80 million. The economic downturn may also help in the job of preparing for Euro 2012 as demand for unrelated construction eases and prices drop. Marcin Herra, who heads the PL 2012 agency preparing for the event, said the global slowdown in investment increased developers' interest in key infrastructure projects, while falling prices of building materials should make the final price-tag lower. Furthermore, the migration of workers to other EU countries that left Poland short-handed is reversing as construction labourer's return to their homeland because of the recession.</p>
<p>Enhanced leadership collaboration and cooperation</p> <p>Against a backdrop of a difficult economic situation, many local governments have increased collaboration with public and private institutions. This is both to pool resources and share knowledge and best-practice. This enhanced spirit of cooperation is undoubtedly beneficial for the locality and the relationships forged will hopefully remain strong long after the recession is over.</p>	<p>Example(s)</p> <p>Bilbao: Concern about the downturn has created a new spirit of cooperation between the public and private sectors.</p>

Description of the local responses to the economic crises	
THEME: PEOPLE AND LABOUR MARKET	
<p>Work force investment</p>	<p>Example(s)</p>
<p>Job creation and placements: With people struggling to find employment and with the job market flooded, a service which supports the placement of the unemployed into newly created apprenticeships and jobs is key.</p> <p>Rapid and targeted response: Offering effective and specialist support of those at risk of redundancy and those made recently redundant helps maintain civic morale as well as maintaining and boosting productivity and employment.</p> <p>Skills development and training: Re-skilling for the new economies after the recession is important to increase productivity and reduce worklessness.</p> <p>Careers advice and targeting young people: By offering careers advice to school and university leavers localities are placing positioning themselves for more effective job market penetration and productivity.</p> <p>Tax cuts or freezes</p>	<p>Los Angeles: Los Angeles has introduced a strategy to put 16 500 young people in job placements. Community colleges across the locality will become home to WorkSource Centers, which aim to connect students to jobs and education to job placement.</p> <p>Birmingham: JobCentre Plus has expanded its Rapid Response Service, responding to redundancies with a tailored package of support for individuals at risk, or people who have recently lost their jobs.</p> <p>Glasgow: In February 2009, it was announced that Glasgow Locality Council is to be offered additional funding from the Scottish Government of almost GBP 6 million to help create an additional 1 000 new apprenticeships for school leavers.</p> <p>Pittsburgh: In March 2009 it was announced that almost USD 3 million in stimulus money from the Pennsylvania Department of Labour and Industry had been given to the Pittsburgh region for workforce investment. Most of the money will be used for additional training programmes and for an expanded summer youth programme.</p> <p>Example(s)</p> <p>Rome: The local government has cut ICI taxes (a rate on housing paid by citizens to the local administration). This is a great help as ICI was a significant tax on citizens.⁶⁰</p>
<p>To provide relief to citizens locally-wide many local governments have been quick to implement and communicate local tax freezes and even cuts. As well as reducing financial pressures this response is also symbolic and resonates with citizens.</p>	

<p>Social initiative</p> <p>To address the problems and vulnerabilities of particular socio-economic groups, local governments have implemented programmes aimed at improving the social and living conditions of their citizens.</p>	<p>Example (s)</p> <p>Cape Town: The 2009 budget is a pro-poor budget, or rather, pro-poverty alleviation. In a time of economic crisis, it offers more support to those in need than any previous budget passed in the history of the city. This increase in support to the poor includes the support of basic rights like the right to water, and socio-economic rights like housing. Cape Town Government has proposed in its 2009 budget a total amount of ZAR 1.01 billion for free basic services, which is more than double the amount of ZAR 456 million offered only three years ago and it includes free refuse removal at residential properties which have a value of less than ZAR 100 000 and 50 free units of electricity to a household if a household buys less than 400 units per month.</p> <p>Milan: The Province of Milan has created a EUR 25 million programme, called «<i>Alziamo la testa</i>» to help low income families and sustain employment. Much of its impact will be in the heart of Milan itself.⁶¹</p>
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THEME: LOCAL ECONOMIC RESILIENCE	
SME support	Example(s)
<p>Free advocacy: Sometimes lacking formal forms of support and fragile to the economic conditions the provision of free advocacy is tremendously helpful to SMEs. It gives SMEs the knowhow to act effectively in the face of the crisis.</p> <p>Winning business: At a time of declining profit margins, winning business is key to SME survival. By facilitating this process local leaders are very effectively supporting the SME sector.</p> <p>Specialist financing arrangements: to keep SMEs liquid in sparse times new forms of financing are being used by many localities.</p>	<p>Lyon: Beyond the aims of the Lyon CCI to: (1) observe and understand, (2) orientate and inform, and (3) act and advise it has created a seven-point rule book, which «an organisation should adopt, especially in times of crisis».</p> <p>Birmingham: Local businesses have asked for public sector contracts to be easily available on a web site. In response, BCC (Birmingham City Council) advertises all contracts worth over GBP 50 000 on its publicly available website.</p> <p>Paris: The locality is supporting financing of SMEs by subsidising of institutions which offer loans of trust, solidarity loans, and own equity. The municipal team will develop the system «Paris Finance Plus» which will offer an Oséo guarantee for SMEs looking for bank loans.</p> <p>Auckland: in 2008, AucklandPlus began a two-year pilot scheme of PLATO™ New Zealand, an international business mentoring and peer support programme. The two-year pilot, which began before the recession in Auckland, now plays an important role. It offers owners and managers of small and medium sized businesses a unique opportunity to receive comprehensive training and mentoring alongside like-minded companies.</p>
<p>Specialist training: Often lacking formal training and skill building schemes, SMEs benefit considerably from specialist training schemes in suitable environments.</p> <p>New support vehicles: some localities have created new teams and bodies to support SMEs. This allows such bodies to be populated by talented specialists and it can create a clear and obvious platform with which SME leaders can engage.</p>	<p>Lille: Lille Metropolitan Community has created a type of one-stop shop where any company facing an economic challenge can apply directly for assistance. The solutions adopted are described as «intelligent, pragmatic and very practical».</p>

<p>Rate relief</p> <p>Similar to citizen tax cuts and freezes, many localities are implementing and communicating tax and rate relief for businesses. Starved of credit and with margins tight, this response is designed to ease the pressure on the business community. By supporting the business community in this way local leaders are breathing oxygen into their economies – the back bone of successful localities.</p>	<p>Example(s)</p> <p>Business rates are set by national government, but the Council is supporting local small businesses to claim all the rate relief they are entitled to which could be as much as 50%, as well as other support such as VAT relief. BCC and partners are also lobbying the government to review its decision to delay business rates on empty properties.</p>
<p>Tourism promotion</p> <p>The crisis obliges localities to maximise their earning potentials. Many see tourism as a sector which can be better exploited to generate income for local government, business and citizens. With the reorganisation of the distribution of global capital associated with the crisis, it is possible that the emerging markets will provide significant proportions of the tourists of the future. Promoting tourism is also a means of diversifying local economies and minimising risk.</p>	<p>Example(s)</p> <p>Helsinki: To attract new visitors, both Helsinki and the neighbouring Espoo have renewed their web sites. Helsinki's new <i>Traveller's Guide</i> has been translated into eleven different languages and the new <i>Nordic Oddity</i> guidebook is geared specifically towards the more trend-conscious visitors.</p>

<p>THEME: QUALITY OF PLACE</p> <p>Innovative financing and PPPs</p> <p>With credit and debt finance difficult to come by and with many development projects planned to counteract the crisis new funding sources and mechanisms can help significantly. Localities have been particularly active here. Popular finance mechanisms include the leveraging of public land, enhanced PPPs, value capture, bond issuing, new taxes and levies and investment prospectuses.</p>	<p>Example(s)</p> <p>Los Angeles: The Mayor is exploring whether to privatise the Los Angeles Zoo and lease locality parking garages and meters, which together could raise hundreds of millions of dollars. Working with the Locality Council, the Mayor also intends to explore a series of public-private partnerships and advertising opportunities with the potential to generate over USD 1 billion in the medium-term.</p>
<p>THEME: LONG TERM STRATEGY AND POSITIONING</p> <p>Long-term strategy</p> <p>Resisting the temptation to respond to the crisis with reactionary, short-term measures, which may actually perpetuate the downturn, many local leaders are remaining composed. By focussing on the ingredients of local economic success over many business cycles and crystallising ambitions in the form of a strategy, local leaders are attempting to smooth boom and bust cycles and promote sustainable development.</p> <p>Branding</p> <p>To position their economies for long-term development and investment, many local leaders are rebranding their localities. It is possible that the recession could reorganise traditional urban settlement hierarchies. As a result, those which emerge with a clear vision and brand have the opportunity to reap significant benefits.</p>	<p>Example(s)</p> <p>Aarhus: Instead of formulating short-term plans to mitigate the impacts of the recession, the Aarhus Locality Development Team is currently engaged in the process of preparing a new urban strategy for the local economy to supersede its previous economic development action plan «Growth in Aarhus IV».</p> <p>Example(s)</p> <p>Helsinki: Helsinki has recently put in a bid to become World Design Capital in year 2012. The locality has said to need this process as fuel for both thought and action as Helsinki is facing a huge transition – socially, economically, and because of the upcoming development of whole new city sections. The process has already been good for Helsinki, increasing collaboration between different sectors and actors in the region. ⁶²</p>

<p>Hard infrastructure investment</p> <p>As a key component to local economic competitiveness many local leaders are supporting the construction of new and the modernisation of old infrastructure. Such projects can vary widely in scope but tend to involve high levels of investment in public transport systems, keynote mixed use developments and communications technology. Though many projects were in train before the crisis, the recession offers the opportunity to instigate new and reenergise old shelved projects. Such projects not only improve long-term competitiveness, they also provide a vital source of additional employment during the crisis. Most local economic leaders are aware that these initiatives should not provide short-term answers but must be sustainable and in line with the longer term development vision of the locality.</p>	<p>Example(s)</p> <p>Miami: The delayed USD 1 billion Port of Miami Tunnel project has been pushed back onto the agenda as a result of the crisis. In addition, Miami plans to spend: (1) USD 2 million in repairing the Brickell Key Bridge; (2) USD 56 million on surface transportation projects; (3) USD 5.5 million for enhancement projects; and (4) USD 76 million in shovel-ready transport projects of which municipalities will receive 20%.</p>
<p>Innovation promotion</p> <p>Localities across the world are attaching greater significance to the need to develop high value added activities in their localities. The support for and promotion of innovative activities underpins successful knowledge based economies world-wide. Such activities include for instance: high tech manufacturing, creative and arts-based industries, ICT and bio-medical firms. Though already underway in many localities, attempts to develop innovative activities to differentiate and diversify local economies have been accelerated in the face of the downturn.</p>	<p>Example(s)</p> <p>Milan: Milan has devised a Programme for Innovation supporting innovative research and development projects in ICT, fashion, energy and food sectors, undertaken by SMEs set up by young entrepreneurs. The programme will be financed with through a sum of up EUR 6 million by the Council and will see the partnership of Chamber of Commerce, city universities, National Research Council and Assolombarda (Province of Milan Firms Association).⁶³</p>
<p>Green sector development</p> <p>Though easy to ignore during economic crises, many localities are investing in their green sectors. With green technology likely to become more important and demanded into the future local leaders are taking the opportunity to integrate it more directly into local development agendas. Investing in the green economies of localities also fits well with the need to adopt sustainable approaches to urban development towards the future.</p>	<p>Example(s)</p> <p>Los Angeles: Clean technology has been earmarked as a key priority, with efforts to cement Los Angeles' reputation as a world capital of the green economy. The Solar L.A. plan aims to transform the locality into a clean energy hub, by using the high number of green buildings to create a regionally-competitive job site in sustainable construction.⁶⁴</p>

<p>THEME: LOCAL GOVERNANCE AND LEADERSHIP</p> <p>Budget adjustments</p> <p>Faced by revenue pressures and with the need to position their local economies for long-term recovery and development, local leaders have used their budgets as tools to tackle the recession. More precisely, local governments have increased taxes, altered their priorities and supported strategic sectors economic diversification as well as social progress.</p>	<p>Example(s)</p> <p>Toronto: On the back of scenario work and a risk assessment, the 2009 Toronto municipal budget has been adjusted to take into account the impact and potential impacts of the recession. Highlights include: (1) Increased allowance to match increasing social assistance caseloads. The new budget allows for 90 000 cases per month; (2) Fare Freeze and the delivery of the Ridership growth strategy to grow Toronto Transit Commission ridership numbers.</p>
<p>Tourism promotion</p> <p>The crisis obliges localities to maximise their earning potentials. Many see tourism as a sector which can be better exploited to generate income for local government, business and citizens. With the reorganisation of the distribution of global capital associated with the crisis, it is likely that the emerging markets will provide significant proportions of the tourists of the future. Promoting tourism is also a means of diversifying local economies and minimising risk.</p>	<p>Example(s)</p> <p>Helinski: To attract new visitors, both Helinski and the neighbouring Espoo have renewed their web sites. Helinski's new <i>Traveler's Guide</i> has been translated into eleven different languages and the new <i>Nordic Odality</i> guidebook is geared specifically towards the more trend-conscious visitors.</p>
<p>Recession strategy</p> <p>To alleviate the short-term distress of businesses and people caused by the economic crisis, many localities have adopted specific short-term anti-recession strategies. Though many take the form of a written document, these strategies can also be informal understandings between key socio-economic stakeholders in the development process.</p>	<p>Example(s)</p> <p>Warsaw: The locality has not announced an official anti-crisis plan as yet. However it clearly has a strategy. A range of measures have been articulated from enhanced PPPs to SME support.</p> <p>London: The Mayor's Economic Recovery Action Plan (December 2008). Key pillars include: (1) Helping Businesses; (2) Helping Londoners; (3) Positioning London for long-term recovery.</p>
<p>Purpose Vehicle creation or direction</p> <p>Successful localities have taken steps to create new SPVs. Many localities have taken steps to inaugurate specific bodies to deal with the impacts of and build effective responses to the recession. These typically take the form of taskforces, advisory groups or monitoring groups.</p>	<p>Example(s)</p> <p>Glasgow: The locality has set up a taskforce to support the crafting and implementation of local scale policies to combat the downturn. The Glasgow Economic Advisory Board comprises of Sir Tom Hunter, Willie Haughey, Jim McColl, Akmal Khushi and Dr. Lesley Sawyers.</p>

<p>Special Purpose Vehicle creation or direction Directions to existing SPVs: Other localities have tasked existing special purpose vehicles with tackling specific aspects of the crisis. Typically, development agencies are given instructions to focus on mitigating or preventing negative impacts of the crisis and constructing initiatives to counteract it.</p> <p>Cost saving</p> <p>The crisis offers the opportunity to streamline, economise, rationalise, delay and simplify complex processes, projects and governance structures. This process can potentially save a great deal of money. It also represents a symbol that locality government itself is doing all it can to cost save – something citizens and businesses across the locality are also having to do. This can create a sense of unity and trust.</p>	<p>Example(s) Barcelona: In the face of the recession Barcelona Activa, the local development agency, is particularly important. Formally it has four strategic pillars to its work (1) employment policies, (2) human capital, (3) business creation, (4) business growth. All these pillars are reviewed regularly to ensure the response to the recession is as effective as it can be.</p> <p>Example(s) Mumbai: The MMRDA has been forced to rethink its original plan to construct a third Metro line (Metro-III) between Colaba and Bandra totally underground. The new preferred option, as of March 2009, is to have a partly underground metro, with an elevated section from Mahalaxmi to Bandra, which is barely half the cost of building an underground line.</p> <p>Marseilles: The council has set a goal to stabilise its staff costs which represent 57% of the operating budget.</p> <p>Munich: The municipality will attempt to reduce its expenditures by EUR 27.6 million. Major savings are likely in areas such as the renovation of buildings, equipment, as well as administrative and operational costs.⁶⁵</p> <p>Beijing: Government spending on foreign trips has been cut 20% in 2009 in an effort to crack down on officials misusing public money on sightseeing tours. Future overseas trips for Beijing officials will have to adhere to a strict schedule, with finance departments working out annual budgets.⁶⁶</p>
<p>Central and regional government alignment The economic crisis represents a significant challenge for local, regional and national economies. A coordinated response to its impacts is required for two main reasons: (1) resources and power are pooled at different scales; and (2) the causes and impacts of the recession manifest themselves at various scales. As a result, local leaders need to collaborate and align their recovery agendas with other scales of government. At the same time, networks exist to share best practice and know how.</p>	<p>Example(s) Cologne: Cologne locally authorities have based their strategy of fighting with the crisis mainly on obtaining additional funds from the national stimulation package. Cologne received a total of EUR 110.3 million from the national Economic Stimulation Package II.</p>

The evidence: verified local economy «snap shots» from across the globe

Aarhus

Locality overview

With strengths in Port logistics, Alternative Energy, Information Technology, Food, Healthcare, Architecture and Further Education, the Greater Aarhus area is the leading growth centre in Denmark. It is a hidden gem – the second largest metropolis in Denmark behind Copenhagen with 300 000 people, 40 000 students, two international airports, the second largest port facility in northern Europe and impressive urban development projects such as Navitas Park, the University Hospital and Katrinebjerg. Moreover, in recent years, Aarhus has achieved several milestones as an international knowledge centre: a number of international businesses have decided to establish themselves or expand their activities in Aarhus, Aarhus University has just made it into the top 100 of the world's 17 000 universities, and more and more international employees, researchers and students are coming to Aarhus. At the same time, Aarhus has launched its bid to be European City of Culture in 2017.⁶⁷

Yet despite all these achievements, Aarhus is not really on the map. Too few have heard of the locality considering its current strengths and future potential. In short, the locality has an identity problem.⁶⁸

Impact of the downturn

Stability maintained

Though the local economy is experiencing mild impacts of the global recession, a reliance on robust economic sectors means that Aarhus is sheltered from the global financial downturn. Indeed, its economic clusters around food, energy, health and IT are those sectors which are fundamental human requirements and the demand for such is likely to remain relatively stable whether in boom or bust periods. Furthermore, the fact that Aarhus' economy is not yet highly

globalised has helped isolate the city from the economic crisis as the city is not over-exposed to economic instabilities beyond their municipal boundaries

Trade

In addition, Aarhus port, which plays an important role in the commercial development of the region, managed to end 2008 on a high note, with DKK 44 million in profit.⁶⁹

Response

Looking to the future: A new urban strategy

Instead of formulating short-term plans to mitigate the impacts of the recession, the Aarhus City Development Team is currently engaged in the process of preparing a new urban strategy for the local economy to supersede its previous economic development action plan "Growth in Aarhus IV". The mayor, Nicolai Wammen, states on the Aarhus local government website "we are also focusing on maintaining the growth that is the basis for the city's prosperity and welfare, not least in a period characterised by headwinds in the financial markets in the entire Western world".⁷⁰

The City Council has set up a number of major development goals for the next 20 years. The city must continue to grow – 75 000 more inhabitants, 20 000 new homes, 50 000 more jobs and 10 000 more study places. And, at the same time, the city should be CO₂-neutral by 2030.⁷¹

Creating a city identity

In many ways the timing of Aarhus developing their new urban strategy couldn't be better. As many other local economies across the world are allocating significant resources to reduce the negative impacts of the recession, Aarhus is looking to directly benefit from the downturn by planning to establish itself a more important position in the European and global settlement hierarchy. As local economies which have suffered acutely through the recession emerge less sure about their roles in these hierarchies, there is a distinct opportunity

for Aarhus to emerge relatively unscathed, with confidence and a clearly articulated offer, brand and renewed sense of purpose.⁷² Hence, the recession could indirectly prove a remedy for Aarhus' identity problem. As has happened in Hamburg and Malmö, The Aarhus Docklands are set to become the city's new face to the world with spectacular buildings and attractive canal areas. In the next few years, about 15 000 Aarhusians will move into this new urban area.⁷³

Urban development

As part of the new urban strategy, the city of Aarhus is characterised by a large number of urban development projects which, among other things, form part of the strategy that the city should grow by 25% over the next 20 years. Indeed, these development projects form the basis of Aarhus promoting its offer more internationally and attracting population, human capital and investment.

The city is being tactical in its investments however in the economic climate. The mayor states that as the wind power industry is relatively untouched by the recession and growing significantly, Aarhus will exploit this situation to make Aarhus Denmark's number one energy city with strong focus on education, knowledge and innovation.

One of the main developments currently underway is the expansion of Aarhus harbour. The plan is to double its size before 2022 and thus to double the cargo-handling to 20 million tonnes. In addition to serving as a container traffic hub, the Port of Aarhus is also being developed into a new and fashionable urban area. In April 2009 the port boosted its loading and unloading capacity with the arrival of two new Super Post Panamax containers. That said however, the contract for the two new cranes was signed in 2007 when the port found itself operating at peak capacity several times a week. The Managing Director, Bjarne Mathiesen acknowledges that the Port of Aarhus made a 100-million-DKK investment that will not yield an immediate return.

Lisbjerg, a suburb situated to the north of Aarhus, is also currently being developed into a huge growth area linked to the city centre via a new light railway.

Building an educated workforce

The future confidence and quality of Aarhus' economic offering will be related to the city's skilled workforce capacity. This is an issue being addressed by the Aarhus school of Business which is currently coordinating a DKK 3.8 million project to promote the integration of international students into Danish businesses. The students' offerings such as languages and cultural skills are attractive advantages for companies wanting to globalise their business. The project has received funding from the EU and the regional council in April and will run until the end of 2011. It will create a network with local companies through career fairs, information meetings and job banks.⁷⁴

Leadership Agenda

Key organisations

The City Council is the municipality's supreme authority in terms of making decisions and allocating funds, and makes the final decision in recommendations from the City Executive Board.

A new leadership organisation, the International Community, which has been in existence for only six months, is having an increasingly important role in Aarhus' city strategies. International Community was started by a number of notable companies in the region in cooperation with the University of Aarhus, the Municipality and seven counties in the area, including Aarhus. International Community is a part of ErhvervÅrhus (the Business Council of Aarhus) and is dedicated to improving the conditions for growth, innovation and welfare in Aarhus and the nearby counties. In April 2009, International Community received a significant grant from Region Midtjylland and the European Social Fund that ensures its work can continue. In spite of the growing economic crisis, International Community has experienced a growing interest and need for activities that improve the overall environment for international workers.⁷⁵

Global mindset

Being part of the global world is key for the Municipality of Aarhus' leadership strategies. The Municipality of Aarhus is thus constantly developing its international policy, and the municipality also has a large number of international relations. Aarhus has its own regional office in Brussels, maintaining the relations with the European Union and other regions in the EU. It also works to promote Aarhus and local business relations.

Knowledge sharing is key to Aarhus' leadership agenda and the Municipality of Aarhus is participating in a number of mutually binding knowledge communities, which include:

- REDIS, a project which involves knowledge sharing about urban redevelopment from outdated industries to knowledge-producing businesses
- Similar Cities Network, in which a number of logistically similar European cities share experience and strengths to find best practices within many areas
- The Union of Baltic Cities, which was established after the Cold War and now shows that former enemies have entered into a mutual collaboration to develop the urban life around the Baltic Sea

Vision

Aarhus has a very strong vision which underpins all of its strategies and initiatives, and has driven the commitment to long-term city developments during the current economic turmoil. It is that Aarhus should be a strong growth area with an active, dynamic private sector and a strong local partnership. It should be a city which does not stand still and new ideas must be cultivated and tested in untraditional collaboration forms. It must be at the forefront of developments and the application of new technology. It must have an international outlook and stand out among ⁷⁶the best.

Barcelona

Locality overview

Barcelona, located on the Mediterranean Coast, is the capital of the autonomous region of Catalonia and the second largest local economy in Spain, with a population of over 1 600 000 and nearly 5 000 000 in the Metropolitan region. In the last twenty years the city has undergone a transformation more radical than perhaps any other locality in Western Europe. Catalysed by two major events, the 1992 Olympic Games and the Universal Forum of Cultures 2004, the authorities have invested in major infrastructural projects and tackled serious inner city problems. Urban renewal has followed a “culture-led” approach, with gentrification based around high-quality architecture, new museums and hotels. It is now a culturally vibrant area with a high quality of living.⁷⁷

The driving force behind urban redevelopment has been growth in the economy. The city has a strong background in manufacturing based on the large motor industry, chemicals, edition and the food industry. However, its traditional manufacturing industries –such as textiles- have been declining, and multinational investment has become increasingly important. Today, Catalonia is the fourth European region in number of FDI projects received. The result of these developments is a highly diversified economic structure, with a significant weight of business services, trade and tourism, creative sectors, health and education and high technology industries. Barcelona’s port still retains its centuries-old status as one of Europe’s most important ports, with container traffic hitting record levels in recent years. Catalonia now accounts for one fifth of Spain’s GDP. Madrid might be the political and financial capital of Spain, but Barcelona holds sway as its most culturally and industrially vibrant local economy, generating more than 20% of manufacturing Spanish exports.⁷⁸

Tangible impacts

Growth rates

The Catalan economy has gone from a growth in GDP of 3.6% in 2007, to one of 0.7% in 2008, and in the last period of the year the city entered into a technical situation of recession.

Business conditions

However, Barcelona is in a better position than many areas of Spain due to its diversified local economy, strong tourism industry and relatively minor reliance on construction.⁷⁹ Furthermore, Catalunya is relatively competitive in medium to advanced technology industries and, since most of this is exported, the depreciation of the euro could work in this industry’s favour.

The economic downturn could also work in the favour of some Barcelona-based service industries, especially customer service centres. Barcelona is already a mecca for customer service and project outsourcing due to its large, young, multi-national workforce and relatively low European wages. “The various acquisitions and mergers going on, together with the need to reduce costs mean that as an outsourcer, we’ve seen a significant increase in demand from new customers who have not yet started to consolidate their operations, and an increased urgency from those who have already started” said Mark Peter, International Service Centre Manager for IT outsourcing company Computacenter in Barcelona.⁸⁰

Fiscal budget

Generally, Barcelona exhibits a positive and robust picture in the face of the economic crisis. The capital holds AA+ credit rating thanks to years of careful budget management, the result being that the local council is well placed rather than particularly vulnerable to the recession.⁸¹

Unemployment

The rate of unemployment has increased 2.6% in Barcelona in twelve months, reaching 8.4% in the fourth quarter of 2008. The increase of this indicator in the city, even though considerable, is more moderate than that registered in Catalonia and Spain (5.2 and 5.3%), that reached levels of 11.9% and 14% respectively.

Rate of unemployment (16 to 64 years old)

	IV qu. 2007	IV qu. 2008	Var. IV qu. 08/07
Barcelona	5.8	8.4	2.6
Catalonia	6.7	11.9	5.2
Spain	8.7	14.0	5.3
European Union	7.1	7.6	

*Figures from the fourth quarter of 2007

Source: Active Population Survey

Rate of unemployment (16 to 64 years old)

	December 2008	% s/total	%Var. Dec08/Dec07
Agriculture and stockbreeding	432	0.6	38.5
Industry and energy	9 741	13.1	36.6
Construction	6 839	9.2	100.2
Commerce and repairs	9 124	12.3	36.8
Hotel trade	6 084	8.2	53.4
Transport and Communications	2 167	2.9	37.8
Finances	820	1.1	27.5
Real Estate services and Companies	27 538	37.1	43.4
Public Administration	842	1.1	46.7
Health and education	2 923	3.9	19.0
Personal services	4 333	5.8	40.6
Without previous employment	3 461	4.7	78.4
TOTAL	74 304	100.0	45.0

Source Dept. of Work Generalitat de Catalunya. Production: Dept. of Statistics of the City Council of Barcelona

The net destruction of employment affects construction most strongly (-16%) and industry (-7.8%) but in the fourth quarter it reached the tertiary sector. Services however have shown a more moderate reduction (-2.5%). In absolute terms, however, the service sector has registered the highest decrease with more than 20 000 affiliates less than for the same period of the previous year.⁸²

Firms restructuring

The industrial sector in Barcelona is being hit hard by the financial crisis. In the case of the motor industry –also affected by the global economic shift- the process of downsizing has started but the two main companies have compromised - after negotiations with the trade unions and the public authorities- to produce new models in their Barcelona plants in the next years

Decline in entrepreneurship

Business creation reduced by 23% in 2008 compared with 2007, but Barcelona maintains a level of entrepreneurial activity, in relation to its population, higher than the Spanish average and of the main metropolitan areas of the country.

Slow down in the property market

This unfavourable macro-economic context has affected the real estate market of Barcelona and its metropolitan area with special intensity. Thus, in 2008 the buying and selling of housing fell by 45% in the province as a whole, and the prices of second-hand housing dropped by 8.7% in the city.

Tourism cooling

The number of tourists in 2008 (6 659 075) visitors, is 6.3% lower than in 2007, which was the highest in the history of the city. The number of passengers at the airport, 30 208 134, is 8.2% lower than the previous year, but an important part of this reduction responds to the introduction of the high speed train between Madrid and Barcelona.

Despite the *cooling* of demand at all levels, the number of cruise-ship passengers has increased 17.5%.⁸³ Furthermore, the convention business in Barcelona, an important source of income for the city, has yet to feel the effect of the recession. "Who knows how far the financial crisis will go or how it will affect the meetings industry worldwide? We cannot predict, but there have been no cancellations for the moment. Business keeps on coming in" concludes Airy Garrigosa, Director of the Barcelona Convention Bureau.⁸⁴

Trade and port traffic slow down

The exports of the province of Barcelona during 2008 were situated close to EUR 40 000 million, the same level than in 2007. The sales to Eastern Europe and to the emerging Asiatic economies registered a significant increase. The traffic of freight in the Port for 2008 was 50 545 130 tons, 1% more than 2007. This signifies the maintenance of the level of activity achieved after an extraordinarily expansive five-year period (2003-2007).

Intangible impacts

Consumer Confidence

The turnover for retail commerce fell by 5% in 2008. The inter-annual variation of the consumer price index was situated at the level of 1.8% in December 2008, and has continued to decline in 2009 (in March it reached 0.7%).

Response

In terms of public policies, the city is responding in a very proactive way to the challenges of the crisis.

Keeping the long-term vision in sight

Despite the downturn, Barcelona remains fixed on a long-term target of completing its transformation from a manufacturing city to a knowledge city. In other words, there is a non-stop urban transformation process which is taking place relatively irrespective of the recession.

Indeed, a key issue for the city is to ensure the sustainability of their recession investments, rather than rely on short-term quick fix projects and weak financial arrangements, which may perpetuate current economic instabilities. Barcelona has achieved an AA+ credit rating by investing sensibly and sustainably in the past and the locality believes that this must be the foundation of urban economic policy of the future.⁸⁵

There has however been a review of the development of Barcelona's Metropolitan Plan to ensure that it is appropriate in the face of the downturn.⁸⁶

Urban development

Barcelona is due to carry out public investments to the value of EUR 1 028 million in 2009, the highest in the city's history and clearly higher than any of the other major Spanish cities. The port is currently being developed to double in capacity. The airport will undergo a similar sized expansion and an AVT train connection is likely.⁸⁷

Innovation promotion

Innovative approaches include combining the locality's strengths in industry and the knowledge economy to form five clusters at the 22@ innovation district (media, ICT, energy, biotechnology and design), where 1 400 firms and 42 000 workposts are already located. Another interesting project is the development of a newly successful food cluster. A recent Innovation Map reflects all the research infrastructures and facilities located at the Barcelona area.⁸⁸

Branding

An important effort is being made in the international projection of the city, with the setting up of Barcelona-Món offices in the leading cities of the world.

Tourism promotion

Other lines of intervention are fostering urban commerce of proximity and developing a strategic plan for tourism towards 2015 to enhance its economic and social sustainability.

Enhanced Public Private Partnerships

The mayor has said that Barcelona needs more investment than ever to encourage social cohesion and progress. That said, regions must not forget that a package of solutions is required. Smaller projects such as the provision of pedestrian areas and bicycle friendly initiatives can have significant impacts. Indeed, Barcelona has invested heavily in neighbourhoods, social welfare and public spaces.⁸⁹

Workforce investment

The local government is playing an important role in staying close to the unemployed and communicating effectively to understand their needs. A Local Agreement for Quality Employment has been signed by the key actors of the city economy (trade unions, private firms organisations, local council and regional government) to develop a common labour market strategy, including a specific programme to tackle new unemployment.

Barcelona Activa, the locality's development agency, specialises in skills development, SME and entrepreneur support, and careers advice. Formally it has four strategic pillars to its work (1) employment policies, (2) human capital, (3) business creation, (4) business growth. Barcelona Activa is highly rated and has been commended by a recent (Feb 2009) OECD review. In the face of the recession the work they do has become even more important. The new business incubator centre and Porta 22 are particularly important.⁹⁰

*Leadership agenda**Communication*

The recession has brought into focus certain elements of Barcelona's long-term strategy. In particular the need for leaders to prioritise communicating this process of transformation and its benefits to the people of Barcelona is now being enhanced. This has made public space very important and there has been public expenditure on its upgrade.

Vision

This theme of making people feel proud of where they live underpins all development in the local economy. It has chosen personality over standardisation and is undertaking a compact, human-scale type of urbanism that promotes mobility, place-making and civic pride. It is hoped that this will pull the locality and its people through the recession.

Change of mindset

The leaders of Barcelona have undergone a significant change in mindset. They have had 15 years of glorious prosperity and now challenges and difficulties mean change is necessary.

Facilitating learning and sharing

Barcelona has taken a leading role in facilitating international learning about city leadership. Barcelona is not only itself improving from such initiatives, but it is concurrently improving the city's image and demonstrating its commitment to a global network.

The OECD LEED programme, together with the City of Barcelona, is launching a one year network of local leaders who want to take practical action to address the economic crisis and to share their experience and knowledge so that more local governments can do the same. The network will meet four times, twice hosted in Barcelona. The result of such a programme is also this

paper, for which Barcelona has willingly shared information and best practice to help pull themselves and others through the recession.

Barcelona has also shown a strong commitment to the new European Urban Investment Network. It aims to bring the public and private sectors together to facilitate positive exchanges which will lead to the development of new and improvement old mechanisms to close the EU urban investment gap, which is at risk of widening in the recession. They are to hold the October 2009 meeting of the network and are a key sponsor.⁹¹

Basel

Locality overview

The Basel area provides jobs for around 300 000 people from both Switzerland and abroad. By far the greatest economic value added is created by Life Sciences, which is represented by renowned global players like Novartis, Roche, and Syngenta, to name a few. Indeed, Metropolitan Basel is the biggest life sciences location in Europe and probably the most dynamic of the larger life sciences locations in Europe and North America. Due to the unattractive framework conditions for the life sciences industry in Germany and France the life sciences success is constrained to the Swiss part of Metropolitan Basel (about 80% of Metro GDP).⁹² Other important sectors of Basel's economy include the chemical industry, finance and insurance, logistics and the creative industry. Small and middle-sized businesses employ a significant number of people, both in the locality and as the two municipalities.⁹³ Economically, Basel is well connected to the neighbouring lands in Germany and France. Good transport links across the border as well as supportive local governments facilitate this connectivity.

Impact of the downturn

Given the current global recession Basel is one of the least negatively impacted metropolitan regions of the world for the most part due to its non-cyclical, innovative life sciences industry.

Tangible impacts

Fiscal budget

The local government expects a positive balance of the current accounts and expenses. This corrects its own forecasts from September 2007 when it was expected that an introduced tax package will have negative impact on the locality's fiscal revenues. In the coming years, Basel is expecting to experience stagnation of its tax revenues on one hand and higher social expenditures on another.⁹⁴

Tourism⁹⁵

Thanks to high levels of connectivity and innovative marketing, 2008 was another successful year for the Basel tourism industry. It experienced above-average growth of 6.9% and for the first time the mark of one million overnight stays was reached. It is expected that in 2009 the growth momentum in the Basel tourism sector will slow a little. In part this will be due to the decline of national and international economy, exchange rates and marketing activities.

*Response**Budget adjustments⁹⁶*

Basel has prepared its 2009 budget in relation to the economic challenges from a strong financial position. The 2009 budget balances at CHF 130 million and despite the plan for significantly higher investment, the locality is able to maintain self-financing and even reduce existing debt by CHF 25 million. However, from 2010, the government assumes a negative fiscal balance and from 2011, higher levels of borrowing. Under a scenario "recession 2009/2010" the locality expects a debt increase of CHF 0.75 billion. This debt level will certainly remain higher than CHF 0.5 billion under the allowed maximum amount.

Bilbao*Locality overview*

Bilbao is the fourth largest locality in Spain and the largest in the Basque Country in northern Spain. It has recently undergone major urban renewal, in order to move away from the region's industrial history and instead focus on tourism and services. Indeed, in a period of about 10 years, Bilbao has gone from being a depressed steel locality with an unemployment rate of 25% and many other social problems, to becoming a vibrant, modern city and an international icon for the arts. The Port of Bilbao, formerly on the river, has been moved and expanded downstream on the Bay of Biscay, opening a great deal of central real estate on the river that has been the site of most of the new building. The GNP per capita is EUR 19 648, slightly above the average of the Basque Country and well above the average of Spain. The construction of the Guggenheim museum in 1997 put the city on the cultural map of the world and also boosted Bilbao's income from tourism significantly. The architecture of the Guggenheim even spurred a term for the last decade "The Bilbao Era", which describes how one building can improve a locality and donned Bilbao with a unique image. The construction of the museum also promoted Bilbao within the city hierarchy as suddenly "every city, it seemed, wanted to be like Bilbao, wanted its own daring, avant-garde iconic building".⁹⁷

Tangible impacts

The Basque region is one of the wealthiest regions in Spain but the economic crisis has become the population's biggest concern, ahead even of traditional crises and instabilities the locality has had to face.⁹⁸

Unemployment

The employed population fell by 2.2% and the unemployment rate rose to 7.7% in the first quarter of 2009 in the Basque Country. Across the county of Bizkaia, there were 16 300 more people unemployed in the first quarter and an unemployment rate of 7.9%.⁹⁹

Property market decline and company closures/restructures

The property market has experienced, on average, a moderate negative impact from the recession despite some falls in value recorded at up to 20%. Though firms are closing across the city, the main impact on enterprises as a result of the recession has been firm rationalisation and restructuring to meet economic pressures.

Enhanced collaboration

According to the Financial Times and sources within Bilbao, the deepening economic crisis has become the single biggest concern to Basques, superseding any other issues in the locality. Very positively, it has brought about a vibrant new phase of public and private sector engagement and collaboration. A rejuvenation of these relationships at this scale has not been seen since the last economic crisis in the local economy and represents a positive step forward for the urban development agenda in Bilbao.¹⁰⁰

Tourism

Since the construction of the Guggenheim Museum, tourist volumes in the Basque region and across Bilbao have experienced an impressive upward trend.¹⁰¹ Despite the recession, reports suggest that tourist numbers have remained stable. Interestingly though, this stability hides a decrease in international tourists which has been offset by an increase in domestic tourists.¹⁰²

Response

In the Basque Country in general there have been a number of initiatives created by all the public levels of administration in response to the recession. The main example would be the Economic Acceleration Agreement, signed by the Basque Government and the three Regional Governments of Bizkaia, Gipuzkoa and Alava. It will be developed over four years and will count on over EUR 12 800 million of funding.¹⁰³

Advocacy with central government

In November the Spanish government announced that the Official Credit Institute (ICO) will use a new credit facility of EUR 10 billion to meet the short-term financial needs of “solvent and viable” small and medium-sized businesses, which are suffering shortages of working capital as a result of the credit squeeze. The main business confederation, the Confederación Española de Organizaciones Empresariales (CEOE), has identified this lack of access to capital as the most serious problem affecting the Spanish economy at present.

Additionally, a fiscal package worth EUR 11 billion sees the creation of a EUR 8 billion fund to support local government investment schemes, with a further EUR 3 billion earmarked in aid for specific industrial sectors and projects. The central government has also loosened its fiscal framework by allowing local governments to increase their permitted budget deficits from 0.05% of GDP to 0.5% of GDP, thus facilitating the injection of a further EUR 5.8 billion into the economy.¹⁰⁴

Supporting the long-term strategy

Bilbao is still very dedicated to its long-term development strategy through Bilbao Metropoli-30. The aim of Bilbao Metropoli-30, created in 2001, is “the development of an advanced knowledge context capable of making highly innovative business strategies take on material form”.

“With The Strategy”, explained the President of Bilbao-Metropoli-30, “we see the opening of another stage in the cycle of revitalisation that was set in motion back in 1990. The launch period, which culminated in the construction

of the Metro in 1995 and the Guggenheim in 1997, successfully fulfilled the objectives set and now lies behind us. Over the coming years, if the strategic actions are exploited to their full potential that should bring about the successful realisation of Metropolitan Bilbao defined as a global city.”

The vision of the future for Bilbao Metropoli-30 is “a city capable of identifying, attracting and materialising good ideas in benefit of all the community”.¹⁰⁵ This vision is based on five strategic pillars:

- Active and committed leadership: the primary key to shaping the new Metropolitan Bilbao is active and committed leadership.
- People and their values: the vision of Bilbao is made up of people capable of visualising a future community, people with ideas about how to design that future, and people with the expertise to put the ideas into practice.
- Knowledge and innovation: knowledge is the seed for new ideas. Innovation is the process of tapping ideas and applying them in ways that benefit the whole community. For Bilbao to be a place where ideas become reality, it must have knowledgeable and innovative people.
- Networking: networks offer a global perspective. Individuals can join forces and strengthen the competitive edge.
- Quality of life: as an element that attracts qualified professional people, it is vital for the city’s competitiveness. Promoting Bilbao’s appeal will generate wealth and competitiveness and sustained growth.¹⁰⁶

Leadership agenda

Scales of leadership

Bilbao is influenced by a number of different leadership institutions at a variety of scales. This surely makes the City Hall of Bilbao’s task of co-ordinating recession efforts and planning their own extremely complex.

The institutions whose recession policies will impact upon Bilbao include:

- The Spanish National Government
- The Basque Government at regional level through for example the society for Promotion and Industrial Reconversion (SPRI).
- The Provincial Council of Bizkaia at provincial level, via the Department of Economic Promotion.
- The City Hall of Bilbao at local level, via the development agency LAN EKINTZA-BILBAO.¹⁰⁷

Birmingham

Locality overview

Birmingham, situated at the heart of the West Midlands, is the second-most populous British city, with 1 010 200 inhabitants. The locality's reputation was forged as a powerhouse of the Industrial Revolution. However, Birmingham has undergone significant restructuring over the past three decades with a rapid decline in manufacturing employment. The service sector now accounts for the majority (80%) of the jobs in the locality, and is driven by the expansion of the financial & professional services, and the visitor economy.¹⁰⁸ Birmingham has now been named as the third-best place in the United Kingdom to locate a business, and the 21st best in Europe.¹⁰⁹

Tangible impacts

Fiscal budget

The drop in tax revenues combined with a reliance on capital receipts (in part due to the fall in land values) to fund public works has led to the limited scope of what the City Council can do. Officials are predicting a GBP 14 million overspend this year, and are warning that there is only limited scope for alternative funding to be found for capital projects. Members of the Finance and Performance Scrutiny Committee have warned that increased borrowing would result in higher council tax bills.¹¹⁰

Unemployment

The impact of the recession on Birmingham is heightened by the locality's relatively weak skills profile. One-fifth of the locality's adult population does not have a formal qualification, and it has a smaller proportion of graduates than the national average.¹¹¹

Indeed, it was found in April that the recession has had a bigger impact on Birmingham than any other part of Britain, in terms of unemployment. Statistics released by the Office for National Statistics show that 7.6% of the

working age population in Birmingham claimed Job Seeker's Allowance in April, with total claimants up more than 46% on the same month in 2008¹¹².

Construction

Planning applications in April 2009 are down 17% on the same month last year. There has also been a recalibration of a number of Section 106 agreements. Many have gone back to the drawing board to reduce the requirement of developers to use the development process to contribute to the wider public good. By reducing these demands on developers (which were making the projects unprofitable) it is more likely such developments will continue.

One such example is the developers overseeing the construction of the first phase of the GBP 500 million Birmingham Arena Central have refused to set a start date "in the current climate", raising fears the scheme could stall. In a bid to keep the scheme on track, Birmingham City council has let ACD stagger a GBP 5 million payment towards transport improvements, rather than pay the whole sum upfront.¹¹³

Intangible Impacts

Citizen confidence

A survey by Birmingham Futures, the voice of young professionals in the locality, suggests the over three quarters of its members feel confident about their future and Birmingham as a whole despite the current recession.¹¹⁴

Response

Encapsulated in a recently published document «Birmingham: Global Slowdown - Local Solutions», the locality sets out its intention to focus on two simple but key themes: (1) supporting Birmingham's businesses; and (2) supporting Birmingham's people. Importantly, this short-term package of support solutions is housed within a longer term vision for the local economy which itself is encapsulated by a publication: «Birmingham 2026». According to the Birmingham City Council (BCC) it will:

“Do everything in [its] power to help Birmingham through the recession and to prepare the city for the subsequent recovery – guided by [its] Birmingham 2026 clear vision for the future.”¹¹⁵

Supporting businesses

- **Rapid payment of invoices.** BCC now routinely pays almost all suppliers within 30 days, and are willing to negotiate earlier payment in certain cases, normally in return for a small discount. The Council welcomes electronic invoices rather than paper which should minimise paper and postage costs for smaller companies.
- **Helping local companies win business from the council.** Local businesses have asked for public sector contracts to be easily available on a web site. In response, BCC advertises all contracts worth over GBP 50 000 on its publicly available website.
- **Small business rate relief.** Business rates are set by national government, but the Council is supporting local small businesses to claim all the rate relief they are entitled to which could be as much as 50%, as well as other support such as VAT relief.
- **Local environmental improvements.** Birmingham is the safest core locality in England. It has extensive CCTV coverage across the locality, supported by around GBP 1 million of BCC funding. It has established “no drinking zones” where public drinking has proved problematic.
- **Lobbying on business rates.** BCC and partners are lobbying the government to review its decision to delay business rates on empty properties.
- **Municipal borrowing.** The Council is working with local and regional partners to explore a range of opportunities that will provide additional liquidity in capital markets for local businesses through use of the Council’s own borrowing facilities.
- **Encouraging international investment.** The Leader of Birmingham City Council spent an intensive five day mission to Kuwait City and Abu Dhabi to promote the locality and encourage development investors from the Middle East.¹¹⁶

Supporting people

- **Money advice.** Birmingham’s Financial Inclusion Partnership has produced “Birmingham on a Budget”, providing an array of information on low cost things to do in the locality and ways to make the most of resident’s money. The BCC is investing more to further expand the excellent money advice services provided by voluntary organisations such as Citizen’s Advice Bureau and Birmingham Settlement.
- **Benefits advice and help.** The BCC Income Maximisation Unit helps people to claim benefits they are entitled to.
- **Advice on saving energy and keeping warm.** The BCC “affordable warmth” programme provides advice, grants and other forms of assistance. The House Proud service helps home owners with advice and assistance to undertake home improvements including loan funding and referrals for appropriate grants.
- **Grants for heating and improvements.** Grants are available for the insulation of loft and cavity wall insulation, offering top ups where the person is unable to afford their expected contribution. Specific programmes target assistance at people such as disabled people and people with long-term sickness.
- **Housing and homelessness.** Extensive advice and support services are provided by BCC and key partners including Sifa (Supporting Independence From Alcohol) and St Basils.
- **Help with Council tax.** In addition to Council Tax Benefit there are a number of other discounts people may be entitled to which could reduce their Council Tax Bills.
- **Credit unions.** Credit Unions offer a range of saving options and provide affordable loans to people, some of whom would otherwise be at risk from “loan sharks”. The Council also takes rigorous action against illegal loan sharks operating in the local economy.
- **Mortgage rescue loans and help with rent deposits.** The Council will work with housing associations to purchase homes at risk of repossession and then rent them back to the affected households. This will help some people remain in their current home. Interest-free loans are available for people who have missed mortgage payments

and risk losing their homes. Over 1 400 households were helped last year with rent deposits and other measures to assist households to access the private rented sector.

- **Low council tax.** For the last four years increases have been kept at 1.9% per year, one of the lowest increases in the country. As a result, residents of Birmingham are now paying GBP 30 million a year less in council tax than they would be if the tax had increased at the same rate as other metropolitan councils.
- **Accessing public sector jobs.** Public sector employment is counter-cyclical, and the BCC often needs more public sector staff during a recession. As a result, Job Centre Plus recently announced a major wave of recruitment. All externally advertised jobs in the public sector in Birmingham are now advertised on a free website: www.wmjobs.co.uk.
- **Workforce investment.** JobCentre Plus has expanded its Rapid Response Service, responding to redundancies with a tailored package of support for individuals at risk, or people who have recently lost their jobs.¹¹⁷

Leadership agenda

Communication

Interestingly, though there are a number of new initiatives in this document, there are also a number of existing activities. This suggests that combating a recession is not necessarily about innovating but instead about communicating better what is already being done in the locality to support businesses and residents.

None the less, it is certainly worth highlighting some of the innovative and out-of-the-box-type projects underway in Birmingham on top of those outlined above. They include:

- **The Prospectus Group.** A strategic board of leader and chief executive of the council, executives of major companies and representatives from the Chamber of Commerce and Industry.

- **The Birmingham Economic Development Partnership** chaired by the chief executive of BCC with senior representatives of key local and regional public sector agencies, the universities and the private sector working together to tackle economic issues and secure the long-term prosperity of the city.
- **Infrastructure investment.** Birmingham has GBP 6 billion worth of public sector investment projects in train – New Street, new Library, new super Hospital, extension of Birmingham International Airport, and Building Schools for the Future.
- **Big City Plan.** Sets out a clear vision for the transformation of the city centre over the next few years. One of the largest plans for the inner-city in the whole of the UK.
- **Accelerated Development Zones.** Defines major projects which could capture tax in 20 years time. Development Loans are secured against this future value.
- **Area Investment Prospectus.** Identifies 60 development ready sites. This shows local people as well as overseas investors what investment opportunities are on offer in Birmingham.
- **Innovative financing.** The locality is exploring lots of interesting investment models – e.g. at the Longbridge site the public sector has purchased and prepared the land for development as an equity partner. This will create 10 000 new homes and 1 500 new jobs.¹¹⁸

Vision

The relatively radical, confident and entrepreneurial approach adopted by Birmingham to urban development in recent years has pervaded the locality's entire approach to the recession.

Brussels

Locality overview¹⁹

Perhaps best known abroad as the de facto capital of the European Union, the economic role of Brussels and its importance are less well understood. In fact, the locality is a hive of economic activity, with an open and cosmopolitan business culture and an exceptionally strong appetite for trade. The Brussels-Capital Region is home to 54 000 businesses, of which around 2 000 are foreign.

Brussels now has the largest number of international organisations in the world and attracts over 1 000 business conferences annually, ranking it the fourth most popular conference and congress locality in Europe. It is also rated the seventh most important financial centre in the world and the fourth most attractive locality in Europe for starting a business. The amount and the value of foreign investment is another economic feature of the Brussels region: it represents over one-fifth of all investment in Belgium, and around 60% of the foreign companies with business interests in Belgium have their registered office in Brussels.

Brussels is also the locality where many of Belgium's top companies choose to base their headquarters even if their production sites are elsewhere. These include the Delhaize retail group, the CFE industrial group, the Besix construction company, the Sabca aerospace company; metals group Umicore and the chemical and pharmaceutical companies, Solvay and Union Chimique Belge (UCB).

Although the Brussels economy is mainly service-oriented, it has a highly diversified industrial fabric. Some 45% of Brussels physical exports are cars, followed by chemicals at 12% and machinery and electrical equipment at 11%. The EU accounts for 89% of the exports – 21% to France, 17% to Germany and 10% to the Netherlands – while the Americas claim 2.9%, Asia 2.4% and Africa 2.2%. But the services sector forms the backbone of the Brussels economy, accounting for around 88% of jobs in the region. These are highly diversified and include banking, research, information technologies, tourism, transport and health.

Impact of the downturn

Dependence on automotive less risky than expected²⁰

Brussels is home to the Volkswagen plant, while Toyota Motor Europe is based in Brussels and DaimlerChrysler centralises sales, marketing, and logistics in its locality offices. Despite the importance of the automotive industry to Brussels economy, the impact of the crisis on the locality has been relatively minor. This is in part due to a wave of lay-offs in the sector that occurred a few years ago. For example, in 2006 the German management announced redundancy of 4 000 out of 5 100 employees working for Volkswagen in its Brussels site. In 2007 the name was changed to Audi Brussels under which name the firm operates until now. 2 200 people continue to work for the company.

Unemployment²¹

In March 2009, the unemployment rate increased by 6.5% in comparison to the same month in 2008, this growth represents also a month-to-month increase of 1.1%. At the end of this month, there were 97 160 jobseekers, with the unemployment rate in Brussels reaching 20.1%. This increase affected men more strongly (+8.3%) than women (+2.6%). The unemployment rate in Brussels reached 20.1%.

Response

SME support and innovative finance mechanisms

In terms of economic measures, the Brussels Metro Region has focused on businesses and two aspects in particular: (1) access to finance, and (2) risk management.

Within the Brussels Guarantee Fund (Fonds Bruxellois de Garantie), the Metro Region has devised initiatives for business finance called "Crisis Secured Credit". It has the following characteristics:

- Secured credit (or loans) of up to EUR 250 000 (it is up to EUR 150 000 for simplified credit).
- Loans are secured up to 80% of the investment (usually it is 65%).
- Commission charges are held steady.

Secured credit aims to finance urban investments in construction, property, commodities purchases, leasing, non material goods, and business recovery. The aim is that these loans provide the working capital to fund development and recovery. Loans are secured for a period of up to five years. Loans are secured for a period up to two years for investments above EUR 50 000 and up to five years for investments for lower amounts.¹²²

To maximise the measures employed, the Fund has been rolled out to all sectors except those not permitted by the EU Commission.¹²³

The Brussel-Capital Regional Company for Investments (Société Régionale d'Investissement de la Région de Bruxelles-Capitale - SRIB) and its affiliates Brustart, Brusoc and B2E offer short-term loans to SMEs and employers in the Region. To secure part of the risk related to these investments, the Brussels Guarantee Fund (Fonds Bruxellois de Garantie) will follow up and secure the short-term loans requests introduced by SRIB. This is a temporary measure, effective from 15 February 2009 until 31 December 2009.¹²⁴

SPV creation or direction

A special unit, called "Médiateur de Crise" has been created to cope with the current difficulties. It groups together most of the significant economic actors in the Brussel-Capital region. Coordinated by the Brussels Business Agency (L'Agence Bruxelloise pour l'Entreprise), this unit gives enterprises strategic guidance (credit access, stockholders recruitment, financing diversification and so on) so that they may overcome the current crisis.¹²⁵

At the same time, the CED has established a benchmark (diagnostic) system to assess which companies they encounter have a concrete chance of survival. They use the system as a tool to select which companies they lend support to. In this way, they maximise resources behind the task of preserving employment.

Budget alterations

Concluding, with a view to a very difficult year for enterprises, the 2009 budget for economic development has been largely increased.¹²⁶

Glasgow

Locality overview

Glasgow is Scotland's largest local economy and a major contributor to the nation's economy, generating over GBP 13 billion Gross Value Added each year (GBP 14.1 billion in 2007 – 16.3% of Scottish gross output) and supporting over 400 000 jobs. The locality has seen significant economic and employment growth over recent years with over 60 000 net additional jobs created over the last ten years boosting the locality's employment base and employment rate, and increasing Glasgow's importance in the wider region. Private development activity was at its highest ever in the financial year 2007/8 – GBP 4.3 billion. Four years before, this figure stood at GBP 2.8 billion.¹²⁷ Indeed, Glasgow's growth rate has been faster than Edinburgh, Scotland, the UK and any of the English Core Localities. The locality's economic transformation, however, remains incomplete. Significant challenges, such as low productivity, worklessness and derelict land remain and others will grow or emerge.¹²⁸

Tangible impacts

Fiscal budget

City Council Chief Executive George Black has warned that the credit crunch will have a "dire" impact on council services unless massive cash savings are found in the next two years. Glasgow City Council blamed the situation on "a perfect storm" of rising costs and falling revenue amid the global economic downturn.¹²⁹

In Glasgow it will be necessary to save at least GBP 25 million in each of the next two financial years. On top of the GBP 50 million planned savings the council was due to make, the Scottish Government announced that it wants a further GBP 500 million of cuts from Scotland's local authorities in 2010/11. It is not yet known what Glasgow's share will be but Mr Black expects the council will have to find well over GBP 10 million of extra savings. Mr Black cautioned that unless Glasgow City Council deals with the effects of the financial crisis in the next few months the authority's reserves will "be completely wiped out".¹³⁰

Unemployment

Although Glasgow has the highest absolute number of unemployed of any local authority area in Scotland over the last year unemployment has risen at a slower rate than 29 of the 32 Scottish Local Authorities and six out of the eight core UK cities. A study by The Work Foundation showed a total of 20 276 people in the locality were claiming Job Seeker's Allowance (JSA) in February this year – 5 873 more than the same time last year. That said, there is some good news on the job front in Glasgow. In the middle of the banking crisis, new jobs were being created in the locality's International Financial Services District, and the warship-building yards on the Clyde have their healthiest order books in years.¹³¹

Construction/Investments

The value of private sector development across the locality now totals GBP 4.3 billion – an increase of 2% on the previous year. City Council Leader Councillor Steven Purcell said the good news was that most of that money was committed and a large number of projects, both in the public and private sectors, were going ahead.¹³² The partners in the 2014 Commonwealth Games are also clear that the recession has not blunted the locality's hopes of delivery on their promises.¹³³

Civic unrest

Glasgow City Council is proposing to close 13 primary schools and 12 nurseries throughout the city, saving Glasgow City Council GBP 3.5 million. The fabric of the schools is in very poor condition and and/or have very low pupils numbers relative to capacity. In the current crisis, funds are not available to build new schools. The closure programme is accompanied by a reinvestment programme to upgrade a number of schools which will remain open. The catchment areas of such schools are blighted with unemployment, and poor housing. The current economic circumstances facing these populations, combined with the school closures, prompted parents to barricade themselves into one school. A demonstration calling for a locality-wide rethink was held in the city centre.¹³⁴

Intangible impacts

Consumer confidence

Spending in Glasgow by consumers has maintained a good momentum so far. Glasgow City Marketing Bureau, who spearheaded a marketing drive amongst retail, restaurant, accommodation and entertainment operators under the "Christmas wrapped up" campaign showed that many outlets reported a better than expected festive period.¹³⁵ Spending was probably enhanced by an whereby free parking was provided in all Council car parks and Strathclyde Partnership for Transport park-and-ride car parks on the last Sunday before Christmas 2008.¹³⁶

Response

Glasgow sets an example

The Glasgow approach to mitigating against the worst of the downturn is widely considered to be exemplary. The locality has set up a taskforce to support the crafting and implementation of local scale policies to combat the downturn. The Glasgow Economic Advisory Board comprises key local business leaders including Sir Tom Hunter, Willie Haughey, Jim McColl, Akmal Khushi and Dr Lesley Sawyers.¹³⁷

The City Council got off to an impressive, early start in responding to the recession, under the leadership of Councillor Steven Purcell. A meeting in November brought together more than 400 people with discussions covering a wide range of issues related to the crisis as are presented below.¹³⁸ The event was hosted by the City Council, in partnership with Scottish Enterprise and Glasgow City Marketing Bureau, on behalf of Glasgow Economic Partnership, a new organisation aimed at giving the business community a significant role in the development of the locality's economic policies.

Council Leader, Cllr Steven Purcell, insisted his "main priority is helping business in the city through the economic difficulties ahead". More specifically "the first thing that all public bodies, including my own Council, must do, is to examine where we can help business by being more flexible and willing to do things differently."

Urban development and enhanced Public Private Partnerships

Glasgow city council is planning measures to help commercial property developers during the economic downturn. There will be partnerships between the council and development firms, more flexibility in the Council's land disposal policy to make it easier for projects to get off the ground and the council are willing to defer requests for the payments companies have to make to develop sites. The council has also created a GBP 36 million Better Glasgow Fund to pay for additional regeneration projects over the period 2009-2011¹³⁹.

Economising bureaucratic processes

Glasgow council bosses have said 367 posts would be scrapped from the workforce of 32 500 with the final toll likely to be around 425.¹⁴⁰ The City Council has also committed itself to processing planning applications and building warrants more quickly through its "Fast Track" programme which has already seen performance in terms of processing time rise to a ten year high.

Support for Small and Medium-sized Enterprises

The city's extension of the Business Investment Fund is targeted towards SMEs. This Business Investment Fund will allow the City Council to offer much more flexible terms than the banks are currently willing to offer.¹⁴¹ The loans will be repaid in ways which are much more convenient to small and medium-sized businesses allowing repayment holidays and flexible interest rates appropriate to how the business is performing. Funding in return for equity in the company is another potential avenue forwards. Work is also underway to assist local business access major public sector contracts through the Supplier Development Initiative, through the inclusion of Community Benefit clauses within all major Council capital projects, and through faster payment of invoices.

Workforce investment - training

In early 2008 Cllr Purcell announced that all 2009 school leavers who qualified would be guaranteed an apprenticeship. In April, the council announced

that a wage supplement would be made available to help cover the cost of employing these apprentices. In February it was announced that Glasgow City Council is to be offered additional funding from the Scottish Government of almost GBP 6 million to help pay for the training element of 1 000 of these apprenticeships. This initiative is to ensure that young people in the locality who are seeking training places do not suffer due to the impact of the economic downturn and also ensure that Glasgow is able to continue to create the skilled workforce it needs to support ongoing construction projects¹⁴².

Promoting Tourism

A Strategic Major Events Forum had been launched to strengthen the city's competitive position in delivering global events, and a new tourism action plan had been designed to achieve targets of increasing tourism in Glasgow by 60% by 2016.¹⁴³ The City Centre Action Plan has also been launched with the active support of the main City Centre retailers.

Supporting the long-term strategy

Despite the current global economic downturn, some of the biggest projects in the locality - such as the work to deliver the 2014 Commonwealth Games, Clyde Gateway and the M74 extension, are fully committed and provide a strong foundation for economic progress over the next ten years. Among the ambitious targets are plans to create 14 000 new jobs in the city centre in the next five years and a GBP 6.5 million plan to implement a new business gateway model with targets of assisting 1 000 start-up firms in the current year.

In addition, Glasgow Economic Partnership has recently launched the first three-five year action plan to translate the locality's economic strategy, A Step Change for Glasgow, into reality. Newly updated, the plan identifies seven areas where a "step change" is needed to grow the locality's economy. These are: building the metropolitan core; putting education at the heart of the economy; creating a culture of entrepreneurship; promoting the Glasgow-Edinburgh collaboration; being leaders in strategic area regeneration; creating work for those without; and improving the locality's international positioning.

Leadership Agenda

Glasgow Council Leader Steven Purcell communicated the council's recession responses in a very effective speech to the 11th State of the City Economy Conference in November 2008 which effectively galvanised key stakeholders into action. After outlining some tangible measures, he emotively roused the crowd:

*"In these difficult economic times, we are going to need Team Glasgow to pull together more than ever. This is not a time for any of us to retreat into our bunkers, whether it's public agencies or private commerce, we must stick together and do what is right for our city."*¹⁴⁴

Hamburg

Locality overview¹⁴⁵

In 2008 the GDP of Hamburg was EUR 89.6 billion, EUR 506 000 per capita, which ranks the locality the highest in Germany. Hamburg is home to over 120 000 enterprises. The most significant economic unit for Hamburg is the Port of Hamburg, which ranks second only to Rotterdam in Europe with transshipments of 9.7 million twenty-foot equivalent units (TEU) of cargo and 140 million tons of goods in 2008.

The total workforce in Hamburg was 1 114 100 in 2008. : The main employment sectors include

Industrial production:	14.7%
Trade, transport, hotel and restaurant business:	29.3 %
Financing, leasing and corporate services:	27.4 %
Public and private service sector:	28.0 %

Key economic sectors include Media, Information Technology, Trade, Transport, Insurances, Aviation, Manufacturing Industry and Corporate Services.

Tangible impacts

Fiscal budget¹⁴⁶

Hamburg is not as highly dependent on tax incomes from financial institutions as some other German cities. Nevertheless, problems associated with its biggest regional bank, HSH Nordbank, which required State rescue funds, will have a visible impact on Hamburg's budget. In 2009, Hamburg will not receive a previously forecast dividend of EUR 70 million. Not only will the port and banks see lower revenues as the result of the crisis, so too will businesses operating in other economy sectors. This will impact Hamburg's tax income further. It may be able to use its 2008 surplus to overcome the income shortage. However, the Mayor disclosed that it may be necessary for the locality to raise more finance.

Real estate market

The financial crisis has paralysed the Hamburg real estate market due to a lack of available credit. "Lending activity of many banks has halted for months" according to the Chairman of North Real Estate and Housing Company.

International trade

The global economic crisis and drop in global consumer demand will also impact upon the growth forecasts of the Hamburg port. In 2008 the volume transferred through the port did not increase and in 2009 the volume is likely to be significantly lower. A spokesman for the Port of Hamburg explained that Hamburg as "a trade hub depends of course on what happens around the world. If consumption declines, if car production declines, it has repercussions on seaport traffic."¹⁴⁷

Response

As Hamburg is a city-state, it is mainly the regional Senate that can plan and implement programmes aimed at fighting the economic downturn. Hamburg has prepared its own economic programme against the crisis: around EUR 550 million from its own and the federal funds are set to be invested over the next two years.¹⁴⁸ The following areas are covered in the anti-crisis package:

Budget adjustments

The two year 2009-2010 budget has been adopted to account for this package. The budget adopted by Hamburg Senate in October assumes expenditures of EUR 10.9 billion a year. Expenditures in relation to economic development amount to EUR 192.2 million. The Hamburg public investment budget for the current financial year totals EUR 1 485 billion.

Support for small and medium-sized enterprises

Hamburg is not eligible for regional aid. Support for SME focuses on information (featuring for instance a unique telephone based consulting service for entrepreneurs) and state backed guarantees. The Garant Bank

can supply guarantees up to EUR 1 500 000 per SME, of which 80% are backed by the local and national government. Applications for guarantees amounting to EUR 100 000 or less will be electronically processed within 24 hours. The ESF (European Social Fund) promotes specific projects to ensure competitiveness and employment. Small and medium businesses, employees, entrepreneurs, unemployed, young people, school leavers or immigrants can benefit from these funds.

Encouraging innovation

Hamburg has devised a Programme for Innovation, which supports innovative research and development projects. 25–70% of a project cost can be financed with a sum of up to EUR 500 000. The average funding amount is EUR 100 000 and more than 20 new projects a year are set to benefit.

Workforce investment – training

Funding is provided for the general and specific training of employees. Companies can receive up to EUR 3 000 per person, a maximum of 70% of the training cost for SMEs and 50% for large enterprises.

Urban development

Just before Christmas, the locality announced that it would bring forward investments in infrastructure projects to stimulate the economy. Hamburg is also applying for federal government funds for further infrastructure projects.

¹⁴⁹*Support for banks*

Hamburg's biggest regional bank, HSH Nordbank, required help from the state rescue funds. This was necessary since the bank has a wide impact on Hamburg's economy as it is a key lender to sectors such as shipping, aviation and transportation. Taking into consideration the role of the bank, the rescue package approved at the beginning of April 2009 should be a positive signal to the whole of Hamburg's economy.

Helsinki

Locality overview

Situated on its southern coastline, Helsinki is the capital of Finland with a population of just under 600 000. Helsinki is the largest local economy in Finland and is now a centre for services rather than industry. That is not to say that the industrial sector is not relevant in Helsinki. It accounts for 10% of the locality's jobs – the highest proportion in Finland, and has concentrations in electronics and shipbuilding. As for the service sector, which accounts for 85% of local employment, it has strengths in telecommunications, information technology and new forms of media. Indeed, Helsinki professes to be probably “the world's most digitalised capital.”¹⁵⁰ For instance, it leads in internet banking and has the highest mobile phone usage in the world. In terms of performance, the local economy is also impressive. Apart from the last global recession during 1990 and 1993, and also between 2002 and 2003, the annual GDP growth has been strong – often soaring at 5% per annum. Accordingly, employment growth in Helsinki has followed the GDP.¹⁵¹

During the global recession of the 1990s Helsinki saw one of the strongest economic downturns experienced by any OECD country after the Second World War. In 1991–1993 national product fell by 10% and a previous full employment situation soared rapidly to unemployment figures in their twenties. As a result, Helsinki City Council set itself new strategic goals under the title “Strategies of Hope”. Subsequently, during the 1990s, Helsinki developed itself as a centre of science and research, improved telecommunications links and the urban environment, consolidated its cultural profile and promoted the locality internationally, emphasising its role as a strong centre in northern Europe, with close links to Scandinavia and Russia.¹⁵² With the last recession impacting Helsinki so profoundly it will be fascinating to observe how differently the current global economic crisis impacts upon the locality in its transformed state.

Impact of the downturn

In December 2008, Helsingin Sanomat, Finland's leading national newspaper, reported that in response to the present global downturn “there are few signs of a recession in the Helsinki metropolitan area.”¹⁵³ The local economy's strong services sector, relative isolation from global capital flows and lack of a globally connected banking and financial services sector were cited as reasons for Helsinki being relatively sheltered from the downturn. That said, an inevitability in the lethargy of market demand affecting both private and public sector services was acknowledged by the newspaper. It was predicted however that the worst impacts would not be seen amongst the local economy's services sector until the end of 2009 and the beginning of 2010¹⁵⁴. However, the recession has in fact affected Greater Helsinki area much faster than expected.

Tangible impacts

Growth rates

Though consumer spending had become slightly more cautious, the buoyancy of the business and entrepreneurial sector, population growth and high numbers of job vacancies meant that during the fourth Quarter 2008, the Helsinki Metropolitan area experienced a growth rate of 3% and Christmas sales were also up by 2%.¹⁵⁵ However, the overall production in the capital region declined by some 0.5% during the last quarter of 2008. The corresponding figure for the entire country was 3%. So far, the industrial sector, the construction industry, and the wholesale trade have suffered the most serious damage.¹⁵⁶

Unemployment

As a consequence of the economic recession, youth unemployment started growing rapidly in December 2008, reaching a level 30% higher than that of a year earlier.¹⁵⁷ The economic downturn has also been reflected in the number of bankruptcy petitions; the number is believed to grow by 40% during the course of the current year.

Fiscal budget

Tax revenues increased in 2008 and good results from Helsinki Energy allowed extra income to finance the city's operations. The surplus of the financial year was EUR 292.3 million.¹⁵⁸

However, back in December there were fears tax revenues may fall and "keeping up with the current service level could become challenging", says researcher Petri Böckerman from the Labour Institute for Economic Research.¹⁵⁹ These fears have indeed been realised as it has been recently reported that the economic crisis has caused a huge discrepancy in Helsinki's income and expenditure. According to the most recent economic forecasts, Helsinki's tax income for the next three years will drop by EUR 740 million and Helsinki Mayor Jussi Pajunen has said that the locality's spending could exceed its revenues by EUR 1.3 billion in the period from 2009 to 2011. This sum equals half of the city's one-year tax revenues.¹⁶⁰ More optimistically, Helsinki energy is predicted to continue making a good profit. The company's net earnings for this year are expected to amount to EUR 245 million.¹⁶¹

It is stated on the local council's website that the general economic situation aggravates Helsinki's medium-term efforts to reach a situation where the funding of basic services is on a basis more solid than the present and where the service level will not depend on extra income recognitions of business operations, that is, mainly those of Helsinki Energy.

Trade

At the Finnish Port of Helsinki the economic downturn is reflected in traffic volumes. Unitised cargo traffic was 1.34 million tons in January and February, a decrease of 28% compared to last year. Container throughput was TEU 59 000, with units decreasing by 16% and cargo decreasing by 24%.¹⁶²

Tourism

On the other hand, the deepening recession has not yet had a great deal of impact on tourism in Helsinki. Only the number of business travellers is anticipated to decline, relative to previous year. "The same number of cruise ships as last year is expected to arrive in Helsinki this year as well", explains Pirkko Nyman, tourist director at the City of Helsinki.¹⁶³

Crime

The economic downturn has led to a surge in reports of economic crime in the Helsinki region, with irregularities concerning bankruptcies having experienced a particularly sudden surge. The economic and property crime unit received 35 reports of suspected crimes in February 2009, compared 20 in the same period last year. Most of the recession-driven crimes focus on the construction industry, with nine out of ten requests for an investigation involving businesses in the construction business. 164

Intangible impacts

Consumer Confidence

With fears heightened by memories of the last recession, consumers in Helsinki are becoming more cautious. According to Heidi Holmberg, an economist at Sampo Bank, "people are trying to rearrange their loans, asking for non-amortising months, while some difficulties have already emerged with credit cards and general-purpose consumer loans."¹⁶⁵ In fact, a decline in private consumption was recorded at the end of 2008, amounting to a fall on 2007 figures of 1.2%.¹⁶⁶ That said, in January 2009, the Consumer Barometer of Statistics Finland, read -3.9% in Finland and 0.5% in the Helsinki Metropolitan Area so the area is doing well relative to the rest of the country.¹⁶⁷

Response

A new city council was elected at the beginning of 2009, for a term of four years, *i.e.* 2009-2012. The city council has drawn up and approved a new strategy programme as a tool to join forces and to meet current and future challenges. This programme is composed of four major strategic areas: *Welfare and services; Competitiveness; Urban structure and housing; and Leadership.* There is also a new dialogue between the cities in the Helsinki Metropolitan Area and the state government. A Competitiveness Strategy for the Region has recently been drawn up by municipalities of the in cooperation with other stakeholders. This is the first Metropolitan strategy for the region. It focuses on four strategic pillars: strengthening top-level education and skills; further construction of a comfortable and safe living environment; a consolidation of a user-initiated innovation environment

and an improvement of public purchases; and a further integration of the Helsinki Region into international networks.

No budget adjustment

Helsinki does not intend to revise the current budget, even though the neighbouring cities of Espoo and Vantaa have already made a decision to do so for 2009. For example, nearby City of Porvoo has made a decision to save a total of EUR 20 million by cutting investments, by closing down two schools, and by not filling some vacancies. Instead, Helsinki is looking forward to 2010 and considering its options for this year. These include whether the city should start saving, take out a new loan, or increase the municipal tax rate from the current 17.5 %. The City of Helsinki planned to start drafting a budget for the fiscal year 2010 in March-April, when the City Board were to give its budget instructions to City officials. A final decision on the budget will be made at the City Council next autumn.¹⁶⁸

Urban development

The Finnish capital region's western underground railway extension project is benefiting from cost reductions and an abundance of skilled labour brought about by the recession. The project has proceeded according to plan, with construction set to begin by the end of the year.¹⁶⁹ The largest urban development project in Helsinki's history is currently underway and continuing as planned. When the three cargo ports were transferred in 2008 from the city centre to Vuosaari, some 250 hectares of waterfront areas were vacated. All in all, Helsinki plans to build 4.5 million floor sqm for housing and almost 2.5 million floor sqm for business purposes.

Promoting tourism

To attract new visitors, both Helsinki and the neighbouring Espoo have renewed their web sites. Helsinki's new Traveller's Guide has been translated into eleven different languages and the new Furthermore, the Art Nouveau (Jugendstil) architecture brochure has also been updated. Helsinki's main Tourist Information Office has also undergone renovations, having reopened in March 2009. The capital's focus on promoting tourism is in part because there

are quite a few upcoming anniversaries in the area this year: The Seurasaari outdoor recreation area and folk museum turns 120 years, and Heureka Science Centre turns 20 years.

Support for Small and Medium-sized Enterprises

Helsinki already had in place extremely impressive support for SMEs which has recently been recognised as the best amongst 37 European cities in the ECER-Banque Populaire European Ranking. Helsinki has leveraged this pro-entrepreneurship climate by creating several institutions dedicated to small businesses.¹⁷⁰

Improving community cohesion

Bringing the community together in the face of recession and boasting moral was one of the key drivers behind Helsinki Council organising its Earth hour initiative in the locality.¹⁷¹

Branding

Helsinki has recently bid to become World Design Capital in year 2012. The locality has said to need this process as fuel for both thought and action as Helsinki is facing a huge transition – socially, economically, and because of the upcoming development of new areas of the city. The process has already led to increased collaboration between different sectors and actors in the region.¹⁷²

Leadership agenda

Key organisations

Decision making and guidance in the majority of issues is the realm of the City Council, the City Board and the sectoral committees, the mayors and other public officers representing them. Mayor Jussi Pajunen is in charge of economic planning and the enforcement of the City Council and City

Board decisions in economic affairs. However, within the economic sphere, the Helsinki Group also has an important role to play. In total the Helsinki Group comprises the City of Helsinki (29 departments and 7 public utilities), 118 subsidiaries, 10 affiliated foundations and 3 joint companies.

Collaborative vision setting

The Metropolitan Area is being developed as a unified region. In order to proceed in direction with this vision all municipalities in the Helsinki Region agreed upon organising an international competition entitled the Greater Helsinki Vision 2050. The competition was an open, international planning competition. Even by international standards, it was exceptionally sizeable. The goal was to find new and open-minded residential, land use, and transport solutions for developing the region. The prized entries are now available for commenting and re-development. This is a unique project, about the future of the metropolitan area. Increasing the collaboration of the municipalities is important to Helsinki.¹⁷³

Lille

Locality overview

A 15th century European metropolis with 2 million inhabitants, Lille is located at the heart of one of Europe's wealthiest and most dynamic areas. Indeed, over 80 million consumers are within a 300 km radius. The region with its population 3.8 million has a working population of 1.3 million people, of which 500 000 work within the Lille Metropolitan area. The economic development policy of Lille is mainly based on five key competitive clusters:

- I-TRANS: The Railway and ground transport Industry.
- Trade Industries (retail and e-commerce).
- UP-TEX: innovative textiles and clothing industry.
- Nutrition, Health and Longevity.
- Maud: Materials for domestic use.

However some other economic sectors are of particular importance. They include: services to business, finance and insurance, logistics, agro-food industry, printing and graphic activities, cultural industries.

Impact of the downturn

The quarterly economic survey conducted regularly by the Grand Lille Chamber of Commerce and Industry shows that the local economy began to feel the impacts of the crisis in the last quarter of 2008.¹⁷⁴

Tangible impacts

Firms downsizing

The downward trend of production worsened strongly in October 2008 and the decline accelerated throughout the last months of 2008. The negative trend is particularly marked in the automotive sector where many cases of administrative leave have been registered. Property intermediaries have been

badly affected. In the consumer goods and equipment sectors, production has also declined though less significantly. In this context, manufacturers in the Nord-Pas-de-Calais plan to keep their production stable at current although already reduced levels.

Intangible impacts

Business confidence

As early as October 2008, 56% of the participants questioned by the Commerce Monitor said they saw decreased turnover. In November, this number reached 60%. When comparing the total turnover of the last 12 months to the same period the previous year, the results improve: 38% reported declining sales.

Services in Lille are doing particularly well. A flash survey conducted in October 2008 showed that Lille services were less affected by the downturn compared to other companies in the area (54% of service providers claimed to be satisfied with their activity in previous six months, against 42% for all sectors). However, the future of the services sector in 2009 was expected to worsen.

The majority of entrepreneurs in the region participating in the survey conducted in the end of the year answered that they expected the next months to bring a slowdown. A study discovered that 35% of managers expected a fall in turnover, 39% flat results and 21% an increase. Industry exhibited a higher degree of pessimism (47% managers expected a decrease) while business services were slightly more optimistic (30% expected an increase).

Response

Budget adjustments

On the 19th December 2008, the Community Council voted for a "budget of mobilization". Faced with the crisis and lower involvement of the state government, the Lille Métropole Urban Community chose to support the local economy by maintaining a high level of investment.¹⁷⁵

The budget of EUR 1.482 billion assumes EUR 349 million on investments (8.38% more compared to 2008). Economic development, housing, urban renewal and transport account for 44% of the investment budget. The Community also decided to keep the rate of commercial tax flat and increase only the tax on garbage collection (3%).

The following areas are of special importance in the budget:

- Economic development: EUR 78 million, 14.5 million more than in 2008 (23%).
- Habitat: EUR 34 million from 18 million in 2008 (89%).
- Urban Policy: EUR 55 million, 18 million more than in 2008 (33%).
- Transports: EUR 194 million (4%).
- Solid waste: EUR 148 million (3.5%).
- Sewerage: EUR 88 million.
- Other areas (e.g. sport, culture, events): EUR 32 million (10%).
- Roads: EUR 115.9 million.
- Land purchase, etc.: EUR 76 million.

Increased levels of investments result in a significant decline in net savings and an increased borrowing (EUR 293 million) for the locality.

Economising bureaucratic processes

Lille Council has announced an audit of large contracts to make savings.

Support for Small and Medium-sized Enterprises

The Lille Metropolitan Community released new rules regulating the allocation of support and created a sort of one-stop shop where any company facing an economic challenge can apply directly for assistance. The solutions adopted are described as "intelligent, pragmatic and very practical."¹⁷⁶

Encouraging innovation

In connection with the region, the Metropolitan Community wants to strengthen innovation in any form. Now each company that runs a research or development project will be eligible to benefit from the Oseo help. Until now this was reserved for businesses active in one of the competitive clusters. The Community also wants to encourage creation of innovative activities by supporting firms' incubation phase, *i.e.* period prior to establishment of the business.

Liverpool

Locality overview

Liverpool is one of eight Core English Localities and has aspirations to become a premier European urban hub. After a long period of decline (between 1950 and 2000, the city suffered 40% population loss and between the 1960s and mid-1980s lost some 43% of its jobs¹⁷⁷), Liverpool is again on the up. From 1995 to 2006, GVA rose by GBP 3.2 billion, an increase of 71.8% or 5.0% annually over this period. Large-scale public interventions in the city centre, at John Lennon Airport and at the Waterfront combined with the successful hosting of the 2008 European Capital of Culture have reinforced the locality's resurgence. None the less, Liverpool still has much to do. For instance, the locality's GVA per head of GBP 17 489 in 2006 was below all the other English Core Localities with the exception of Sheffield (GBP 16 578).¹⁷⁸

Economic structure breakdown by sector (2007)¹⁷⁹

Sector	Size	Proportion
Public Admin, Health and Education	88 500	39%
Banking, Finance and Insurance	49 300	22%
Distribution, hotels and Restaurants	44 700	20%
Transport and communications	13 500	6%
Manufacturing	11 800	5%
Other services	11 800	5%
Construction	7 000	3%

Impact of the downturn

Liverpool seems to be in a much stronger position and doing well in some areas in comparison to national and regional trends. Nevertheless in March 2009, Liverpool Economic Briefing suggests that:

"Liverpool is not immune from this downturn despite the continued renaissance the city has continued to enjoy over the last year" (*e.g.* the successful hosting and delivery of Capital of Culture 2008, and the delivery of large scale developments such as Liverpool One).

Indeed, the full impact of the recession has yet to be seen and it may be that this position changes but at present there is some evidence to support the view

below from Professor Michael Parkinson who recently stated

“Thanks to Liverpool One, the Arena and the development of the central business district Liverpool is better insulated than ever to survive a modern recession” (Daily Post, January 30th 2009).¹⁸⁰

Tangible impacts

Unemployment

Latest data for the year to September 2008 showed Liverpool’s employment rate fell by -0.3% compared to -0.9% average across the core cities.¹⁸¹ The Liverpool Daily Post also provided a helpful detailed snapshot on 22 January 2009. It showed there to have been some 4 000 job losses across the region in the six months prior to the publication. This compares to some 4 800 in Greater Manchester Central. Some high profile large losses included: (1) Halewood’s Jaguar Land Rover plant employs 2 200 people and an estimated 3 000 workers in its supply chain. The company announced 450 job losses across their three UK sites in January. (2) Getrag Ford – 1 200 staff including 800 production workers in Halewood - announced an indefinite four day working week in January 2009 with the possibility of further “down-time”.¹⁸²

Between January 2008 and March 2009, Liverpool’s pool of JSA claimants has increased from 14 797 to 20 652. Whilst this is a significant increase of 39.6%, it is nevertheless considerably less than the GB (83.3%), the North West Region (73.4%), Liverpool City Region (50.7%), and the other Core Cities (58.1%). Some parts of the locality are being affected more than others. The analysis of JSA claimants at ward level shows that the most vulnerable areas of the locality – North Liverpool, Speke Garston, the inner core and outer estate neighbourhoods are being affected but some of the wards with the lowest JSA claimants have also experienced high relative increases such as Mossley Hill and, Allerton and Hunts Cross.¹⁸³

Comparing the number of reported vacancies for the rolling quarter January 2008 to March 2008 with the same period in 2009, shows a 12.2% decrease for Liverpool, which is significantly better than the 34.8% fall for the North West and 34.8% nationally.¹⁸⁴ However absolute levels of unemployment extremely high, the vacancy ratio – a measure of the number of unemployed people

chasing each unfilled job is now 13.1:1, significantly higher than nationally (GB 6.4:1). The vacancy ratio for March 2008 was 4.9:1.¹⁸⁵

Ratio of JSA Claimants to Live Unfilled Vacancies

	Mar 08	Mar 09	Change 08-09
Liverpool	4.9:1	13.1:1	8.2
City Region	4.4:1	14.1:1	9.7
Core cities av	2.8:1	8.4:1	5.6
NW	2.3:1	8.3:1	6.0
GB	2.1:1	6.4:1	4.3

Source: May 2009 Liverpool City Council Economic Health check

Firms closing

Between Quarter 4 2007 and Quarter 4 2008 there was a decline in business insolvency of 3% compared to a 40.8% increase in the northwest and a 30.1% increase nationally.¹⁸⁶ Liverpool is one of only three cities – Liverpool, Derby and Oxford – that experienced a reduction in the number of business insolvencies in Q4 2008 compared to Q4 2007.¹⁸⁷

Housing market

Within Liverpool, the housing market appears to be experiencing lower declines than nationally and regionally. House sales - Liverpool, at 59.8%, has seen a smaller decrease in the volume of house sales than the Regional and Sub-Regional average; it is also lower than some of the major cities with the exception of Bristol, Leeds & Nottingham.

House prices - England and Wales have seen a fall of 17.2% in average house prices since January 2008, with the North West region decreasing by 16.5%. Liverpool’s house prices fell by 10.6%; the smallest percentage change of all the major cities over this period. Trends in both house sales and prices differ sharply by price band and location across the city with the lower price housing market experiencing the greatest falls, in particular in the Inner Core Housing market emphasising its underlying vulnerability.¹⁸⁸

Intangible impacts

Business confidence

It is clear though that businesses are less confident and are experiencing significantly more difficult conditions although no more so than nationally. The Chamber of Commerce survey (Q1 2009) illustrates the continuing difficult business climate in Merseyside. Over 60% of Merseyside manufacturing businesses (up from 40% in Quarter 3 2008) and 40% of service sector businesses (up from 30% in Quarter 3 2008) estimated that the turnover will worsen in the next year. Over 75% of service sector businesses surveyed estimate that their workforce would remain constant over the next quarter, while approximately 63% of manufacturing businesses made the same assessment.¹⁸⁹

Local businesses are suffering because of the recession although there are some encouraging signs such as an increase in manufacturing businesses reporting higher overseas orders than the previous three months. The provision of banking services is highlighted as a significant challenge for businesses. There is clear evidence that securing new bank finance is getting more difficult and more expensive in particular for manufacturing businesses.

Consumer Confidence

The city continues to benefit from the impact of Liverpool One with retail footfall remaining high in comparison to UK levels. According to the Liverpool Business Improvement District Company's (BID) four pedestrian counting cameras, there was an overall 17.1% increase in the pedestrian counting the Central City between December 2007 and December 2008. This represents a positive change of 1 082 753.¹⁹⁰

Response

Other areas of consumer confidence are not quite as optimistic. Hotel occupancy levels are slightly lower in March 2009 than for the same period in 2007 and 2008. Passenger numbers at John Lennon Airport are also down on previous years.

Urban development

Liverpool has enjoyed a significant period of growth in the scale of development within the locality. Many schemes are continuing, especially public sector led schemes, however those that require significant development finance and/or which rely on institutional investment for "exit" are at risk of delay or postponement until the market returns to more normal conditions. As a consequence, there was a 9% reduction in the number of planning applications received in 2008/09, compared with the previous financial year. Major planning applications are down by 40% and Planning Fees are down by 31% – a reduction in income of GBP 0.7 million. The considerable number of development schemes in the pipeline or currently on site include:¹⁹¹

- Mann Island (GBP 120 million), the extension of the Leeds Liverpool canal, the new Museum of Liverpool and the Mersey Ferry Terminal.
- Kings Dock Mill, Baltic Triangle (GBP 47 million) 150 bed Hampton by Hilton hotel and 190 apartments commenced on site in September 2008 and is continuing.
- Building Schools for the Future (GBP 458 million).
- HMRI (GBP 83 million programme 2008-2011).
- Rebuilding of Central Library – GBP 50 million PFI scheme to start 2010.
- Hospitals rebuilding - Alder Hey (GBP 250 million) and The Royal Liverpool (GBP 477 million).
- "The Quarter", Sefton Street (GBP 100 million) to proceed after being acquired from Vermont Developments by Sefton Street Developments/Ethel Austin Properties.

Workforce investment – "health-check" bulletin

This City Council have been releasing an economic "health-check" bulletin monthly from March. This initiative is a compendium of data and intelligence from various sources including Job Centre Plus, NWDA's weekly regional economic update, the Chamber of Commerce's quarterly survey and regular information from Liverpool Vision on business, inward investment and property development issues. It will contain a wide selection of information including hotel occupancy, Liverpool John Lennon Airport passenger numbers and Business Link data on businesses in various categories of risk.¹⁹²

Economic development - Development Agency response

Particular priorities for Liverpool Vision in 2009/10 will be to underpin the work on dealing with the economic consequence of the economic downturn which comes from day to day contact with businesses and with a better understanding of the impact of the downturn on Liverpool's economy at a macro level. Liverpool Vision will also look to explore with partners, particularly with NWDA, TMP and the Universities the scope for a more wide ranging and forward looking study of the main factors which will shape Liverpool's long-term economic development; the key competitive advantages for Liverpool beyond 2020.¹⁹³

Leadership agenda

Collaboration

There is a strong sense of collaboration in the locality. Liverpool has been relatively resilient thus far and this fact combined with the wider sense of resurgence in the locality is binding key institutions together in the battle against the downturn. Liverpool City Council is pooling resources and data with Liverpool Vision (the locality's development agency), The Merseyside Partnership, Liverpool Chamber of Commerce, Business Link, and Regional Development Agency on the development of a suite of data and intelligence covering the economy, property development, housing and related investment.

Collaborators

Key partners include the Liverpool City Council, Liverpool Vision, The Merseyside Partnership, the Chamber of Commerce, Job Centre Plus and the Northwest Development Agency.

Style

Vigilant, steady as she goes, and calming.

Lyon

Locality overview

The Lyon region is an economic powerhouse of European stature and is France's second-largest business capital after Paris. The region has a long tradition of technological and economic initiatives. Local statistics illustrate the economic strength of Lyon: in 2007 GDP per capita stood at EUR 35 700, well above the EU 27 average of EUR 24 900. The unemployment rate at 7% was below the French average of 7.8% (2008).¹⁹⁴

Five key competitive clusters in Lyon

Sector	No. employed (2009)	Companies include
Bio-health	9 300	Merial, bioMérieux, sanofi pasteur, Hôpitaux de Lyon, Inserm, Genzyme, Opi, genOway, Protein'expert
Chemical/environment	9 700	Rhodia, Arkema, Suez Environnement, Bluestar Silicones, Total, Bayer Cropscience
Transport systems	18 600	Renault Trucks, Irisbus, IFP, Inrets
Technical textiles	2 300	Hexcel, Boldoduc, IFTH
Digital entertainment	1 600	Atari, Electronic Arts, Etranges Libellules, Codemasters, Eden Games, Arkane, Studios, WideScreen Games

Impact of the downturn

A broad examination of trends in unemployment, defaults and start-ups shows that Lyon is performing significantly better than many other local economies. Hotels are full, tourist flows seem not to have weakened and consumption is strong. The property sector is also performing steadily, with prices that remain around EUR 3 000 / m². "There are historical and structural reasons for this resistance of Lyon economy. The Lyon region has a very diverse industrial base and a high concentration of SMEs" according to the Chamber of Commerce president, Guy Mathiolon. The strength of the local economy lies also in competitive economic clusters. "Competitiveness clusters are now a formidable response to the crisis", said David Kimelfeld, Vice-President of Grand Lyon in charge of economic development. "When compared with

sectors not supported by clusters, we find that they have saved many jobs and businesses”.

Tangible impacts

Firms closing/downsizing

In Lyon, the recession has particularly affected sectors such as automotive, chemical and plastics. Renault Trucks, the major private employer in the region, with 7 000 employees announced in March 2009 reduced working hours for its staff. It is expected that this will last at least until September 2009 as the company suffers a significant drop in demand: number of orders in first quarter of 2009 is equal to 20% of those received during the same period in 2008.¹⁹⁵

The number of defaults in Lyon has increased quite significantly.¹⁹⁶ Figures from the local Commercial Court show that in the first quarter of 2009, the number of failures rose to 465 against 332 during the same period in 2008. Since December the Court has witnessed a monthly rate of more than 130 liquidation procedures, while in 2008 it did not exceed 80. According to the president of the Commercial Court “The managers are more nervous. They tell us they could manage a drop of orders of 10% but most of the time, they saw fall to - 30 or - 40%”. A further observation is that although it was small businesses that were the first affected in the last quarter of 2008 up until February 2009, it is now mostly medium-sized enterprises that are suffering. During this first quarter, 2 926 employees were affected by the bankruptcy procedures; an increase of 213.95% over the first quarter of 2008. The sectors most affected by defaults have been manufacturing (36% in first quarter), construction (47%), real estate activities (47%) hotels and restaurants (61%) transport (72%) and the activities of specialised services (69%).

Response

Investments increase but no economic stimulation plan¹⁹⁷

Mayor of Grand Lyon, Gérard Collomb, in his speech during the 2009

budget debate declared that in his opinion metropolitan Lyon does not need a specific economic stimulation plan. Grand Lyon continues to be self-financing which allows the locality to inject more funds into the economy and increase levels of planned investments. In 2009 EUR 450 million is planned for new investments in the following areas:

- Economic development, support to SMEs: EUR 45 million.
- Major projects: EUR 60 million.
- International: EUR 10 million.
- Mobility and urban transport infrastructure: EUR 184 million.
- Water and sanitation: EUR 47 million.
- Urban policy: EUR 25 million.
- Accommodation: EUR 35 million.

Lyon will benefit from regional initiatives

Even without its own economic stimulation plan, the locality will indirectly benefit from national and regional initiatives. The details of plans are:

State support: relaunch plan estimated at EUR 26 billion, or 1.3% of GDP:

- EUR 10.5 billion of direct investment.
- EUR 11.6 billion for the business support.
- EUR 2 billion aid for specific sectors (housing and automobiles).
- EUR 2 billion to support employment and incomes of smaller households.

Rhône Alpes Region support: a plan to support the economy estimated at EUR 57 million on the top of the annual investment budget of EUR 700 million (a total regional budget of EUR 2.4 billion).

General Council of the Rhône support: EUR 56 million in addition to the approved investment budget, originally set at EUR 296 million:

- EUR 20 million for colleges.

- EUR 9 million on other county buildings.
- EUR 6.5 million allocated to the OPAC du Rhône.
- Remaining funds: broadband infrastructure and communal works.

Support for the private sector and Small and Medium-sized Enterprises

As well as undertaking some important work which includes amongst other things “Reasons to worry” and “Reasons to be optimistic”, the Chamber of Commerce and Industry (CCI) in Lyon has been effective in specifically directing support towards the SME and private sectors in the locality. In line its aims to: (1) Observe and understand; (2) Orientate and Inform; and (3) Act and advise; the CCI has created a seven-point rule book, which “an organisation should adopt, especially in times of crisis.”¹⁹⁸ These seven principles include:

- **Stay faithful.** In times of crisis, it is important not to break traditional relationships. Reinforce links with old clients, financiers and advisers and work together to provide mutual.
- **Think finance.** The crises can significantly reduce the cash flow and capital reserves in a business. All efforts should be directed at maintaining a flow of short-term finance. Don’t waste time waiting for instructions: be proactive about opening dialogues with your financiers.
- **Ensure arrangements with your principal financiers are in place.** Make sure your own funds are well-managed and effectively used. Try to attract finance from new sources such as Business Angels.
- **Adapt.** Crisis means change. Without doubt you will have to prepare to evolve quickly. Recalibrate the activities of your company in line with the most likely profitable activities of the future. Renegotiate prices and delivery periods with your suppliers.
- **Don’t panic.** The crises may accelerate and pressurise the decision-making process but it is important that decisions are made logically. Base decisions on tangible figures and ensure a democratic system is in place to corroborate any decisions planned.
- **Think long-term.** The crisis could be an opportunity for those who can predict the future evolution of the business environment. Adopt relevant innovations and opportunities for knowledge sharing as

they present themselves. Test new modes of production. Be open to new possibilities and opportunities should they arrive.

- **Proceed with confidence.** Ultimately it will be your decisions and actions that find a safe path through the crisis. Have faith in your team and work as a unit. Be creative in your attempt to find solutions.

These seven points represent a simple support mechanism for SMEs – a fundamental element of the urban economy. To ensure that they are effective the CCI also provides more specialist support to individual businesses on specific themes.

Milan

Locality overview

Milan is the second largest locality in Italy and the country's most important economic area, producing some 10% of the national GDP, and 14% of the national exports.¹⁹⁹ It has a population of nearly 1.3 million inhabitants, this figure rising to 7.4 million in the metropolitan area.²⁰⁰ Milan is renowned as one of the world capitals of fashion and design and is also a global financial and business capital, being home to the Italian Stock Exchange. The locality is also a major centre for research, education and cultural activities. In 2015, Milan will host the Universal Exposition on the theme "Feeding the Planet, Energy for Life" and in relation over EUR 14 billion of infrastructural investments have been scheduled.

Tangible impacts

According to ISTAT, in 2008, the Italian economy as a whole retracted by 0.9%, the most pronounced decline recorded since 1993. The national economy officially fell into recession in the third quarter of 2008. In the fourth quarter GDP declined at the fastest quarterly rate in nearly 30 years, sending Europe's fourth-largest economy into an even deeper recession.²⁰¹

Business & Trade

In Lombardy, the last quarter of 2008 exhibited an overall worsening of the regional economic situation. The industrial production in the Province of Milan decreased by 6% compared to the same period in the previous year and by 4.1% compared to the previous quarter. Apart from the food sector, all other economic sectors recorded negative variations, including those vital to the regional economy: fashion (-8.6%), textiles (-8.4%); mechanical (-5.5%) and chemical (-5.1%). Moving into 2009, the negative business climate was confirmed by regional production data which shows a decline of 11.85% in comparison with the first quarter of 2008 and by 11.90% in comparison with the previous quarter.²⁰²

Employment

Milan has the second highest employment rate in Italy (72.4%). Indeed, 2008 was the first year in which the locality saw an increase in the unemployment rate in 10 years. Between January and February 2009, 3 348 employees lost their job, a rate increase of 53.56% in comparison with the same period in 2008. Over the same period, temporary lay-offs increased by 161% for enterprises with more than 15 employees and by some 400% for smaller enterprises.²⁰³ Data on employment will be published in June.

Financial sector

In line with global stock markets, Milan S&P MIB has fallen by some 63.1% since 31 December 2007.

Property market

In the first quarter of 2009, Milan registered one of the worst property markets in Italy with a decline of 13.1% of sold residential properties and of 12.8% for industrial properties, over the previous year.²⁰⁴

Response

National responses are lacking

Despite the IMF expecting GDP to fall by 4.4% in Italy this year, a larger drop than that expected in Britain, France or Spain, the national government headed by the Prime Minister, Mr. Berlusconi, has consistently accused the media of exaggerating the situation and insists that Italy is being more proactive than any other national government in addressing the situation.²⁰⁵

Microcredit for workers

Milan City Council together with Province of Milan, Chamber of Commerce and trade unions (C.G.I.L., C.I.S.L. and U.I.L.) launched the *Welfare*

Ambrosiano Foundation in February 2009 to financially support employees and entrepreneurs based in Milan. The EUR 8 million fund will be used to finance microcredit loans at a concessionary interest rate.²⁰⁶

Anti-poverty measures

The Province of Milan has created a EUR 25 million programme, called “*Alziamo la testa*” to help low income families and sustain employment. The following are examples of incentives provided within the programme:

- *Incentives for young families*: EUR 1 million of the fund is for young couples planning to wed in 2009, supporting them in the costs of setting up a home. New families can receive up to EUR 1 500. In two months 18 000 requests have been received.²⁰⁷
- *Incentives for firms supporting employment*: EUR 5 million has been assigned to helping sustain employment. Companies transforming fixed term contracts to permanent ones are eligible for a bonus ranging from EUR 1 500 up to 4 000 when the employee is over 50.
- *Incentives for sustaining consumption*: EUR 2.5 million is earmarked for groups of families organised into buying associations.

Supporting Small and Medium-sized Enterprises

Milan Chamber of Commerce has assigned EUR 800 000 to help small and medium-sized businesses to reduce interest rates by two points (or 2.5 points for enterprises owned by young entrepreneurs) on repayment of loans and leasing contracts of 36 to 60 months time's length, and of EUR 13 000 to EUR 300 000 in value.²⁰⁸

Encouraging innovation

Milan has devised a Programme for Innovation (Milano Crea Impresa – La rete degli Incubatori della città di Milano) supporting innovative research and development projects in ICT, fashion, energy and food sectors, undertaken by SMEs set up by young entrepreneurs. The programme will be financed through a fund of EUR 6 million and will see the partnership of the Chamber of Commerce, city universities, the National Research Council and Assolombarda (Province of Milan Firms Association).²⁰⁹

Credit guarantee fund for Micro-Enterprises

A guarantee fund of EUR 1 000 000, financed by the Province of Milan, for micro-enterprises based in Milan and with less than 10 workers, helps them access bank loans to cover their short term passive assets. The fund is managed by Federfidi, the association of “loan consortium” of the province of Milan. “Loan consortia” are bodies, promoted by handicraft and entrepreneurial associations, whose aim is to provide guarantees to banks for the associated enterprises which request loans. The aforementioned fund will contro-guarantee 100% of the risk taken by “Loan consortium”. The financing covers a period up to 60 months and foresees a maximum amount of EUR 40 000 for each enterprise. The fund will thus allow the financing of around 560 enterprises.

Munich

Locality overview

Munich has one of the strongest economies of any German locality and is the economic centre of southern Germany.²¹⁰ Amongst the German localities with more than 500 000 inhabitants, Munich has had the highest purchasing power (EUR 26 648 per inhabitant) since 2007. Munich's economic strength is rooted in the diversity of its economic structure:

- A healthy mix of global players: Munich holds the headquarters of Siemens AG (electronics), BMW (car), MAN AG (truck manufacturer, engineering), Linde (gases), Allianz (insurance) and Munich Re (re-insurance), Rohde & Schwarz (electronics).
- A vibrant SME sector.
- A well qualified labour force.
- A diverse economy which includes the service sector, high-tech, media, finance and insurance, automotive, biotechnology and life sciences, science and research, tourism, trade and retail.
- Significance as a financial centre (secondary to Frankfurt), home of HypoVereinsbank (now Unicredit) and the Bayerische Landesbank.

Tangible impacts

Fiscal budget²¹¹

Lower tax incomes from large companies such as banks, insurers and car manufacturers have already impacted upon the local government budget. In January 2009, the tax income deficit in Munich totalled EUR 170 million. At the beginning of April 2009, it was disclosed that the deficit had reached EUR 300 million because Munich had to repay some tax received in previous years. When the council prepared the 2009 budget it expected EUR 1.6 billion corporate tax income. However, in April, Munich had to revise its forecasts and currently expects between EUR 1.4 billion and EUR 1.2 billion. Rising unemployment will be another burden for the 2009 budget. Not only will the

locality receive lower individual tax revenue but will also have to prepare for higher social expenses.

Unemployment

Munich's strong economy allowed it to enjoy the lowest unemployment rate among urban regions in Germany. However the economic downturn has put pressure on the job market as companies look for savings. According to the statistics, at end of April 2009 the unemployment rate reached 5.1%.²¹² The unemployment rate has grown slower than one might have expected because many companies have decided to introduce reduced working hours instead of laying off staff permanently.²¹³

International trade

Flagship businesses of the Munich economy, large manufacturing companies such as BMW, Siemens, MAN or Knorr-Bremse, generate high proportions of their revenues abroad. Their dependence on exports has now become a weakness as statistics show that export-based companies are affected proportionally more due to lack of global demand. Other important sectors of Munich economy - finance and insurance - are not performing well either.

Response

Budget adjustments

As a result of the dramatic drop in corporate tax revenues, Munich's Mayor imposed a budget freeze in April 2009. It was effective immediately and can be changed or sustained by the City Council during subsequent meetings. The municipality will attempt to reduce its expenditures by EUR 27.6 million. Major savings are likely in areas such as the renovation of buildings, equipment, as well as administrative and operational costs.²¹⁴ However, statutory and voluntary social services and grants to third parties (e.g. sport clubs, welfare associations, and culture associations) are excluded from the saving plan as are investments.

Economising bureaucratic processes

In order to keep its finances stable Munich municipality suggests that the city council conducts budget consolidation. The municipality suggests the following actions:

- *Scheduled continuation of the fourth budget assurance concept until 2011*: the already adopted 4th budget assurance concept should create total net balance improvement of EUR 39.5 million until 2011, of which EUR 15.7 million in 2009.
- *No increase in staff cost*: according to the proposal for the fifth budget consolidation concept there will be no increase in staff cost.
- *No increase in material cost*: similarly to the case of staff costs, increases in material cost have to be fully covered from the department budgets. In the case of the three types of costs where departments have limited influence (energy, rentals and cleaning) the proposal suggests that cost increases above 5% will be centrally funded.
- *Review of standards*: until budget discussion in October 2009, departments should review standards and propose how savings can be achieved without unacceptable deterioration in quality of service, in areas such as average waiting time, space standards, standard grants. It is recommended to create comparative study with other locations.
- *Any budget extensions possible only in July of current year*: so far in each General Assembly of the city council extension of the budget took place. This resulted with considerably high sums at the end of the year. The municipality proposes that budget changes could be adopted only in Financial Plenary Meeting at the end of July as the city council would have at this point an overview of requirements and a valid prediction about the anticipated annual tax revenues.

Urban development

Despite significantly lower revenues, Munich aims to go ahead with its investment plans. More than EUR 3 billion is planned to be spent before 2012 on projects such as the construction of tram station in the urban park Schwabig. In order to do so the city will have to increase its debt, but it is believed that “city does not invest, it gives up itself”. Indeed, Munich has remained loyal to its long-term anti-cyclical policy to invest in periods of economic turmoil. This should protect jobs and strengthen the competitiveness of Munich economy.

Paris

Locality overview

For the purpose of this paper, though reference to the Paris Region is made, the predominant scale of analysis in this snap shot is the City of Paris.

A summary of the key components of the Parisian local economy can be found below:

- A GDP of EUR 480 billion in 2005 (4.5% of the 25 state Europe’s GDP).
- A metropolitan area population of 11.3 million.
- A highly skilled population.
- A centre for European education: 17 universities, engineering schools and globally renowned business and management schools train 560 000 students a year.
- Europe’s highest concentration of R&D, with 134 550 researchers and technicians (7.5% of R&D in the Europe of 25).
- One of the world’s best passenger and freight transport networks.
- Exceptional high-speed telecommunications networks.
- Renowned financial expertise (particularly in its financial establishments and the Euronext Paris exchange).
- The world’s number one conference city (11.3 million business travelers annually) and number one tourist destination (42 million tourists annually).²¹⁵

Impact of the downturn

After having withstood the economic slowdown and initial effects of the crisis relatively well, the City of Paris and the Paris Region suffered significant setbacks in the last quarter of 2008.

Tangible impacts

Unemployment

Even though the Paris Region unemployment rate still sits one point below the national rate, it spiked late in 2008, rising from 6.4% in the 3rd quarter to 6.8% in the 4th quarter.

Business conditions

The structure and regulation pattern of Paris' financial markets has meant it has been less vulnerable to the financial crisis than either London or New York. The locality's financial resilience has been attributed to a well adapted universal banking business model, notable for strong diversification of activities and a robust funding position. The finance sector has been able to assist with stimulating economic activity – banks headquartered in Paris agreed to expand lending by 4-5% as part of a EUR 10.5 billion government subordinated debt stimulus. Paris has witnessed the return of considerable numbers of talented finance professionals from London, who have either lost their jobs or are no longer incentivised to work overseas because of declining remuneration packages.²¹⁶

Property market

Private companies across the Ile-de-France region have dramatically reduced activity, heralding an end to two years of growth in the property market. While typically 200-220 businesses would set up or move into the region annually, a 30% fall in mergers and acquisitions activity in late 2008 has led to a decrease in overall business investment. The property market has witnessed a clear fall in the office space demand since mid-2008. Transaction volumes fell 57% in the first nine months of 2008, from EUR 16.6 billion in 2007 to EUR 7.7 billion a year ago. A range of private projects have been jeopardised by the slowdown, and many construction projects have been stalled indefinitely.²¹⁷

Tourism

Paris, the most-visited local economy in the world, is severely feeling the effect by a sharp downturn in global travel. International passenger arrivals at the locality's two airports were down 8.1% year-on-year in February, and hotel occupancy rates dropped 10%. Even visits to the Eiffel Tower have fallen 7% from last year. The effect is a huge dent in the local economy's USD 13.2 billion-a-year hotel and restaurant business, which, along with other tourism-related activities, employs 12.1% of the Paris population.²¹⁸

Response

It should be noted that for the purpose of this paper the following discussion focuses largely on the City of Paris. This area represents just one of eight départements within the Paris Region – the principal player in the field of economic and infrastructure development. As a result, the scale of the response to the crisis is underestimated in this snap shot.

*Urban development*²¹⁹

The 2009 budget adopted by the local council gives priority to housing, innovation, solidarity and urban planning. In these areas the City of Paris will spend EUR 8.3 billion over next six years, which represents an average annual growth of over 18% in comparison to the previous planning period 2001-2007.

Planned investments for the City of Paris 2009-2014

- EUR 8.3 billion will be invested over six years, an increase of 18% on average compared to 2001-2007.
- Housing and habitat: EUR 2.045 billion.
- Roads, transport: EUR 1.486 billion.
- Education, research, innovation: EUR 1.400 billion.
- Social work, health, youth and sport: EUR 1.208 billion.
- Cultural facilities: EUR 429 million.
- Urban planning: EUR 881 million.

The Grand Paris project (the Paris region) has the ambition however to invest EUR 35 billion in public transport over the next five years.²²⁰

Redevelopment projects

Les Halles. In April 2009, Paris council approved a USD 1 billion redevelopment of Les Halles, the former marketplace at the heart of the capital. After seven years of project discussion, the project has been fast-tracked in light of the recession. The redevelopment will upgrade the main shopping complex with a glamorous glass roof, as well as renovating surrounding gardens and the area's metro station – Les Halles-Chatelet - which is recognised as one of the busiest in Europe. Mayor Delanoë has prioritised the project, which aims to be complete by 2016, as it is set to breathe new life into a neglected neighbourhood, arguing that “Les Halles are one of the main doors into Paris.” Two-thirds of the total cost will come from taxpayer money. The city administration anticipates that revenues from new commercial space at the site will make up for the shortfall. The project has been preferred to an upgrade in the city's public housing, supported by the Mayor's coalition partners, the Greens.²²¹

Business Quarter La Défense. Plans for two skyscrapers were unveiled in 2009 on the Les Damiens site, and are scheduled to be completed by 2014. The first 91-storey tower block will house a 5-star hotel with more than 200 rooms, a spa and apartments with panoramic views. The lower section of the second, 93-storey building will be occupied by offices while the rest will be for housing. Both towers will be twisted and built over a huge square as big as the Place du Trocadéro in Paris, where there will be shops, restaurants, cafés, an auditorium and a contemporary art gallery. Another project to convert office blocks into housing has already been discussed by La Défense's development board EPAD. Although the actual buildings involved were not specified, it will most likely concern first-generation tower blocks built in the 1970s.²²²

Plateau de Saclay. In August 2008 plans were announced to create a global science and technology hub around the Plateau de Saclay by investing EUR 850 million. The Plateau de Saclay, a vast hub of scientific innovation and research, hosts a university specialising in science (Orsay), prestigious “grandes écoles” and many multidisciplinary and international research laboratories. This cluster of institutions is unrivalled anywhere else in France.²²³

Economic development

Competitive clusters now constitute a key factor for regional attractiveness and help reposition the economy of the Paris Region on technologically-based, high added-value sectors of the future. In 2006 and 2007, the original Paris Region clusters received public funds to the value of more than EUR 510 million. In 2009, policy concerning competitive clusters entered a second phase, with the signing of performance contracts between the clusters and public authorities.²²⁴

Increase in tax

These investments are planned despite the difficult economic context but the drop in revenues expected by the city in 2009 and 2010 is going to be partially compensated by an increase in taxes. In 2009, the four local taxes are expected to be increased by 9%, and a new property tax of 3% will be added to these already collected by the city.

*Workforce investment*²²⁵

Paris' various municipalities have coordinated their activities to support employment and business activity during the economic crisis. Some of the initiatives include:

- Creation of a Monitoring Committee for Employment.
- Development of employment forums in the districts of Paris.
- Emergency Plan for vocational training developed with the region.
- Strengthening of support for the creation of enterprises by the unemployed.
- Enlargement of the Local Plan of Insertion and Employment.
- Supporting the social policy and solidarity.
- Actions targeting young job seekers.
- Increase of SME loans guaranteed by Oséo.

*Support for Small and Medium-sized Enterprises*²²⁶

Christian Sautter, deputy mayor of Paris in charge of Employment, Economic Development and International Attractiveness, introduced on 23 September 2008 nine actions to support employment and business activity in times of financial crisis. Among these was an increase in SME loans guaranteed by Oséo. The locality is already supporting financing of SMEs by subsidizing of institutions that offer loans of trust, solidarity loans, and own equity. The municipal team will develop the system "Paris Finance Plus" which will offer an Oséo guarantee for SMEs looking for bank loans.

Rome*Locality overview*

Capital of Italy, seat of the Vatican, Rome is the country's largest and most populous urban area, with 1 285 km² of land, over 2.7 million inhabitants and an increasing number of immigrants, which has now reached some 9% of the total population²²⁷. Today Rome has the same population and the same length of underground lines (38km) as it had in 1971. Relative to Turin and Milan, Rome's economy has never had an industrial basis, but is mainly based on tertiary activities from governmental, to tourism, ICT, research and fashion. Rome is the third-most-visited tourist destination in the European Union.²²⁸ It is also home to many of the world's largest organisations, such as those affiliated to the UN system (FAO, IFAD, WFP and so on). It also boasts many cultural institutions such as museums, academies and so on.

*Tangible impacts**Unemployment*

In 2008, the unemployment's rate slightly grew reaching some 7%. Forecasts for 2009 envisage a further loss in terms of employment of some -1.6%.²²⁹ According to Confindustria, the National organisation representing Italian manufacturing and services companies, the unemployment data which confirms that the current crisis is concrete and has heavily hit the Capital²³⁰ shows a significant rate of increase. In the first quarter of 2009, there was an increase of 282% redundancies compared to the same period in the previous year with some sectors such as industry and construction recording larger increases.

Tourism

In 2008, Rome recorded a loss in tourism with a decrease of both national (-4.84%) and international (-11.11%) visitors.²³¹

Business Failures

In the first 2009 quarter, there has been an increase in the number of bankruptcy proceedings of some 24%, which is considerably lower of the national average of 46%.²³²

Property market

In the first quarter 2009, Rome registered a fall of 13.6% in the value of sold residential properties.²³³

Civic Unrest

In March, several hundred thousand workers, pensioners, immigrants and students participated in a national demonstration in the centre of city in protest at the Italian government's handling of the financial crisis. Led by Italy's largest union the protest was fuelled by the sentiment that not enough tangible action had been taken to mitigate the effects of the crisis against the crisis.²³⁴

Fiscal budget reduction

In 2008, Rome's municipal balance sheet became increasingly vulnerable in large part due to the economic downturn.

Response

National alignment and special reforms

A recent bill approved at the end of April by the Italian Parliament devolves fiscal powers to local governments. This bill is aimed at "lifting Europe's fourth-largest economy out of the doldrums."²³⁵ A special measure was issued for Rome. This reform, called "*Rome Capital*" has given to Rome for the first time more powers over taxes and spending. It will see Rome receiving national funding of over EUR 500 million per year.²³⁶ As a result, Rome will be administratively and financially autonomous and have more powers in

sectors as tourism, trade, environment, urban development and transports.

Tax cuts

The local government has cut ICI taxes (a rate on housing paid by citizens to the local administration). This is a great help as ICI was a significant tax on citizens.²³⁷

Budget adjustments

The national government has critically met the shortfall in Rome's municipal budget with funding. At the same time, the local administration has taken steps to reduce public spending.

Tourism

The Rome Chamber of Commerce has devised a EUR 180 million programme for the economic development of SMEs working in the tourism sector and, in particular, EUR 110 million to increase credit opportunities, EUR 60 million in infrastructural investments and EUR 10 million for research activities.²³⁸

Turin

Locality overview

The first capital of Italy and well-known as a typical “one company town” (or the “Italian Detroit”) because of the presence of FIAT headquarters and main factories, over the last decade Turin has reinvented itself into a new international locality. Today Turin is an open and growing economy boasting strong tourism, culture and creative sectors, which develop and take advantage of the city’s architectural and environmental heritage. This has happened thanks to an explicit strategy for economic and industrial diversification and the implementation of urban policies able to internationalise the city and (re-)create a European capital. Indeed Turin was the first Italian city with a Strategic Plan. Today, Turin is home to some 910 000 inhabitants, 12.7% of which are foreigners.^{239 240}

Tangible impacts

The scenario forecast for Piedmont does not appear very different from the national picture. According to the Promoteia figures, between 2008 and 2009, the regional GDP will slow down and the signs of recovery will be visible starting in 2010. Recovery will accelerate in the following two years, a period when the average annual growth should be around 1.1%. The worsening of the financial crisis will also influence domestic demand. In 2009, this is expected to drop by 2.3%. Again in the case, significant signs of an upturn will be seen starting in 2011. In detail, it will be household consumption to underline a negative performance in 2009, with a decrease of 1.3%, a trend that should be reversed starting in 2010. Expenditure for the public administration will, instead, be less sensitive to the negative situation.²⁴¹

Industrial sector

The last 2008 quarter confirmed the general slowdown in the industrial production which had characterised the entire year. In comparison to 2007, the last quarter recorded a decrease of some 14.7%. This City’s result was much worse than those ones recorded at both regional level (-2.4%) and National level (-10.4%). After two years of positive growth (3.8%

in 2006 and 3.2% in 2007) the overall annual variation was of -3.6%. The more sensitive sectors were automotive with -12.2% and chemicals with -8.2%.²⁴²

Employment

Employment in the industrial sector experienced a fall of 2.1% in the last quarter of 2008 with a worse performance by large firms (-4%). The number of temporary lay-offs increased by some 110% compared to 2007 with some sectors (textile, editorial and metallurgic) far exceeding 200%.²⁴³

Tourism

Despite a slight decline in international arrivals, which reached an unprecedented peak in 2006 as a result of the Winter Olympics Game, 2008 was a positive year for the presence of tourists in the city with an increase of 7.8% compared to 2007 and an overall increase of more than 35% compared to 2000.²⁴⁴

Property market

In the first quarter 2009, Turin registered one of the worst results in Italy with a collapse in the value of sold residential properties of some 20%.²⁴⁵

Response

Encouraging innovation

Diversifying the Turin’s economy, traditionally based on the automotive industry, toward sectors tied to the economy of knowledge is on the top of both Council and regional agendas, together with an important role for the Piedmontese University and a high-skills training system. The region has devised a large investments package of some EUR 200 million to stimulate enterprises in undertaking projects for ICT and communication innovation services. Over 1 000 projects have already been presented.²⁴⁶

Urban regeneration

Urban redevelopment and regeneration process have been underway since mid 1990 with the implementation of a set of policies, planning tools (first of all the Local Development Plan 1995) and processes within the Objective 2 of the European Structural Funds and then of the Winter Olympic Games 2006 framework. Turin has transformed itself from an old industrial local economy to a more dynamic economy based on knowledge activities. The new plan is now to move from a perspective of extraordinary interventions to ordinary ones which can allow Turin to change, transform and become more cohesive.²⁴⁷

Workforce investment

Through the City's Workforce and Training Division, Province of Turin is launching a new programme of some EUR 1 million to support employees from industries in crisis and relocate them in new job activities.²⁴⁸ The Province of Turin has assigned some EUR 1 million to enterprises that undertake special policies aimed to hire unemployed, laid off by the current crisis.²⁴⁹

Tourism and Branding

Building on the positive results achieved by hosting the 2006 Winter Olympic Games and the redefinition of Turin and its metropolitan area as a new cultural city, there have been many programmes and initiatives to enhance, promote and market the city's new image developed in over recent years. Some examples include: Turin was World Design Capital in 2008, The Turin Film Festival, new art galleries and the international arts fair "Artissima", the Taste Fair – Slow Food Terramadre, the second European Book Fair, and the celebration of the 150th anniversary of the Italian Unification in 2011.

Anti-poverty measures

Turin is sustaining low income people and large families (four or more children) for the expenses incurred in 2009.²⁵⁰

Zurich

Locality overview

Zurich is the largest local economy in Switzerland and the country's most important economic centre. The most significant sectors include the financial services industry and the legal, tax, and corporate consultancy services. About a third of Swiss banks have their headquarters in Zurich and there are numerous foreign banks in the greater Zurich region. Consequently, the financial and insurance services alone account for around 20% of workers and approximately 40% of the locality's GDP.

Employment in Zurich from 1995 – 2005

Sector	1995	1998	2001	2005
Banks	31 701	33 928	35 432	33 663
Insurance	10 498	11 760	12 636	11 275
Specialised Financial Services	6 369	8 255	11 768	11 507
Total Finance	48 568	53 943	59 836	56 445
Knowledge Intensive Business Services	18 932	22 820	28 305	28 484
All sectors	270 407	269 252	288 074	275 907

Source: Stadtblick 19, Stadtentwicklung Zuerich

The City of Zurich is also home to eight of the country's 50 largest companies and an important import and export centre. Indeed, taken together with Geneva, the two cities can be considered the "Engine of the Switzerland".²⁵¹

Impact of the downturn

Tangible Impacts

Fiscal budget

Zurich has been hard hit by the current economic downturn, for the most part due to the city's high exposure to the financial industry. As the former city mayor, Elmar Ledergerber, explained "the banks and the financial industry are

for the City of Zürich a cluster benefit in good times and a cluster risk in difficult times".²⁵² 35% (2007) of the local tax income is derived from institutions such as UBS, Credit Suisse or Swiss Re, and 2008 tax incomes from financial service sector were CHF 400 million (around EUR 270 million) lower than budgeted for the last fiscal year. The overall situation however was partially balanced by higher personal tax income. The consequence of such was that although local authorities initially expected a surplus of CHF 59 million, they closed the year with a deficit of CHF 179 million. It is the first negative year for Zurich after nine years of generating surplus.

Unemployment

Despite high exposure to the international economy and dependence on financial sector, the unemployment rate in the Zurich area has increased slowly and at 3.4% (April 2009) is below the national average of 3.5%.²⁵³ However, in the last few months, the Zurich employment office has registered a higher number of companies implementing reduced working hours. The coming months may bring further decline in employment as the number of available job positions continues to decline.

Intangible Impacts

Image

The relatively high dependence of the Zurich economy on the financial sector could impact upon the local economy's competitive position within the national hierarchy as manufacturing, commodities trading and biotechnology sectors help make western Switzerland more diversified in comparison. The locality still defends its reputation as an economic hub but the Lake Geneva region has tended to develop in a more dynamic and diversified manner than Zurich in the last few years. Basel Economics Chief Economist has stated in an interview that "if the financial services industry recovers quickly from its current problems then the Zurich area will be in a much better situation than the Geneva region because the financial sector is more dominant." However, if the financial sector continues to underperform over a long period the area may lose its competitive position as the nation's economic powerhouse to its close rival Geneva.²⁵⁴

Response

Budget adjustments

The former Zurich mayor said in an interview that in the short-term the locality can cope with the crisis using financial reserves generated in previous strong years; these reserves originally totalling nearly CHF 1 billion. Consequently, Zurich appears well armed to fight the crisis without cutting down on public services, at least in the short-term.²⁵⁵ In 2008 alone however the reserves were depleted to around CHF 782 million. The local authority's goal is to limit the 2009 and 2010 deficit to CHF 200 million and to be in surplus again by the latest 2012.²⁵⁶

Urban development

Despite the economic turmoil affecting Zurich, the local authority does not plan to let it jeopardise its investment plans. They aim to maintain the high investment limit for building projects set by them in the context of the urban administrative plan (Integrated Objectives and Financial Plan, IAFP), articulated in July for the next four years. This upper investment limit is approximately CHF 300 million gross expenditures for building projects annually. In the planned period around 20 projects will commence, whilst a further six are set to be postponed.

Economic development

In the long-term it is believed that Zurich will "need to develop other fields of economy such as tourism and creative industries or life sciences in order to diversify and minimise the risk".²⁵⁷

Green sector investment

In addition to the intensive building plans, Zurich is continuing to concentrate on green investment. The locality has committed itself to the 2000 Watt-Society and agreed in May 2009 on a CHF 200 million credit line for wind-energy projects.

Budapest

Locality overview

Budapest is the largest city of Hungary. In 2008, Budapest had 1.7 million inhabitants, with an official agglomeration population of 2.5 million. It covers an area of 525 square kilometres within the city limits.²⁵⁸

Budapest serves as the country's principal political, cultural, commercial, industrial, and transportation centre and is considered an important hub in Central Europe. As such, its contribution to Hungary's GDP is higher than that of any other area (37% in 2007), and its GDP per capita reached 221% of the national average in 2006. With a population of around 1.7 million, the city accounts for 17% of the Hungarian population, covering just 0.6% of the Hungarian territory.²⁵⁹

Tangible impacts

The 2009 budget

As well as the political scandal in the Budapest local government system in March and April 2009, the problems associated with the municipal budget also related to the recession. When the 2009 budget was planned, calculations were based on a more optimistic prediction of GDP growth and local business tax contributions. In particular, there is significant debate between the ruling political coalition around the level of risk the city should/could take in the budget to cover the co-financing of the Structural Funds supported projects. The arguments both for and against in this debate are interesting but are not as yet complete and are made more complex by the added vulnerability of municipal revenue as a result of the crisis.

Downgrade of Budapest's credit rating²⁶⁰

Moody's Investors Service in April downgraded the foreign and local currency ratings of the City of Budapest to Baa1 from A3, following the downgrade of Hungary's central government debt ratings to Baa1 from A3. The outlook

remains negative.

Budapest's ratings are closely linked to Hungary's debt rating, due to the large proportion of the city's debt being guaranteed by the state. Reflecting the presence of cross-default provisions in the guaranteed debt, the state also has a very strong incentive in ensuring timeliness of payment on the unguaranteed debt of the city.

"Moody's believes the severe need for austerity measures at the central government level, combined with worsening national economic growth prospects and volatility in the financial markets, bring uncertainty to the local governments' financial framework and will put serious pressure on the city's budget," explains Moody's. Budgetary challenges are expected to arise particularly from (i) the cyclically-sensitive nature of almost one-third of the city's operating revenue, (ii) high foreign currency exposure, and (iii) possible constraints on the central government's transfers to local governments, particularly on public transport and investments.

"The ratings also reflect Budapest's so far prudent budgetary management, mirrored in recently improving operating margins, and good liquidity position," says Moody's. "However, tightening budgetary flexibility in the context of recently weakening economic conditions as well as high infrastructure needs could exert pressure on the city's financial performance and lead to an increase in debt."

Potentially positive impact on FDI inflow²⁶¹

"Now is the time to settle in Hungary: cost-effective offers are combined with a stable, predictable and supportive environment," Hungary's economy minister told investors in March. "The Hungarian government has made steps and embarked on structural changes that will not only help fast recovery from the crisis but will also place Hungary in a better position than before the crisis."

Some examples of companies that are considering to profit from cheaper office space and reduced labour cost due to the crisis and plan a move to Budapest include the French conglomerate Alstom, planning to set up a unit for 160 people, the American multinational 3M planning to open a new logistics centre and Christian Dior eyeing the impressive ballet institute building in central Budapest for its new office.

Civic unrest

Hungarian capital has already experienced a number of protests. The real meaning and motivations behind these events still need to be understood. Even the strikes of the trade unions for instance are in need of further evaluation. However, with the economic crisis putting pressure on individuals and organisations it is likely that it will have contributed to the civic unrest experienced by the city.

One such protest took place in March 2009. Several thousand people held anti-government protests in Budapest during a national holiday.²⁶²

It is suggested that the protests reflect the current disapproval of the steps taken by the government to fight against the crisis. However, unrest also has an adverse impact on the city's day to day functionality by paralyzing its roads, damaging buildings and the urban realm, and by damaging citizen's confidence.

Budapest luxury market suffers due to lower number of foreign tourists

Market surveys have revealed a 15% to 20% fall in sales in the Hungarian capital. The most affected market segments are hospitality, restaurants, interior decorations (furniture), travel and fashion (multi-brands). The drop is related to the fact that Budapest luxury brands rely for over 50% of their sales on foreign tourists visiting the capital. The number of foreign tourists has decrease heavily, especially those coming from Asia and who are the most important target base for luxury brands in Budapest²⁶³.

Budapest's eleven 5 star hotels have registered record low occupancy rates in December 2008 and January 2009, some slashing their rates by 50% to counteract this trend. The Budapest luxury hospitality market relies over 50% on leisure tourism, especially from Western European countries, Russia and the USA.²⁶⁴

*Response**Seeking alternative sources of financing*

The key point here relates to new investment in the city. To co-finance EU financed initiatives the city is seeking new sources of finance. Because of the recession municipal revenue streams are more vulnerable making innovative financing sources vital. Some of these initiatives are contained below:

Local government to take out further loan²⁶⁵

The Budapest government plans to apply for an additional HUF 33 billion 20-year loan to add to the town's HUF 160 billion debt total. Deputy Mayor Imre Ikvai-Szabo said the additional funding is necessitated by macroeconomic changes, as the shrinking volume of central funding means the local government must resort to alternative sources.

Selling controlling stake in the city's natural gas supply company²⁶⁶

The local government of Budapest voted in November to sell its 50% + 1 stake in the capital's natural gas supplier, Fogaz. They expect well over HUF 60 billion (EUR 233 million) for its stake. The city's Mayor, Gabor Demszky said the city needs the income from the Fogaz sale in order to cover HUF 57 billion (EUR 221 million) in co-financing for development projects being carried out with funding from the EU.

Collaboration- setting up a council to coordinate local developments²⁶⁷

The central government and the Budapest local council have established a body to coordinate development plans. The body, called the Budapest Development Council, will harmonise the most important development plans of the government and the capital, including a HUF 510 billion metro line that is to receive HUF 266 billion in EU funding.

Leadership agenda

The following section contains some of the thinking of some of the key players in the Budapest economic development system. It is not comprehensive but offers a flavour of the opinions being expressed. It is extremely important to note the strict rules concerning government spending in the city (in relation to European accession). There are tight limits imposed on spending government money for short-term economic incentive programmes.

Bridging crisis with innovation

Panel discussion with Hungarian Minister for National Development and Economy, chief architect of Budapest and Chairman of Budapest Business Region held in March revealed some major projects.

- Minister for National Development and Economy, emphasised infrastructural investments: a stimulus package of EUR 7 billion will be spent in the next three years on hospitals, schools, universities, innovation centres, logistics centres, industrial parks, road, railway, and public transport in the Budapest Region.
- Chief architect of Budapest pointed out that 50% of the local government budget goes on investment: there are 30 ongoing projects, supported also by EU and governmental money. She introduced Budapest's three main areas of development covering IT & Media, pharmaceutical industry and environmental research sector, along with the development of a more efficient public transport system, including the Metro 4 rapid transport line and more than 5000 P+R parking spaces.
- Chairman of Budapest Business Region emphasised the importance of BBR, which is one of the first clusters in the region helping to connect the actors of real estate industry. Dr Gulyás Kovács revealed that the BBR cluster, as a unique initiative, has successfully made the government, the Budapest Municipality and the private sector join together to promote the locality.

International cooperation²⁶⁸

In May 2009, Mayor Gabor Demszky discussed ways of broadening European

Union funds in urban development, and of cultural cooperation, with his Austrian counterpart in Vienna. "It is the common interest of the two capitals that the EU provide more funds for the development of public transport and urban rehabilitation projects, and we have to act together to achieve it", Demszky suggested.

Prague

Locality overview

The City of Prague is situated on the River Vltava in central Bohemia. It has been the political, cultural, and economic centre of the Czech state for more than 1 100 years. The locality is home to more than 1.2 million and has a unique position within the Czech Republic. It makes an above average contribution to the GNP (24%), has a low-level unemployment and above average income. Approximately a quarter of all investment in the Czech Republic takes place within the local economy's boundaries.²⁶⁹ Prague's economy has undergone profound transformation, and a vast majority of the private sector that has emerged through privatisation over the last decade has successfully adapted to the new conditions of the market economy. The service sector has grown significantly (2007 - 81.5% GDP). The most important are business services and tourism. In addition to Czech businesses, a number of foreign companies operate in the locality and their business interests reach in all directions throughout the continent. The favourable investment climate is also confirmed by the city's "A-" rating by Standard & Poor's. Since 1992, the locality's historical core has been on UNESCO's World Heritage list. The Czech Republic is currently the presidency state of the Council of the European Union, for the first half of 2009, and Prague hosted the majority of events.

Impact of the downturn

Unemployment

The registered unemployment rate in April was 2.74% - just 0.71% higher than in the same month of 2008.²⁷⁰

Fiscal budget reduction

It is assumed that the local government will receive less tax income in 2009. A decrease of approximately 1.7 billion crowns is forecasted.²⁷¹

Construction/investment reduction/pause

This reduce income will result in the delay of the construction of the transport infrastructure, especially the metro (underground) extension and the inner ring road. The state funding of the Prague outer ring road, which will connect all the highways and fast roads near Prague and reduce traffic on the inner city routes, is also threatened. The realisation of some smaller infrastructure projects will also probably be delayed.

In the context of the crisis, the prospect of hosting the Olympic Games in Prague, which has been supported by Prague's leaders so far, is currently being discussed and re-evaluated.

Some housing construction and business projects that were planned for this year will also be postponed according to developers. This decline has already been noted in the first quarter of 2009.

Tourism

As with other sectors of the Czech economy, the global financial crisis is taking a toll on the tourism industry, which accounts for nearly 3% of Czech GDP. A decrease in the number of tourists and overnight stays has been noted since the second quarter of 2008. Whilst the year-on-year increase in the number of tourists was 28% in 2003-2004 and 8% in 2006-2007, between 2007 and 2008 it was only 2.3%.²⁷² In the first quarter of 2009, the number of overnight stays declined by 8.7% compared to the same period in 2008. The number of incoming tourists was also lower and decreased by 17.1%. Nevertheless, it is likely that this trend was influenced by the Easter holidays that were in April this year.²⁷³

Response

Supporting tourism

The plan to support tourism was approved by the Prague Municipal Council in April 2009. It contains measures, which will help to develop tourism over the next two years, e.g. advertising campaign, extension of city presentations at trade fairs and promotion of partnerships in the field of tourism.²⁷⁴

Workforce investment

In March 2009, Prague launched a campaign called “Trade skills are a Golden Investment, Trade Skills are Alive”. It has created a website *www.remeslozije.cz* (in Czech only) and posters and billboards that can be seen throughout Prague. “Over the last 20 years, apprentices have become scarce, although good craftsmen are in high demand” said Marie Kousalíková, Deputy Mayor of Prague. “Czech bricklayers, carpenters, locksmiths, turners and other tradesmen are disappearing and in their place we often find cheaper labour from Ukraine and other countries. Their work was often poor quality and this is why there is a great demand for highly qualified craftsmen who are true professionals.”²⁷⁵

Branding/improving importance

The Mayor of Prague Pavel Bém said: “the economic crisis can paradoxically help regions and towns raise their influence and importance in the European Union”. One way Prague has certainly aimed to do so is to hold high profile meetings and discussions about the economic crisis. In March 2009, the summit between the EU Heads of State and Government with the US President in Prague, during which the recession was discussed in depth, achieved worldwide media coverage. In April 2009, Prague also held “Transforming the World in Crisis” a global NGO based meeting.²⁷⁶

Riga*Locality overview*

Riga is situated on the Baltic Sea coast on the mouth of the river Daugava. It is the largest economy in the Baltic States, with a population of 719 613 inhabitants (2008).

Riga accounts for about half of the total industrial output of Latvia, with strengths in:

- The financial sector.
- Public utilities.
- Food and beverages.
- Pharmaceuticals.
- Wood processing.
- Printing and publishing.
- Textiles and furniture.
- Communications equipment manufacturing.

More than 50% of Latvian companies are registered in the Riga region. The port of Riga is an important cargo shipping centre. It is the main all-weather port in the Baltic and is expected to grow in the next few years due to increased trade with other ex-Soviet states and China.

Business and leisure travel to Riga have increased significantly in recent years due to improved infrastructure. Most tourists travel to Riga by air via Riga International Airport, the largest airport in the Baltic States, which was renovated and modernised in 2001 on the occasion of Riga’s 800th anniversary. In the near future, the face of Riga will undergo notable changes. The construction of a new landmark — the Latvian National Library building — began in the autumn of 2007 and is due to be built by 2010.²⁷⁷

Impact of the downturn

Tangible impact

Budget deficit²⁷⁸

According to this year's Riga City Council budget passed on 17 February 2009, revenue was predicted at LVL 472.2 million, whilst expenditures at LVL 496.75 million. This equated to deficit of LVL 22.6 million (EUR 32 million). The Council voted to provide childcare benefits and additional funding to educational institutions until the end of the year. Cuts in investments and administrative costs were necessary as the city received lower State support in 2009. Subsidies and grants from the State budget are planned to total LVL 72.9 million, which is LVL 37.1 million less than in 2008.

The municipal budget has been adopted with a deficit despite the government's promise to the International Monetary Fund to prevent local authorities from passing municipal budgets with deficits.

Downgrade of Riga's credit rating putting at risk FDI flow²⁷⁹

On 26th of April, Moody's Investors Service downgraded the foreign and local currency issuer ratings of the City of Riga in Latvia to Baa3 from Baa1. The outlook remains negative. The rating action primarily follows Moody's revision of the Government of Latvia local and foreign currency issuer and debt ratings to Baa3 with negative outlook from Baa1 negative. The change on the Government's ratings reflects the further intensification of the economic crisis in Latvia. The economic downturn is now expected to be deeper and more prolonged than previously assumed and will lead to a significant rise of Government borrowing to smooth the adjustment and prevent a major economic crisis. According to Moody's methodology, the City of Riga's ratings factor in a close link to the Republic of Latvia's Baa3 ratings, given the locality's strategic importance for the country.

Such a downgrade can have a negative impact on expected flow of future incoming investments. In some cases, guidelines of investment funds provide that investments are not allowed in markets with such credit ratings or investments may be small.

Unemployment level

With the continued reduction of manufacturing and service volumes, the unemployment level in Riga has increased from 5.2% at the beginning of the year to 9.1% at the end of April.

Unemployment rate (%)	Mid 2008	Jan 2009	Feb 2009	Mar 2009	Apr 2009
Latvia	4.8	8.3	9.5	10.7	11.0
Riga	3.4	5.2	7.2	8.2	9.1

Source: The National Employment Agency

According to the National Employment Agency, unemployment is expected to rise at the fastest rates in Latvia's economically active cities and towns. The Agency's director said the number of jobless people is expected to surge in the capital city of Riga. The Agency's head suggested: "Riga, Ventspils, Liepaja, Valmiera, Jelgava and Daugavpils where most of the businesses are concentrated are seriously affected by the economic situation, and thus unemployment can rise very quickly there if entrepreneurs have difficulties selling their goods and services."²⁸⁰

Lower quality of public services

The Riga City Council's Passenger Transportation Committee approved the municipal transport company "Rigas Satiksme" plans to decrease the frequency of public transport by more than 7% and cut the number of public transport routes in Riga.

"Rigas Satiksme" is planning to decrease the frequency of public transport service and reduce the number of public transport routes in evening hours, which would make it possible for the company to cut costs by LVL 850 000 this year to compensate for insufficient government and municipal subsidies²⁸¹.

Riga's citizens will also have to pay a higher price for the centralised water supply and sewerage services. An increase of 14.4% on average is a result of the government's decision to apply an increased VAT rate of 21% to those services. "About 1.49 million people in Latvia receive centralised water supply and sewerage services. Implementation of the anti-crisis plan conceived by the Cabinet will lead to serious increase of the household expenses for the

basic needs while their income would decrease.”²⁸²

Civic unease

In January, Riga’s citizens went to the streets to protest against the government. The initially peaceful protest gathered around 10 000 demonstrators, was the largest in the country since 1991. The press reports that “As the crowd swelled, dozens of protesters tried to storm the parliament building, and hundreds of demonstrators then hurled rocks and chunks of ice at government buildings. The rioters were dispersed by riot police using mace and truncheons, but they gathered again in a neighbouring street in Riga’s historic business district. There, they overturned a police van, smashed windows and looted shops.”²⁸³

Following this large outburst of citizens frustration, Riga experienced many other protests. For instance, in April, around 10 000 teachers took to the streets.

Although demonstrators do not protest against the local government, the impact of such actions remain distinctly local. Damaged shops and buildings, paralyzed transport and the sense of insecurity are expensive for the locality, and have negative impact on tourism and foreign investment flows.

Response

As noted by Moody’s report²⁸⁴, the Central Government has a strong control over the institutional framework governing the municipal sector. This, coupled with upcoming City Council elections has brought no clear anti-crisis agenda so far. The following are actions taken up until May 2009:

*Budget to be amended*²⁸⁵

In April, Riga City Council has announced that it will have to decrease budget expenditures by another 10% or LVL 42 million (EUR 60 million) in the second half of this year.

Within the two months since the Riga City Council’s 2009 budget was passed, Latvia’s economic and financial situation has worsened. The City Council’s main source of income - residential income-tax - has reduced by

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14.3% in the first quarter of the year compared to the first quarter of 2008. The finance department predicts that the City Council’s revenue from the residential income-tax will decrease by another LVL 28.1 million this year, or to LVL 246.2 million.

Riga Mayor Janis Birks announced that amendments to the local authority’s budget must not affect the social budget. He noted that in drawing up budget amendments it will be necessary to find other solutions than reducing social expenditures by revising and further reducing the City Council’s programmes, continuing reforms in municipal institutions and perhaps giving up some functions that the local authority has been performing voluntarily.

*Lower rents for municipal properties*²⁸⁶

Riga City Council plans to introduce a more flexible system of rents in order to support businessmen and rent out more of the municipal properties that are vacant at this time.

Riga City Council has received a large number of requests for lower rents from companies renting municipal properties. Furthermore, the City Council has not been able to rent out many of its premises, and the new rents are hoped to help solve this problem.

*Outdoor cafes and restaurants to pay lower lease*²⁸⁷

This year the local authority has cut the duty charged from the owners of street cafes. Compared to last year, the Riga City Council has reduced the lease amount for outdoor cafes using local government land by 25%. This measure is to help to attract more local tourists and defend the businesses from the impact of the current economic situation and the reduction in the volume of foreign tourists visiting the country. Last year, a total of 287 outdoor cafes operated in Riga.

Introduction of a grant scheme to support entrepreneurs

In 2009, the Riga City Municipality together with Swedbank introduced a grant scheme “Atspūriens” (Take-off) to support implementation of new

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business ideas (projects with budgets totalling up to 6 000 lats). On the 13th of May 2009 the results of the first round of project competition were announced – 14 projects will receive support within the grant scheme (the total amount of support granted totalling 60 000 lats).

*Showing unity and improving people's confidence*²⁸⁸

As rather a symbolic act, Riga City Council plans to order obligatory raising Riga flag on public holidays. "In the current economic recession circumstances it is necessary to restore self-confidence of Rigans, to create a sense of unity," reads the bill's explanatory note.

Vienna

Locality overview

Vienna is Austria's most important economic centre, generating approximately 28% of the nation's GDP and employing roughly a quarter of the nation's workforce. It has a population of between 1.5 and two million people. The GDP per capita in Vienna is approximately 178% of the EU average and this level of income is relatively evenly distributed throughout the population. Vienna earns more than 40% of its revenue and profits in the countries of Central and Eastern Europe. Vienna's economy is comprised of strong banking, insurance and manufacturing sectors. The locality's main exports include machinery, metal products, electrical equipment, chemicals, textiles, clothing, printed materials and paper. 40% of the locality's surface area is dedicated to Vienna's agricultural sector, which produces enough vegetables to feed the locality's population.^{289 290}

Tangible impacts

Fiscal budget

Expected incomes in 2009 amount to EUR 11.065 billion and expected expenditures to EUR 11.156 billion, the result of which is a EUR 91 million deficit. When presenting the 2009 budget, Vienna's Executive City Councillor of Finance, Economic Affairs and Vienna Public Utilities Brauner however said that she believed consistent debt reduction since 2000 has paid off as the locality is now in a position to invest more significantly and offset the downturn from demand in the private and public sectors.²⁹¹

Unemployment

After a period of continuously decreasing unemployment rates, the first months of 2009 saw a significant rise. In March, the Vienna Employment Office (AMS) announced a rise of 7.1% over the previous year. Relatively, however, this figure is promising: it is the lowest increase among all Austrian regions, the national unemployment level having increased by 28.8%. According to the

Employment Office director: “more than half of the increase in unemployment is attributable to the construction industry, the metal and electrical sector, as well as tourism. On the other hand, employment increased in the health sector.”²⁹²

Intangible Impacts

Business confidence

In November 2008, most of the Vienna’s economic sectors declared “cautious optimism” regarding their future. The loss of confidence in the financial sector was expected to adversely impact capital-intensive industries such as construction as it would limit their access to liquidity. A survey conducted among Vienna businesses illustrated however that managers considered the economic downturn a result of consumer insecurity than a real economic crisis.²⁹³

Response

Vienna’s council considered the need for higher investments and special anti-crisis actions in the 2009 budget, increasing 2009 expenses by EUR 573 million. This sum, together with an additional EUR 100 million debt, will create a so called anti-crisis package aimed at strengthening the local economy and protecting workplaces.²⁹⁴

Budget adjustments

Vienna’s planned and subsequently altered budget for 2009

	Plan 2009	Change
Expenditures	EUR 11,156 billion	+ EUR 599,44 million
Incomes	EUR 11,065 billion	+ EUR 646,34 million
Administrative deficit	EUR 90,76 million	
Debt	EUR 1,349 billion	- EUR 14,80 million
Investments (City of Vienna)	EUR 2,464 billion	+ EUR 46,13 million
Investments (Vienna municipality)	EUR 1,602 billion	+ EUR 29,95 million
Demand effective expenditures	EUR 4,497 billion	+ EUR 673,51 million
Expenditures on construction and related industry	EUR 1,615 billion	+ EUR 38,58 million
Education	EUR 1,041 billion	+ EUR 41,18 million
Child care	EUR 389,52 billion	+ EUR 36,66 million
Healthcare	EUR 1,745 billion	+ EUR 182,27 million
Social expenses	EUR 1,060 billion	+ EUR 174,11 million
Business development	EUR 214,68 million	+ EUR 49,77 million
Public services	EUR 544,33 million	+ EUR 20,05 million
Culture and art	EUR 230,62 million	+ EUR 13,13 million

The anti-crisis plan focuses on the following key areas:

Urban development

Investments in urban infrastructure include refurbishment and maintenance activities in the area of the Vienna Hospital Association.

Economic development

A particular focus on internationalisation and innovation.

Tourism

A fund of EUR 500 000 for Vienna Tourism board to implement additional advertising and marketing initiatives.

Green sector investment

Promotion of measures to improve energy efficiency in Vienna.

Investment in the workforce

The 2009 “Vienna Labour Market Package” was presented in February 2009 by the Executive City Councillor of Finance, Vice-Mayor Renate Brauner and Federal Minister of Labour, Social Affairs and Consumer Protection Rudolf Hundstorfer. Of the additional EUR 33 million in this year’s package, EUR 10 million will be provided by the City of Vienna and the remaining EUR 23 million by the Vienna labour market service. The new package should benefit around 2 500 people. In 2009 the Austrian Federal Government is set to make nearly EUR 300 million available to Vienna for direct AMS grants. In addition to its regular budget of over EUR 58 million, this year the Vienna Employment Promotion Fund will receive at least a further EUR 10 million from the City of Vienna for job assistance. The main aim is to increase the range of qualifications which the Vienna Employment Promotion Fund traditionally already offers. More than half of the additional Vienna funding – some EUR 5.5 million – has been earmarked for young people.

Support for small and medium-sized enterprises²⁹⁵

The City of Vienna together with the Vienna Economic Chamber, the Vienna Chamber of Labour and the five largest Vienna banks launched a week-long campaign for Vienna’s small and medium-sized enterprises (SMEs) from the 16th to the 20th February 2009. SMEs will receive grants totalling EUR 700 million from the Vienna economic stimulus package.

Renate Brauner, Vice Mayor and Executive City Councillor of Finance, Economic Affairs and Public Utilities, explains this initiative:

“In view of the very difficult economic situation, the purpose of this joint campaign is to restore confidence again, and to support Viennese enterprises with wide-ranging consulting. This represents an important concrete step towards kick-starting corporate financing again.”

Yet another goal of the campaign was to maintain confidence between banks and business. According to Brigitte Jank, President of the Vienna Economic Chamber:

“Banks are the most important source of finance for SMEs. It is therefore particularly important that finance can flow unhindered from banks to businesses in order to finance investments and production facilities, and to bridge the current economic situation.”

A recent market survey has shown that a large majority of businesses are basically satisfied with their local banks in questions of financing, though 15% of businesses criticised their banks for demanding greater security, and 20% found that credit had become more expensive.

Warsaw

Locality overview

Warsaw, the political and economical capital of Poland, is a relatively new locality, having been completely destroyed and subsequently rebuilt during World War II. With the entry of Poland into the European Union in 2004, Warsaw has for the last few years experienced the biggest economic boom of its history.²⁹⁶ It is classified as a gamma world city (also known as a “minor world city”), placing it on a par with local economies such as Rome and Beijing.²⁹⁷ During Warsaw’s reconstruction after World War II, the communist authorities decided that the locality should become a major industrial centre. However, as the communist economy deteriorated, the number of state-owned enterprises decreased and the number of companies operating with foreign capital continues to grow. Warsaw has the biggest concentration of electronics and high-tech industry in Poland and the growing consumer market perfectly fosters the development of the food-processing industry.²⁹⁸ During the past five years, the value of Warsaw’s development projects has surpassed USD 5 billion. Most of them were made possible by the involvement of foreign capital. With a population of nearly two million, Warsaw is also the country’s largest university and research centre with an enormous and highly skilled workforce.²⁹⁹

Tangible impacts

Growth rates

Warsaw’s economy remains stable and prosperous despite the economic crisis impacting on many the Polish regions. Polish GDP growth in the first quarter of 2009 was 1.9% and after Cyprus it was the highest increase of GDP between the EU countries.³⁰⁰ A report from the Polish financial consultancy company Finamo suggests that in Poland, the impact of the global financial crisis is reduced by the fact that Polish GDP growth is fuelled more by direct investment and domestic demand than by foreign trade. At the end of the second quarter, for example, exports amounted to a mere PLN 252 billion, compared to domestic demand worth PLN 622 billion. The financial sector is far more dependent on international factors than the rest of the Polish economy.

The Warsaw Stock Exchange has been significantly affected by the turmoil on foreign trading floors because financial markets are linked globally.³⁰¹

Unemployment

The unemployment rate has declined in the last year; a better picture than the rest of the country. According to information from the Warsaw Statistical Office, at the end of March there were 24 132 unemployed registered and this figure is 5 593 people (18.8%) less than in March 2008. This translates into an unemployment rate in Warsaw of 2.2% in March 2009 compared to 2.7% in March 2008.

However, the number of unemployed is set to increase. Some of the significant employers have announced mass layoffs including FSO (automotives), PZL Wola (mechanical works) and Thompson.

Rise in skilled labour

There has, as a result of the financial crisis, been a flux of skilled workers back into Poland and particularly Warsaw from Western Europe where they were occupying low-skilled jobs at the bottom of the labour market and with no protection from contracts. Many over-qualified Poles ended up working long hours in poor conditions. Now however, booming wages have meant that some workers are paid more in Warsaw than in parts of Western Europe.³⁰²

Investments carried out more cheaply

The officials are convinced that the economic downturn may help in completing the planned public investments at lower cost with firms participating in the public investments demanding significantly lower prices. This has allowed the local economy to save PLN 80 million so far. Currently 25% of the locality surface has plans for investments.³⁰³

The global financial crisis may make the job of preparing for Euro 2012 easier for Poland as demand for unrelated construction eases and prices drop. Marcin Herra, who heads the agency preparing for the event, said the global slowdown in investment increased developers’ interest in key infrastructure

projects, while falling prices of building materials should make the final price-tag lower. Furthermore, it will be helped by the return of construction labourers who had previously migrated away. For Poland, the infrastructure work needed for Euro 2012 is viewed as a timely cushion for its economic slowdown. Warsaw's key National Stadium project is currently running ahead of schedule, though Herra added much work remained to do.³⁰⁴

Civic Unrest

About 1 000 Polish workers marched through central Warsaw in March 2009 setting light to tyres and setting off firecrackers, to protest against the government's handling of the economy. Despite this event, Warsaw has avoided large-scale violent protests seen in some European countries during the global economic crisis. This is in part due to the fact that, in contrast to nearby Hungary or the Czech Republic, Poland's centre-right, pro-business government remains stable and popular, with the support of around half of all Poles.³⁰⁵

Responses

The city has not announced an official anti-crisis plan yet. However the following types of measures have been articulated in press interviews with city officials³⁰⁶:

Urban development

In 2009 over PLN 3 billion is planned to be spent on new investments including football stadium Legia, North Bridge, Science Centre Copernicus, a Solid Communal Waste Utilisation Plant, and a new hospital. There are also planned a good number of transport infrastructure projects - including the construction of the missing part of the Warsaw bypass and renewal of the main tramways – and sport and leisure projects.

Enhanced Public Private Partnerships

Investments will be boosted through higher numbers of PPPs as simplified

procedures related to investments should help Warsaw to attract new capital flows. Some of the most advanced projects include: the modernisation and extension of the Solid Communal Waste Utilisation Plant and the underground car park on Emilii Plater Street. Other key projects include:

- Infrastructure sector: the Traffic Safety Monitoring System and the multi-level car park in the Targowek District.
- Health care sector: construction of a new hospital.
- Business and Science sector: the technology park.
- Sport and Leisure sector: aquarium at Warsaw Zoological Garden, renovation and construction of sports facilities-KS Hutnik and the development of the Marina, waterfront, sports centre and hotel at Czerniakowski Port.

Workforce investment - Sustaining employment

In 2009, 4 500 unemployed will be given support in the form of employment in public works or participation in a programme of professional development and retraining. The local government itself plans to employ an additional 400 people as interns and full time staff.

Support for Small and Medium-sized Enterprises

Through the local credit guarantee fund, small firms will be helped to obtain credit necessary for the continuation of operations. Warsaw also obtained PLN 40 million from the EU funds for investments in "human capital". The money will be used for training 300 people to set up their own business and providing 100 people with grants.

Economising bureaucratic processes

Warsaw's president announced increased controls over the administration's expenditures in relation to new cars, advertisement and marketing and representative costs.

Warsaw also intends to maximise the use of funding from other sources. For

instance, it will use EU funds for those groups at risk of social expulsion e.g. handicapped, foreigners and orphans.

Leadership agenda

Higher level leadership important

Mazowsze Region obliges local officials to act³⁰⁷

Aside from the City of Warsaw's plans, the Mazowsze regional government announced anti-crisis measures³⁰⁸:

- Freezing local governments' officials' incomes.
- Ordering local authority leaders to limit expenditures to those necessary for sufficiently running the offices.
- Ordering local authority leaders to complete planned investments in a timely and efficient manner. New investments have to be approved by the Board of Mazowsze regional government.
- Ordering local authority leaders to intensify efforts to obtain new sources of financing including EU funds.

Los Angeles

Impact of the downturn

Los Angeles is arguably one of the worst hit global localities by the economic recession. In an April 2009 "State of the City" speech, Mayor Villaraigosa stated "these are no ordinary times. The recession is taking a terrible toll." Districts across the affluency spectrum have witnessed falling hotel occupancy rates, declining car sales and a sluggish housing market.

Tangible impacts

Fiscal budget

Los Angeles' budget deficit and economic sluggishness are by far its biggest immediate challenges. The city faces a current USD 35 million deficit for the 2008/9 year, despite the USD 74 million in midyear cuts approved by in December 2008. Tax revenues, including business and hotel taxes, as well as documentary stamp taxes collected on home sales, have continued to decline.

A February 2009 locality budget report revealed that Los Angeles may face a USD 1 billion shortfall in 2010/11 because of a huge bailout needed for the city's employee pension funds. Of the total current budget of USD 7 billion, the locality already faces a USD 530 million budget shortfall, driven primarily by declining tax revenue and increases in employee pay and benefits. The cost of the pension system bailout, which the locality is obligated to keep afloat to look after 43 000 active employees, is enormous, at USD 458 million in 2010/11 and USD 663 million in 2011/2012. Locality officials are very aware of the scale of difficulties, and have called for "major structural changes" in the months ahead. The Los Angeles City Employees' Retirement System and the Los Angeles Fire and Police Pensions are expected to suffer combined investment losses of 25% in the 2009/10 budget year and to have flat returns in 2010/11.

The locality's budget troubles are not expected to be eased by the USD 787 billion stimulus package approved in early 2009. While the package includes money for the mayor's police hiring scheme, most is intended for specific projects and not for the locality's day-to-day operational costs.

Meanwhile, the problems of the California state budget also present a concern for the locality, as it has cut state funding for Los Angeles law enforcement by up to USD 7.5 million. The state also is temporarily withholding critical funds for transportation projects, as well as the locality's share of the state gas tax.³⁰⁹

Unemployment

As of April 2009, 230 000 locality residents were unemployed, with the jobless rate standing at 12% and set to rise further. Los Angeles' USD 30 billion annual entertainment industry lost more than 22 000 jobs in January 2009 alone, more than any other sector, and approximately 10% of the available workforce. Hollywood and Madison Avenue have responded to lower consumer spending by reining in production of movies and commercials, causing mass unemployment among workers in the industry.

Home re-possession

The mortgage crisis has led to 21 000 families to have their homes re-possessed, with many resorting to living on the locality streets or in car parks.

International trade

Trade flows and ship traffic have stagnated.

Intangible impacts

Image - Media, entertainment and culture industry decline

Los Angeles' USD 30 billion annual entertainment industry lost more than 22 000 jobs in January 2009 alone, more than any other sector, and approximately 10% of the available workforce. Location filming for movies and TV commercials on the streets of Los Angeles has rapidly declined, with local film shooting permits falling 56% in the first quarter of 2009. The impact of the recession has combined with out-of-state economic incentives for producers to cause on-location film shoots in the Los Angeles region to fall to their lowest levels on record.

Despite a strong start to 2009 at the box office, studios have reduced the number of movies produced and laid off thousands of employees in response to weakening DVD sales, declining local TV ad revenue and diminishing sources of financing. Five major studio films are scheduled to be shot in L.A. in 2009, compared with about 15 in 2008.

The recession has caused lasting damage to some of Los Angeles' most renowned newspapers. The Los Angeles Times has been forced to halve the size of its newsroom desk, with its circulation falling to just 700 000 from an average 1.1 million in 2000. Meanwhile Los Angeles cultural institutions have become financially precarious, as the locality has witnessed a 40% drop in endowments. The Los Angeles Museum of Contemporary Art recently faced a financial crisis brought on by plummeting donations, with only a USD 75 million rescue plan led by billionaire philanthropist Eli Broad preventing a move to another location or a merger with the Los Angeles County Museum of Art.³¹⁰

The cumulative effect of these cutbacks is the risk that Los Angeles' cultural pull as one of the world's film and art capitals has been irreversibly tarnished by the entertainment industry slowdown.

Response

The Mayor's 2009 budget proposal centres on two key areas - the protection of public services and the preservation of jobs.

Urban development

In November 2008, Los Angeles city officials successfully – and against the odds – gained two-thirds approval from the public for a half-cent sales surtax that provides a USD 40 billion traffic relief and transportation upgrade throughout the county up to 2040. Measure R will help fund dozens of long-delayed critical transport and highway projects, creating more than 210 000 new construction jobs and redirect up to USD 32 billion back into the local economy, according to the LAEDC. Measure R goes into effect in July 2009.

The largest proportion (35%) of the funds will be spent on new rail and/or bus rapid transit capital projects. USD 241 million has been earmarked for 2009-10 alone in this area, with almost USD 3 million planned over the next ten years. Early work is likely to include an extension of the Expo Line from Culver City to Santa Monica, an extension of the Gold Line from Pasadena to Azusa and placement of a light-rail line along Crenshaw Boulevard in South Los Angeles. A further 20% has been established for highway investment, and another 20% for general operations, including fare freezes.³¹¹ In the first full year of implementation (2009-10), 88 local jurisdictions in LA County are expected to receive a total of over USD 100 million (15%) for urgent projects such as pothole repairs, street resurfacing, left-turn signals, bikeways, pedestrian improvements, streetscapes and traffic signal synchronisation.³¹²

City finance

Mayor Villaraigosa has already proposed widespread city layoffs and deep cuts to services because of the worsening financial crisis. City officials have negotiated with employees' unions to establish a plan to allow for early retirements and redundancies. Villaraigosa has -through this partnership - secured pay freezes or decreases that will prevent 2 800 layoffs and protect key services. The Mayor has called for city workers to work one unpaid hour per week, contribute 2% more to our health and pension benefits, and defer automatic pay raises. The mayor is also exploring whether to privatise the Los Angeles Zoo and lease city parking garages and meters, which together could raise hundreds of millions of dollars.³¹³

Working with the City Council, the Mayor also intends to explore a series of public-private partnerships and advertising opportunities with the potential to generate over USD 1 billion in the medium-term.

Workforce investment – job placement and training

Los Angeles has introduced a strategy to put 16 500 young people in job placements. Community colleges across the locality will become home to WorkSource Centers, which aim to connect students to jobs and education to job placement.

The city has secured USD 1 billion in funds derived from a 2.5% increase in tourist occupancy taxes, which will enable the construction of satellite campuses focused on job training, the redevelopment of community college buildings, the powering of campuses with renewable energy and the training of students in the construction and installation of solar panels.

Support for Small and Medium-sized enterprises

Los Angeles has prioritised the fate of small-business owners, entrepreneurs described by Villaraigosa as “the true engines of our recovery...the backbone and the building blocks of new industries and new markets.” The locality’s Business Team will assist over 1 000 local, small businesses throughout Los Angeles. A new “Office of Small, Local, and Disadvantaged Business” has been dedicated to use federal funds to help locally-oriented businesses succeed across the city. In March 2009, a USD 15 million loan fund was introduced to increase credit opportunities for small businesses, while from July 2009, the Community Development Department will make an additional USD 15 million available.³¹⁴

Green sector investment

The city has sought to promote niche industries that define the regional economic future. First and foremost, clean technology has been earmarked as a key priority, with efforts to cement Los Angeles’ reputation as a world capital of the green economy. The Solar L.A. plan aims to transform the city into a clean energy hub, by using the high number of green buildings to create a regionally-competitive job site in sustainable construction.

Meanwhile 2 000 polluting diesel trucks have been replaced at the Port of Los Angeles by vehicles running on natural gas and electricity, while the technology for these next-generation vehicles is being designed and developed within a

new high-tech venture in the city-region. This facility is to be accompanied by the Harbor Clean Tech Center, that will be a specialist in clean-energy boats, and the San Pedro Bay Port Technology Development Center, the new home of green companies serving the locality's port. The region is also investing in a "Clean-Tech Corridor," a new world-class hub assembling global researchers, designers and manufacturers and dedicated to creating green-collar jobs. The Mayor envisages the green revolution as capable of "transform[ing] our old industrial core into ground zero for green jobs and sustainability."³¹⁵

School reform

Los Angeles is using the economic downturn as an opportunity to push forward with further school reform under visionary LAUSD head Ray Cortines. The city is helping the LAUSD recruit an innovative team of change agents to help lead the district and demand higher student standards, by raising private funds. More than USD 4 million between 2009-2012 has already been secured to build this team.³¹⁶

Entertainment sector

While the Californian state legislature recently approved USD 500 million in tax credits for film and TV productions for five years, they do not take effect until 2011. Moreover, the credits don't include TV commercial productions and major films costing more than USD 75 million -- which is about the cost of the typical studio picture.³¹⁷ That said, the city has a more immediate package of incentives, including exploration of tax incentives and the formation of a City Film Task Force.³¹⁸

Anti-poverty measures

Los Angeles is undergoing a thorough review of municipal services to the poor. Twenty-one Family Source Centers are being built in the city's hardest-hit neighbourhoods, enabling 50 000 low-income people to gain awareness of vital tax credits, access to affordable medical care, and generally improve education about saving. Furthermore, the city has created a USD 30 million programme to provide rent assistance and welfare services to 4 000 of Los Angeles' lowest-income families.³¹⁹

A further partnership, Bank on L.A., has from March 2009 created an agreement with several banks that are required to offer start bank accounts with reduced fees to attract residents on low-incomes. The drive aims to encourage 300 000 Los Angeles households without bank accounts to open them, as the city has one of the lowest rates of possessing bank accounts in the United States.³²⁰

Leadership agenda

In April 2009, Mayor Villaraigosa outlined his mission for Los Angeles: "Today, our path forward must focus on revitalising our economy, rejuvenating our middle class and helping our hard-working families weather this storm and emerge stronger on the other side. And in practically every decision we make, we are going to need to rebuild this economy on a foundation of shared values."

Miami

Impact of the downturn

Miami's medium-term economic stabilisation is vulnerable because it depends on many of the same sectors that have been accused of being responsible for the recession, namely finance and trade.

Fiscal budget

Miami-Dade County revenues are forecast to decline in almost every area in 2009 and 2010. The budget gap for the current and following fiscal year is forecast to be a minimum of USD 200 million. Unspent funds at the end of the fiscal year are projected to fall from USD 110 million in 2007/2008 to just USD 15 million in 2009/10. Resources are also becoming tighter at the state and federal levels — historically major contributors to local projects.

- Revenue estimates for sales and gas taxes have already fallen considerably, because of a lack of consumer spending, and a slowdown in development projects. Sales tax revenues are forecast to drop from about USD 119 million in 2008/9 to USD 115 million in 2009/10. From the local gas tax, which generated USD 47 million in 2007/8, the county expects to only about USD 42 million this fiscal year, and only USD 40.6 million next year.
- Bed taxes, which are effectively a tourist tax, have declined 15% in 2008/9 and are expected to continue falling in 2009/10.
- Convention development taxes are expected to fall from USD 47 million in 2007/8 to USD 41.7 million in 2009/10.
- Revenues from the 0.5% sales surtax, which is a key funding supplier of transport network maintenance and new transport projects, are forecast to drop from USD 186.5 million in 2007/8 to USD 170 million in 2009/10.³²¹

Both the county and city are set to increase their emergency contingency reserves. The county's reserves, which stood at just USD 11 million in 2003, are set to rise to USD 74.2 million according to the approved fiscal 2009 budget. To avoid using that pool in the 2008/9 year, county administrators

asked departments to cut their expenditures by at least 3%, and in the upcoming year the county is expected by some to be forced to tap into the reserves.

The restricted credit market has forced Miami Parking Authority to postpone plans to build a USD 14 million 450-space mixed-use garage to meet the city centre's growing parking demand. The agency decided it would be financially impossible because the "rates we would get now are not very competitive", while it would be unable to attract retail tenants.³²²

Investments postponed

A whole host of urgent transport projects, whose financial futures were already tenuous, have been delayed or scrapped due to a chronic lack of funds. For example, in the face of severe funding cuts, the South Florida commuter rail system Tri-Rail — which carries 4 million passengers annually, is set to halve its weekday service and eliminate weekend trains. Palm Beach County plans to lower its Tri-Rail contribution from USD 4.1 million to less than the minimum USD 1.6 million in 2009/10 because of revenue gaps, a move that may be followed by Miami-Dade and Broward. The smaller payout by the local governments also yields a smaller matching sum from the state. Without a dedicated stream of funds for the system, the service may even reduce trains further by 2011.³²³

Office and retail downturns

Miami-Dade's office inventory has grown considerably, alongside the dwindling size and number of the County's businesses. Some forecasts predict an additional 1.3 million feet squared of office space in downtown Miami and the Brickell Avenue corridor will become available by 2010, while continued declines in office employment would increase the vacancy rate to around 16%. The County is thought to remain a tenant's market for at least 12 months.³²⁴

While most in-running retail projects are expected to proceed in Miami, other planned retail centres are likely to be delayed until credit markets loosen. Construction activity is expected to decline significantly in 2009, with the earliest expected retailer interest in 2010. Rick McAllister, CEO of the Florida Retail Federation, has stated that "what you're going to see over the next 24 months is you're still going to see the underperforming stores lose. You're probably

not going to see as much new growth... [store openings] will be slower."³²⁵

Trade and tourism

Miami International Airport's cargo business fell a dramatic 24.5% in January and February 2009, including a 23.9% drop in international business. The biggest falls came from Latin America and Asia, while Europe has remained more steady. Longer-range jet aircraft are thought to be looking to save costs by bypassing Miami and travelling directly to their destination.³²⁶

Response

Housing

The federal government has also given Miami-Dade more funds than any other US locality to rehabilitate homes and combat the foreclosure crisis. The US Neighborhood Stabilization Program demands that Miami-Dade commit its USD 62.2 million grant in 18 months and spend it all in four years.³²⁷

Urban development – fast tracking and transport

Miami is benefiting considerably from three concurrent federal funding programmes. Miami-Dade is to receive USD 69.8 million toward transport projects as part of the USD 787 billion federal stimulus programme. Miami-Dade Transit has been designated the project manager for transport stimulus projects in the County. USD 13.9 million of this sum is to be split among municipalities based on population, with the majority of planned projects the municipalities geared toward circulator and trolley services, as well as bus shelters.

Four new bus-trolley routes will run along downtown Miami, Coral Way, Overtown and Allapattah, while the City of Miami aims to spend USD 2 million in repairing the Brickell Key Bridge. The initial aim is to fund the busiest areas with the biggest transport needs. According to a second federal programme,

the Miami-Dade Metropolitan Planning Organisation has divided an anticipated USD 263 million by allocating:

- USD 56 million for surface transportation projects among county municipalities based on population.
- USD 76 million in shovel-ready transport projects of which municipalities will receive 20%.
- USD 126 million from the Florida Department of Transportation.
- USD 5.5 million for enhancement projects.

In order to fund the bus-trolley systems long-term, after the stimulus money is spent, the city is considering placing advertising outside and inside the vehicles and charging a nominal fare of 25-50 cents. Furthermore efforts are being made to add USD 2 onto Florida's rental car surcharge and direct the surplus revenue to counties within a regional transportation authority. The transportation authority board has also proposed a 25% across-the-board increase in Tri-Rail fares, the first rise since 1995, to close the revenue gaps.

The delayed USD 1 billion Port of Miami Tunnel project has been pushed back onto the agenda. While Florida state officials have recommended re-starting procurement, due to concerns about the costs of the initial bid-winner in 2007, Miami-Dade Mayor Carlos Alvarez has insisted on the re-establishment and finalisation of negotiations with the original contractor. Local elected officials and the Downtown Development Authority have also been extremely active in keeping the tunnel project alive in recent months. The project is vital to divert cargo trucks from downtown Miami while improving access to the port, especially to manage increased demand when the Panama Canal expansion is completed in 2014.³²⁸

Miami-Dade County has begun a bonding process for a USD 633 million new retractable-roof stadium for the Miami Marlins. Enthused by the improving market for municipal bonds, the city commission has authorised the administration to sell up to USD 508 million in bonds, of which USD 70 million is to be sold backed by convention development tax revenues, and a further USD 237 million backed by tourist development and professional sports facilities franchise tax revenues. A ceiling for interest rates will be enforced that would necessitate withdrawing from the deal before July 1st 2009. The debt will be structured over 40 years, and depends upon a return to normal growth by 2012-2013, although the county's general fund will act as a secondary

pledge on the bonds, to increase investor confidence.³²⁹

City commissioners have worked to ensure the benefits of the project are kept locally. They have strived to ensure that 50% of workers on the stadium construction job — and at the stadium, upon completion — are from Miami-Dade County, with 10% Miami local residents. Furthermore they have included a clause that 35% of firms hired as subcontractors be Miami-Dade County-based. The deal requires the Marlins to follow county small business inclusion programmes, which generally aspire to hire 30% small businesses for contracts.³³⁰

Economising bureaucratic processes

City and county commissioners have demanded salary cuts to top-tier positions to accommodate budget cuts. In February 2009, City Manager Pete Hernandez presented his plan to freeze salaries of executive-level jobs not unionised, which excludes police and fire department positions, affecting the pay raises of 165 government employees. Some Miami-Dade commissioners are also seeking across-the-board salary cuts at the county level. The Transit, Infrastructure & Roads Committee has directed County Manager George Burgess to consider making a 3% across-the-board cut to administrators making USD 125 000 a year or more.³³¹

City/county finance

Localities and counties in the Miami city-region have given the go-ahead to installing camera devices to catch drivers who pass through red lights. The local governments see the move as an excellent new cash source. While the redlight-camera systems cost at least USD 50 000 per intersection, average fines of USD 150 make their use regionwide an attractive option.³³² Such kinds of user fees are increasingly popular means to raise funds at municipal, county and state level, amid new proposals to increase the cost of teacher exams, driving licence renewals and tobacco taxes.

Encouraging private-sector partnerships

Miami-Dade County has committed USD 2.5 million over 3 years to

establishing a pool of firms with financial expertise in structuring public-private partnerships, in order to create easy access to advisers as such projects begin appearing locally. Public-private partnerships are seen as increasingly attractive alternative method of gaining access to equity that enables the County to design, to build and to finance different kinds of capital projects. In March 2009, city commissioner Rebeca Sosa stated that: “We need to include now more than ever the small business enterprise selection factor into the contracts that we have, and we need to look into the local preference in a different fashion than we are. [Otherwise] we are failing our community” by allowing tax dollars to leave the county.³³³

Adjusting land-use regulations

Miami’s Downtown Development Authority has proposed changes to the City of Miami’s new zoning code in order to protect existing properties and guarantee property owners more development rights. The revision is intended to help developers who have projects in the pipeline but who cannot move forward in the current economic climate. The authority’s conditions include:

- Providing specific details on locality’s methods to calculate fees under Miami 21’s public benefits programme, whereby developers looking for development bonuses in height or capacity pay a fee for such bonuses.
- Ensuring the rights and approvals downtown developers have received for projects under the existing zoning code will not be lost.
- Extending automatic extensions for existing development permits and approvals to six years from the code’s inception, with potentially unlimited extensions beyond that time subject to city commission approval.³³⁴

With widespread public and business support, Florida’s Senate is preparing to back a move to abandon decades-old Development of Regional Impact rules which impose strict regulations on transportation infrastructure to ensure they are adequate to accommodate new urban development. Scrapping the growth-management rules is a key strategy of the Senate Select Committee on Florida’s Economy to jump-start the state’s business growth potential, by restoring energy to a sluggish development sector. The State has been described as “out of step and counterproductive” in requiring developers

to obtain Development of Regional Impact approval, with impact fees and concurrency rules impeding economic development.

The new Community Renewal Act has therefore been proposed to help small- and medium-size commercial projects that have robust finance but held up by DRI requirements. Senator Gaetz has called the proposals the “most significant reforms in the comprehensive planning process since the mid-1980s...I think we have to be light on our feet with regulations.”³³⁵

Bail-out of key attractions

Miami’s city commission agreed to rescue struggling theme park Jungle Island with a USD 2.4 million subsidy. It has deferred the park’s annual rent payment of USD 400 000 for 48 months and lent owners USD 800 000 from the general fund to pay off unpaid taxes. The deferment is thought to help make key improvements and keep 450 workers employed.³³⁶ Meanwhile, the Performing Arts Center Trust, policy-making body of the Adrienne Arsht Center for the Performing Arts, is expected to receive USD 700 000 from Miami-Dade County to cover operating expenses and capital-improvement projects, as revenues are down 15% since mid-2008.³³⁷

New York

Locality overview

New York City is the most populous locality in the United States, with approximately 8.3 million inhabitants.³³⁸ It is a leading global city, exerting a powerful influence over worldwide commerce, finance, culture, fashion and entertainment. New York City’s role as a global hub of international business and commerce is well documented, being one of three “command centres” for the world economy (along with London and Tokyo). In 2007, New York was the largest US producer of economic activity, generating value of USD 1 210 billion. If a country, it would have ranked 12th among all world economies.³³⁹ Many major corporations are headquartered in New York City, including 43 Fortune 500 companies. New York City is exceptionally diverse, in part because throughout its history the city has been a major point of entry for immigrants. However, with this comes a high degree of income disparity.

Impacts of the downturn

New York City’s finances have depended heavily in the past ten years on tax revenue from the financial sector. The negative impact of the current crisis on financial sector profits means that New York now faces a pronounced downturn and significant reputational issues.

Tangible impacts

Fiscal budget

The continued decline in the economy and the proposed State budget caused the City’s FY 2010 deficit to grow from the USD 1.3 billion estimated in November to USD 6.6 billion. To balance the deficit, the budget uses USD 3.4 billion in agency spending reductions, USD 1.8 billion in federal stimulus funds and USD 1.4 billion in actions requiring approval from the State legislature and union bargaining agreements.³⁴⁰

Unemployment

“National job losses are expected to be disproportionately concentrated in New York City, not only due to the local economy’s reliance on the financial services industry and real estate sector, but also as tourism, construction, and hospitality jobs are lost.”³⁴¹ New York City is expected to lose approximately 328 000 jobs from mid-2008 into 2010, up from the city’s January forecast of 294 000 jobs.³⁴²

Financial sector

The securities industry rewarded USD 18.4 billion in bonuses to its New York City employees, 44% less than last year which totalled USD 32.9. The record amount of USD 33.9 billion was rewarded in 2006. Losses are projected to total over USD 35 billion.³⁴³

Tourism

New York City attracted an estimated 47 million visitors and USD 30 billion in total spending in 2008, both record highs. International tourism accounted for the increase, with an additional one million international visitors coming to the locality in 2008. “Despite the economic challenges all localities are facing, tourism remains a bright spot for New York City” says Mayor Bloomberg who spearheaded aggressive global tourism marketing efforts last year.³⁴⁴

Intangible impacts

Identity

Confident local economies such as New York and London, whose economies were defined by their financial services cluster and high levels of global connectivity, now question the inevitability of these perceived strengths. The very identity and future of so-called global localities is now in question in light of the global downturn.

Response

At the municipal level, New York has a comprehensive list of anti-downturn activities.

Budget adjustments

The Mayor outlined a plan to close a USD 6.6 billion deficit for FY 2010 through nearly USD 1 billion in new agency gap closing actions, keeping controllable expenses virtually flat as well as revenue enhancements, including possible sales tax increases and long-term cost containment measures such as pension reform and efforts to reign in employee health care costs. Examples of the new agency gap closing actions include reducing the city workforce by 13 500 in FY 2010- USD 3.4 billion and, pending state approval, adopting a 5 cent fee per plastic bag – USD 100 million.³⁴⁵

Urban development

The Federal stimulus will allow the city to get to work on critical transportation projects in all five boroughs. Using Federal dollars for these projects will also free up some City funding that New York will be able to use to jumpstart 25 other infrastructure repair projects that had previously been stalled. Taken together, these infrastructure projects have a total value of USD 1.1 billion, and are expected to create or preserve some 32 000 jobs, both in construction and in other industries.³⁴⁶ Of the federal stimulus money allocated to New York so far, USD 903 million has been spent on infrastructure (USD 522 million on transportation and USD 381 million on public housing), USD 61 million on job training, and USD 841 on social support.³⁴⁷

Support for Small and Medium-sized Enterprises

As part of New York’s five borough economic recovery plan, the local government is facilitating private given loans to small businesses.³⁴⁸ The local government is also providing angel investments to companies. Additionally, the City is partnering with academic institutions, commercial landlords and space operators to establish high-quality, ready-to-use office space that comes with basic business services and administrative support. It can be leased to

start-up companies at steep discounts for up to six months.³⁴⁹ Through the Department of Small Business Services, the local government has launched an initiative of professional development classes to help entrepreneurs sharpen their skills.³⁵⁰

Workforce investment – job placement

Mayor Bloomberg, Deputy Mayor for Economic Development Lieber and Department of Small Business Services Commissioner Walsh announced in April 2009 that nearly 5 000 New Yorkers were placed in jobs through NYC Workforce1 Career Centers during the first quarter of 2009 - a 23% increase compared to the first quarter of 2008.³⁵¹

Leadership Agenda

Advocacy with the Federal Government. – The Financial Recovery Bill

In essence, the Financial Recovery Bill: Priorities for the City of New York Report is a wish list of items Mayor Bloomberg wants to finance in his locality. The principal reason New York City has drawn up such a wish list is because President Obama has pledged an economic recovery package which will cost a minimum of USD 399 billion over two years.³⁵² By setting out the case action and detailing specific priorities, New York is showing itself to be purposeful and investment ready, which will perhaps make it more likely to receive the lion's share of the recovery package.

The document contains five specific policy recommendations for the most effective use of federal funds as a catalyst for economic recovery.

- *Invest in ready-to-go public infrastructure.* Allocating federal funding to infrastructure will create millions of new jobs in the short term and enable local governments to build a new generation of infrastructure and repair and upgrade vital assets that are essential to our future national competitiveness.
- *Provide local fiscal assistance.* To ensure that New York endures as a regional economic engine, core services such as police and fire

protection and education must remain funded, and taxes in the New York municipality must be held to a reasonable level.

- *Strengthen municipal credit markets.* With reduced liquidity it has become increasingly difficult to finance new local and investment. Congress and the administration can take several low-cost steps to lower state and local borrowing costs and allow new construction projects awaiting financing to move forward and help stimulate the economy.
- *Target workforce development.* The federal government can support these efforts by directing funding through a new urban innovation fund and by supporting small businesses that drive the local economy.
- *Enhance social service programmes.* Shoring up social safety net programmes like unemployment and food stamp benefits will restore workforce confidence and increase consumer spending. An expansion of the Earned Income Tax Credit will also contribute to achieving this goal.

Source: see endnote ³⁵³

Key themes

Transparency

Mayor Bloomberg proclaims that "Transparency allows the public to see exactly how their elected leaders are performing, and to hold them accountable for results. Particularly in a down economy, it's important to know that your tax dollars are being put to the best possible use."³⁵⁴ New York City has launched a tool that lets citizens track how the city is using the stimulus dollars from the American Recovery and Reinvestment Act. It can be found on the City's website. They've also made local government more transparent through the Citywide Performance Reporting Online System

Innovation

This year, New York was nominated for a total of eight “Innovation in Government Award” from the John F. Kennedy School of Government at Harvard University – more than any other state or city in the country – demonstrating the city’s commitment to innovation.³⁵⁵ Indeed, Mayor Bloomberg has announced in relation to the recession “The spirit of enterprise and innovation that exists in New York has always been key to the prosperity of our city...The steps we’re taking today will help us tap into that spirit and hold on to the talent we’re going to need to ensure New York City’s future.”³⁵⁶

Key people

Mayor Bloomberg has become something of a spokesperson for the role of localities in combating the recession. His media exposure, combined with a passionate and emotive communication style, means he is effective at rallying support. These points are illustrated in the following speech excerpts;

“If we have learned anything from the post-9/11 years, it is that localities cannot wait for national governments to take action. In New York, financial services account for only 10% of our workforce, but 35% of all wages. When Wall Street catches a cold, the rest of the city sneezes. That is not going to change anytime soon, but it is our job to prevent that sneeze from becoming pneumonia.”³⁵⁷

More difficult times may lie ahead but time and again, our unity, spirit, and willingness to stay focused on improving this locality for the next generation have brought us through every storm, of every kind.”³⁵⁸

Pittsburgh

Locality overview

With a population of 311 000 Pittsburgh is the second largest city in the state of Pennsylvania, USA. During the industrial revolution, Pittsburgh grew up as a global hub of the iron and steel industry. However, the heavy reliance on the metals industries resulted in economic stagnation and decline in the Pittsburgh economy when these industries experienced decreased demand and increased competition from foreign workers. Yet like a phoenix born again from its own ashes Pittsburgh has managed to reinvigorate its economy through a process that began in the 1980s and today the city boasts an economy that is the envy of many recession-plagued communities. Since 1999 a fall of 14% in those employed in manufacturing was partially balanced by a gain of 6% of those of work in the service sector in this time period. Pittsburgh diversified into sectors such as education, healthcare, high technology, biotechnology, business and financial services and advanced manufacturing. It has transformed itself into an attractive location for business; Pittsburgh ranks 6th in the nation as home to Fortune 500 companies.³⁵⁹ The transformation of the economy has gone hand in hand with the transformation of the physical environment. These regeneration projects have succeeded in creating a high quality environment for Pittsburgh’s inhabitants. In 2007, Pittsburgh was named “America’s Most Livable City” by *Places Rated Almanac*.³⁶⁰

Impact of the downturn

Impacts

With only a few exceptions, Pittsburgh has not been negatively affected by the economic downturn and conditions aren’t expected to get anywhere near as bad for Pittsburghers as they did some 25 years ago. Unemployment is far below the national average, house prices and wages are increasing and foreclosures are comparatively uncommon.

Impressive levels of investment

Despite the recession, Pittsburgh is enjoying a building boom with developers pouring some USD 4.2 billion into Pittsburgh. Indeed, the region has traced an uptrend in new investment and related job growth for the last two years, just as the nation's economy headed into a decline. The following data illustrates the positive outlook for Pittsburgh in terms of development³⁶¹

- City-wide, small-scale residential construction is increasing total building permits for one to two family homes increased 44% from USD 43 million in 2006 to USD 62 million in 2008.
- Large-scale development permits increased 116% over the past two years.
- Large-scale building permit investment increased an average of 47% since 2006, compared to an average yearly decrease of 3% between 2001 and 2006.
- Of the USD 928 million in large-scale building permit investment in 2008, USD 757 million or 82% was invested in major projects (>USD 10 million in 2007 and 2008).³⁶²

Is the region's upswing likely to continue? Yes. The data, which captures planned investments, including nearly USD 2 billion by manufacturing giants Allegheny Technologies and U.S. Steel, points forward. Over 60% of the investments are in Pittsburgh's key growth sectors-information technology, life sciences and advanced manufacturing.³⁶³

Firms closing/downsizing

The forces buffeting the larger economy are beginning to touch Pittsburgh however. Sony recently announced the closing of its Westmoreland County plant, its last television manufacturing factory in the United States. The plant had already been cut to 560 workers from 3 000 a few years ago. United States Steel Corp. is indefinitely delaying a USD 1 billion upgrade of a coke plant near Pittsburgh to cut costs.³⁶⁴ The project was expected to create more than 600 construction jobs and ensure thousands of existing jobs.

The housing market performs well

Developers are selling what they have either on schedule or far faster than expected. This in part due to a 10-year abatement programme launched in July 2007 means condo buyers don't have to pay real estate taxes on the first USD 250 000 of their purchase, saving them up to USD 6 500 a year.³⁶⁵ Housing prices in Pittsburgh were up 2.2 percent for the year ending September 2008 despite a slight drop in the latest quarter. That compares with a 4% drop for the United States as a whole.³⁶⁶

Employment

In mid 2008, the employment situation looked promising. In June 2008 alone, the Pittsburgh region created 5 600 jobs as employers expanded payrolls for the fifth consecutive month.³⁶⁷ However, in 2009 the jobless rate has increased at a pace as the recession deepens. During the first three months of 2009, employment in Pittsburgh dropped -0.8% in January, -1.6% in February and -1.8% in March. Over the past two months, the Pittsburgh Region had the third largest increase in the rate of job loss among the top 40 regions.

However, the city is still doing relatively well in terms of its unemployment. While the unemployment rate increased to 7.6% in February, it remained well below the national rate of 9.0%. Indeed, the region's unemployment rate has been below that of nation for 13 consecutive months. Additionally, although the number of unemployed people in the Pittsburgh region increased by 30 597 between March 2008 and 2009, the labour force increased by 14 189 to 1 212 698 in March 2009, a record high for the tenth consecutive month. Furthermore, Forbes.com has listed Pittsburgh as one of Ten Cities For Job Growth In 2009.³⁶⁸ Manufacturing saw the biggest losses in February, with 3 300 jobs eliminated and 6 300 jobs lost over the 12 months through February. Overall, service jobs also were down from February 2008, with a loss of 12 200 jobs.³⁶⁹ Higher education and health care continued to add jobs in the Pittsburgh Region³⁷⁰

The Real Estate Market

Recently, Kiplinger.com named Pittsburgh one of its six Safe Havens in Real Estate. While the region has seen a jump in foreclosures in 2008, the region's

foreclosure rates totalled just 0.3% of housing units as of 3Q 08, half the national rate (0.6%) and less than half the rate of the Top 100 Metros (0.8%). In fact, only 27 of the 100 largest metros have a lower foreclosure rate.

The financial sector

Even the hard hit financial services sector is relatively insulated in Pittsburgh (down -1.6% in March versus a -4.3% drop nationally). A decade ago, PNC Financial Services sold off its mortgage business to focus on less risky businesses insulating it from the worst of the housing finance collapse.

An opportunity to improve Pittsburgh's Identity

Pittsburgh's success during the recession has been recognised worldwide. Indeed, the city is ranked No. 6 on BusinessWeek magazine's list of the best places to ride out a recession. Many experts wonder if Pittsburgh could serve as a model to cities currently feeling the effects of the recession³⁷¹ and specifically Roberta Brandes Gratz, author of two books on urban development has declared that Pittsburgh's development is "something of a model". Pittsburgh is excited by this newfound global recognition and suggests the recession provides the city with a unique opportunity: "As other cities flounder, now is the time to bring new workers and life into our city".³⁷²

Why has Pittsburgh performed well during the economic downturn

- It is widely acknowledged that it is the structure of Pittsburgh's economy which has provided it with a relative immunity from the global recession; the biggest sectors - education and health care – are among the most resistant to downturn.
- In addition, it has also been suggested that it is because Pittsburgh doesn't have the «spectacular excess» in the housing market as other regions, that the decline isn't as great.³⁷³ From 2001 to 2006 house prices appreciated only 26%, less than half the national increase, and the trend of building permits issued for new residential construction remain essentially flat from 1999 through 2004.
- The large percentage of seniors in the city has also helped. They

have unearned incomes in the form of pensions and Social Security, which puts a floor beneath the economy.³⁷⁴

- Among the largest global corporate downsizings announced to date, the regional impact has been relatively minor with the majority of the most severely impacted companies having a minimal regional presence, with the exception of Sony, which is closing its television plant. This is particularly true in the automotive industry which has a comparatively small presence in the Pittsburgh region.
- In many cases the region has benefited as jobs have been consolidated into Pittsburgh. For instance, Macy's has designated Pittsburgh one of its eight regional offices under its new operating structure, while U.S. Steel has relocated a business unit headquarters from Dallas to Pittsburgh.
- Since last year, retailers have announced plans to close over 6 000 stores nationwide. Pittsburgh, however, has seen relatively little of this retail fallout with fewer than 50 local stores closing. This is a legacy of the region's challenging topography and minimal population growth limiting overbuilding. Real estate tracking firm CoStar recently reported that vacant retail space in the Pittsburgh area increased by 4.1% during 2008, the lowest rate among the 40 markets they track.
- The current crisis was foreshadowed by a spike in energy prices, providing a new economic engine for the region and helping to drive the increase in the Natural Resources and Mining sector.

Responses

Monetary aid

An emergency fund was created by the Pittsburgh Foundation to help those in Allegheny County who are facing hardship as a result of the economic crisis. The fund money goes to non-profit organisations who are helping needy individuals in the areas of food, transportation and housing.³⁷⁵

Workforce investment

In March 2009 it was announced that almost USD 3 million in stimulus money from the Pennsylvania Department of Labour and Industry had been given to the Pittsburgh region for workforce investment. Most of the money will be used for additional training programmes and for an expanded summer youth programme. The stimulus dollars will allow Pittsburgh's career service, CareerLink to expand the capacity of individuals served. The council also organised a resource fair in February to assist and connect the unemployed with jobs and community resources. The fair, sponsored by the Pennsylvania departments of Labor & Industry, Insurance, Public Welfare, and PA CareerLink Pittsburgh Allegheny, was free.³⁷⁶ Local community colleges have put in place programmes which offer free tuition and fees for training in fields identified as high-priority.

Support for Small and Medium-Sized enterprises

Mayor Luke Ravenstahl announced in April 2009 the creation of a new low-interest loan programme geared toward small business expansion and creation. Focusing on high-tech companies, The Pittsburgh Entrepreneur Fund will provide up to USD 200 000 for growing businesses and young entrepreneurs. This fund will help to create at least 100 new jobs and leverage more than USD 3 million in private investment.³⁷⁷

Preventative measures

In February the Mayor called on City residents to "build wealth, not debt" by signing up to be a "Pittsburgh Saver". The call to action is part of a weeklong, national initiative, called "America Saves". The initiative aims to increase awareness of the need to save money and commit to a financial goal such as buying a house.

Economising bureaucratic processes

The 2009 budget makes strides in addressing Pittsburgh's major cost driver, personnel expenditures (70%). 65 vacant positions have been eliminated - roughly 2% of the workforce - without any layoffs.

Improving citizen pride

In February 2009, the Mayor announced a contest for local residents, titled "Six Burgh Reasons Why I ♥ My Neighbourhood," which celebrates the admiration Pittsburghers have for their neighbourhoods and the stories behind their sentiments, thus improving citizen pride and moral.

Toronto

Tangible impacts

GDP

Real GDP for the Toronto Census Metropolitan Area declined from 2.7% growth in 2007 to 0.3% growth in 2008. However, the economy is expected to rebound with 1.6% growth in 2009 and 2.9% by 2010.³⁷⁸

Unemployment

Employment for the Toronto Economic Region declined 1.1% from 3 066 400 in April 2008 to 3 032 300 in April 2009, translating into an increase in unemployment from 6.4% to 8.8% (compared to unemployment levels of 8.7% provincially and 8% nationally for April 2009). Note – the provincial unemployment level of 8.7% in April 2009 remained unchanged from March 2009, but was the highest since April 1997.³⁷⁹

Job losses in the Toronto Region have been mostly in manufacturing, finance insurance and real estate, and construction.³⁸⁰

Toronto Transit Commission (TTC) Ridership

The TTC set a record of 466.7 million rides in 2008, surpassing 1988's record of 463.5 million. In November of 1998, the TTC saw the largest service increase on record.³⁸¹

Social Assistance

The figures for the number of people requiring social assistance per month have been rising since December 2007. In that month there were 72 784 cases, which rose to 81 067 in January 2008, which rose to around 90 000 at the start of the year.³⁸²

Housing Market

January 2008 versus January 2009 – The Greater Toronto Area (Region) housing sales and average prices were lower in January 2009 compared to January 2008 with activity (number of sales) 47% lower and average prices 8% lower dropping from USD 374 449 to USD 343 632. The City of Toronto proper experienced slightly higher declines compared to the Region with a 48% drop in activity for the same month and a 10% drop in average prices from USD 404 202 to USD 364 416.³⁸³

April 2008 to April 2009 – The Greater Toronto Area (Region) housing sales and average prices were lower in April 2009 compared to April 2008 with activity 7% lower and average prices 3% lower dropping from USD 398 687 to USD 385 641. The City of Toronto proper experienced declines of 7% in activity for the same month and a 6% drop in average prices from USD 446 781 to USD 421 470. (Source Toronto Real Estate Board)

While activity and average prices declined from April 2008 to April 2009, the seasonally adjusted annual rate of sales in April 2009 was up 26% from March and 67% compared to January's ten year low.³⁸⁴

With respect to housing starts, the Toronto Census Metropolitan Area experienced a decrease of 34% in the first quarter of 2009 compared to the same period in 2008. While fewer new homes are being built this year when compared to last year, demand for new homes has been more stable in recent months.³⁸⁵

Financial sector

In contradiction to much of the banking world, Toronto's banking sector has pursued more conservative investment strategies, leaving it less exposed to the recession. As a result, over the course of the recession, Toronto Dominion, has leaped from 15th largest bank in North America to the 5th largest.³⁸⁶

Intangible impacts

Image

Toronto's conservative philosophy is now being recognised as less of a constraint and more of a strength. The locality is relatively well shielded from the recession as a result and is emerging with a more positive global image.

Response

Risk assessing

The recession represents a significant threat to local government budgets worldwide. Toronto has identified the revenue and cost variables at risk and codified them according to the severity of the risk they face. This allows the locality to make more informed decisions about budget (re)allocation.^{387 388}

Budget adjustments

The 2009 operating budget has been adjusted to take into account the impact and potential impacts of the recession. Highlights include:

- Fare Freeze and the delivery of the Ridership growth strategy to grow TTS ridership numbers.
- Conservative budgeting of the Land Transfer Tax, with 27% reduction in combined price/volume.
- Budgeting to take into account increasing social assistance caseloads. New budget allows for 90 000 cases per month.
- Small business tax reductions have been approved.³⁸⁹

Urban development and public investment

The locality's CAN 23 million investment in the areas of transit, community health and wellness, public spaces, customer service and combating climate change leverages CAN 94 million in funding from other orders of government.³⁹⁰

Increased social economic surveillance

City staff will closely monitor impacts of recession and address them where necessary through regular variance reports.³⁹¹

Tax assistance

"Toronto Helps" provides critical support for residents through tax help for eligible seniors and low income households and directs funding to programmes for job seekers and youth.³⁹²

Leadership agenda

New dual development agency system

Though not incorporated to combat the recession the early tasks of both Invest and Build Toronto, the locality's newly created development agencies, will address the recession. Specifically, Invest Toronto will look to promote Toronto as an investment attractive and investment ready location precisely because it has been relatively unaffected by the downturn.

Leadership agenda

In a letter to Dwight Duncan, Minister of Finance in the Ontario Provincial Government, Toronto Mayor David Miller called for unity of approach between the city, province and national governments in response to the recession:

"The current recession and unprecedented economic uncertainty are having a profound effect on our communities. All orders of government must work together to combat current economic challenges. In view of the Federal Budget and upcoming Provincial Budget, Toronto continues to need a 'seat at the table' with the federal and provincial governments to ensure priorities are set so our collective efforts go into the right places and build a sustainable, prosperous future."³⁹³

Singapore

Locality overview

A city-state less than half the size of Greater London, Singapore has not been deterred by its geographical limitations, successfully attaining global services and manufacturing hub status before the crisis in 2008. The population of Singapore – mostly ethnic Chinese - was 4.4 million in 2007 and is projected to increase to 5.1 million by 2025. Not satisfied with its remarkable achievements over the past four decades, Singapore's future rests on maintaining its status as a pre-eminent financial services location, providing a highly attractive business environment, and highly-skilled and cosmopolitan labour force.

Impact of the downturn

Tangible

Singapore has been one of the hardest hit world cities by the financial crisis, and is suffering its worst postwar recession, with the economy expected to contract by up to 9% in 2009 by institutions such as the IMF. Exports have failed to pick up despite initial promising signs and non-oil exports could fall by up to 13% in 2009. Singapore's bleak performance has been attributed to its exposure to the US market. The city-state recorded a record 10.1% year-on-year contraction in Q1 2009. Singapore's heavy dependence on foreign investment for growth has proven a key weakness during the downturn.³⁹⁴ Senior commentators indicate that a full recovery may take as long as five years.

Loss of sovereign wealth funds

The government has lost billions of dollars through its USD 24 billion investment in western financial groups such as Citigroup and Merrill Lynch. Temasek Holdings, the Government of Singapore Investment Corp's smaller sister Singapore sovereign fund, suffered a 31% fall in the value of its assets to USD 127 billion between April and November 2008, as it was highly invested in financial companies³⁹⁵. The fall in financial investments represent an erosion of Singapore's reserves, estimated at over USD 300 billion.

Stock exchange hub potential

Singapore Exchange has suffered in its efforts to become a regional trading centre for Chinese stocks. In March 2009 one of the last two Chinese shares included in the main Strait Times index was dropped. The SGX had succeeded in attracting more than 100 Chinese companies, most of them medium-sized businesses, since 2004 as it had aimed to compete with the Hong Kong stock exchange for Chinese listings. But the strategy has been affected by the sharp fall in the shares of most mainland companies over the last year.³⁹⁶

Declining manufacturing

Singapore's openness to external trade - especially its manufacturing industry, which accounts for about a quarter of the economy - is expected to cause more economic damage in 2009, with high job losses in the sectors. The city suffered its first fall in container port throughput traffic since 2001 in December 2008 due to a slowdown in global manufacturing exports, providing a long-term threat to its maritime hub ambitions, while oil trading has plummeted. Keynote companies such as Singapore Airlines – which witnessed a 92% drop in profits in Q1 2009 - have suffered. The recession has accelerated the city-state's search for new manufacturing industries to replace the declining electronics, chemicals and precision engineering sector. Singapore's manufacturing sector fell by 29% in Q1 2009.³⁹⁷

Private banking hub threatened by pressure on "tax haven"

The new US administration has pledged to crack down on alleged "tax havens" such as Singapore, which is known for its stringent bank secrecy laws. This move may affect the potential willingness of US multinationals to locate themselves in the city-state. Private banking is already damaged; in April 2009 Moody's cut its ratings outlook on Singapore's three banking groups to "negative" given the recession impact on asset quality and earnings.³⁹⁸

Unemployment

Singapore's job market has been very badly hit as local industries' paused hiring new workers in the immediate aftermath of the financial crisis. Unemployment

of 4.8% for local residents is the highest in five years. Studies have found that businesses are extremely reluctant to take on employees given the vulnerability of the economy. Neptune Orient Lines, one of the world's largest container carriers, announced a lay off 1 000 employees or 9% of its workforce. The job downturn has exposed some of Singapore's social vulnerabilities, including a wide gap between rich and poor.

Departure of foreign workers and assets

The economic crunch has affected Singapore's relationship with its foreign workforce. Among high-end professional talent, many jobs have been lost or permits expired, and employees have returned to their homes in Europe and North America. Credit Suisse estimates that 200 000 foreigners could depart in total, with accompanying negative effects on private consumption and property prices.

The private banking sector has been hit by the effect on high-net worth foreign individuals, many of whom have withdrawn or moved their assets elsewhere. Among ordinary workers, there is pressure for some businesses to release foreign workers ahead of Singaporean workers, in order to minimise domestic unemployment.³⁹⁹

Tourism

The Singapore Tourism Board (STB) forecasts total visitor arrivals to be in the range of 9 to 9.5 million in 2009, a year-on-year decline of 6% to 11%. Total tourism revenue is anticipated to fall to 12-12.5 billion in 2009, amounting to a 15 – 18% decline.⁴⁰⁰

Political unrest

There is an increased undercurrent of public discontent with Singapore's People's Action party. The 50 year long PAP government had been one of Asia's most secure, but the city-state's political system is under challenge to reform given growing public resistance. Its legitimacy had rested on the guarantee of prosperity in return for restrictions on liberty, but there is an increasing recognition that such a balance may no longer be tenable. Forthcoming

elections (2011 or earlier) risk the PAP losing a key group representation constituency (GRC), which might signal long-term change.⁴⁰¹

Response

The city-state was considered to have had few tools at its disposal, given its typically strict policy on limiting budget deficits, and dependence on global growth and trade (and not on domestic consumption). Officials nevertheless announced a SGD 20.5 billion (USD 13.6 billion) stimulus package in January 2009, which at 8% of GDP makes it among the biggest city stimulus in Asia. 2009's budget deficit of SGD 8.7 billion is expected to amount to 6% of GDP as a result. This package represented the first-time in Singapore's history that the city-state had to dip into its USD 300 billion foreign reserves to create a rescue deal. The stimulus programme's main aim was to save jobs and prevent the current unemployment rate reaching 4.5%. Over the longer term it is set to help Singapore's ambitious pre-recession plan to a private banking and gambling hub rivalling Monaco.

Facilitating company credit

Singapore's government has introduced the Special Risk-Sharing Initiative (SRI) whereby it takes on a significant share in the risks of bank lending. This consists of an enhanced 1 year bridging loan programme, which caters to maximum four year loans of up to USD 5 million (up from USD 500 000) to meet the working capital needs of most SMEs from February 2009. The government is also sharing the risk for trade financing, including 75% for trade loans. This enables companies who need loans to meet already-existing orders to continue to operate. Through a new Export Coverage Scheme introduced in March 2009, Singapore-based companies will also have insurance against the risk of their buyers defaulting on payments. The SRI is expected to lead to as much as USD 11 billion of loans in 2009, which includes USD 5.8 billion of government capital.⁴⁰²

Supporting employment

Companies have received considerable financial support to retain workers, including the receipt of a 40% property tax rebate and rental rebates. Businesses

are thought to be capable of making up to USD 840 million in savings on property and transport related costs through the tax rebates.⁴⁰³ The Jobs Credit Scheme was introduced in the Singapore Budget in 2009 to encourage businesses to preserve jobs in the downturn. Businesses will receive a cash grant based on previous contributions they have made for existing employees. It provides a significant incentive for businesses to retain existing workers, and where their business warrants, employing new ones. This initiative, called the Skills Programme for Upgrading and Resilience (SPUR), provides higher course fee support for companies and individuals and absentee payrolls for companies that send their workers for training. In particular retraining for higher-level jobs has become easier with course fee subsidies for such courses increased from 80% to 90%. Singapore's policymakers are also urging companies to look at other creative options, such as having a shorter working week and reducing year-end bonuses.⁴⁰⁴

Boost Demand

Over the longer term, the city is looking to help companies source for demand by identifying present opportunities. USD 660 million over a two-year period is being set aside to assist companies in seeking new markets and growth opportunities, and to build up their capacity. A further USD 66 million is earmarked to enhance internationalisation and export-promotion activities. The Exporter Development Programme will develop the export competencies of promising Singapore exporters, particularly SMEs with limited export experience. In total these schemes may affect as many as 5 000 companies.

Increased funding will allow the government's International Enterprise (IE) Singapore to organise participation in more than 340 international trade fairs and business missions in 2009, an increase of 55% from the 220 business missions conducted in 2008. Niche export markets will be explored.⁴⁰⁵

Capability development

SPRING Singapore – the city's enterprise development agency - has improved its capability development schemes under a new USD 200 million programme called BUILD, or Business Upgrading Initiatives for Long Term Development.

The city-state's Economic Development Board (EDB) announced a USD 100 million programme called PREP-UP (PREParing for the UPturn), which will assist companies to preserve jobs and develop capabilities, particularly targeting professionals in the field of science and technology. EDB will also set up a USD 200 million "Living Lab Fund" to make Singapore an incubator for companies and entrepreneurs to nurture new ideas and to test innovative global solutions.

Government Hiring

The Singapore government will expand recruitment, with 18 000 public sector jobs are expected to be available up to 2011. This includes approximately 7 500 jobs in teaching positions and 4 500 healthcare professionals and hospital staff.⁴⁰⁶

Salary cuts and investment strategy

Given the new budget deficits, in November 2008, Singapore said it would cut the 2009 salaries of senior government officials by up to 19% in response to the slowing economy. Meanwhile the 2009 appointment of American Charles Goodyear as head of Temasek Holdings is part of an effort to distance the state holdings from the perception of advancing Singaporean interests, as its top executive ranks are now dominated by foreigners. This change in perception should enable Temasek to overcome doubts in other Asian markets and develop new investment strategies, with natural resources as an area for growth.⁴⁰⁷

Higher education improvements

Singapore's higher education sector is to be strengthened to meet higher city-state aspirations, such that is capable of training a highly skilled

professional and creative workforce. The government decided to create two new institutions; the first is a new institute to partner foreign universities that offer degree courses, to open more direct routes for polytechnic graduates to obtain degrees. The second is a new university, which will be set up in close partnership with one leading university each from the US and China. The unnamed university, to open in 2011, will focus on science, engineering, information systems and architecture, and has secured the world-leading Massachusetts Institute of Technology as its partner in the "most substantive collaboration on undergraduate education to date." MIT professors will be in charge of developing the science and technology curriculum and use design to integrate the teaching of various disciplines.⁴⁰⁸

Furthermore, as part of the effort to maintain worker employability, the government has launched a SGD 600 million training scheme, which gives employers more funds to retrain staff rather than dispense with them.

Regional economic integration

In May 2009 Singapore announced its support for a plan whereby Malaysia will build an enlarged economic zone incorporating the city-state that would foster closer economic co-operation between the two countries after years of animosity. The Iskandar Malaysia project in southern Johor state has been backed by the government at recent bilateral talks, and would triple the effective size of Singapore, playing a comparable role in regional economic development as Shenzhen/Guangdong performs for Hong Kong.⁴⁰⁹

New finance sectors

Singapore's central bank has introduced a SUSD 200 million (USD 134.4 million) Islamic bond programme, or sukuk, to promote the growth of Islamic finance. The programme, with a very high credit rating, avoids interest-based financing and advocates ethical investing and a fair distribution of profits and losses between venture partners. Singapore looks to promote the growth of Islamic finance to access lucrative Middle Eastern market and rising demand in the west for ethical investing.⁴¹⁰

Biomedical clusters

Singapore aims to increase its biomedical sciences sector output from SUSD 19 billion in 2008 to SUSD 25 billion in 2015. In order to provide the requisite skilled manpower - a critical success factor for biomedical sciences - the government has encouraged the collaboration of industry actors with the National University of Singapore to launch the Singapore Academy of GxP Excellence, which helps to upgrade employees' skills, promote best practices and train new entrants who are interested to join the industry.⁴¹¹ The government has also introduced broad-based initiatives to help companies address the cost of wages and support them in capability development. These initiatives include the Jobs Credit Scheme and the Economic Development Board's PREP-UP initiative, which will help companies to capture opportunities to prepare for the upturn.

Incentivising investment

Singapore lowered its maximum corporate tax rate earlier in 2009 to 17% from 18%, in order to remain competitive with Hong Kong (16.5%). Given that there are over 3 300 US companies in Singapore, which together accounted for 47% of USD 7.7 billion in total business spending, this move is designed to maintain US investment in the city-state. City officials are seeking to maintain Singapore's attraction as a business location through its core strengths of a high-skilled and open labour market, competitive tax regime and hub status for Asia.

Meanwhile Singapore is beginning to co-operate with international efforts to improve transparency. The government is considering adopting standards set by the OECD for transparency and effective exchange of tax information, designed to address offshore tax violations. Singapore may now assist with information requests on specific tax evasion cases from its tax treaty partners, but its government appears unwilling to disclose too much information as this may jeopardise its private banking industry, a pillar of the financial services sector. The city-state is set to benefit from maintaining some elements of bank secrecy, with a potential bigger inflow of money as western countries raise taxes.

Strengthening social cohesion

Singapore's government has acknowledged the "stresses" on social and family life in the midst of the economic crisis. Tax rebates and other subsidies are being generously provided to households. Lower-income Singaporeans are to be supported in receiving training and job preparation, while vulnerable children will be prioritised in receiving educational opportunities. Efforts are also being made to improve local consciousness about the importance and utility of foreign talent. Preserving Singapore's diversity is a key concern, for this diversity is seen as the source of the city-state's innovation and openness.⁴¹²

Construction and infrastructure

Singapore is set to receive a housing transformation in response to the crisis, and infrastructure building will be accelerated to provide new jobs. The government has increased public sector construction spending to USD 18-20 billion in 2009, well up from USD 15 billion in 2008. Some projects have been brought forward and comprise smaller infrastructure contracts worth up to USD 50 million each, which can be taken up by SMEs.⁴¹³ Heightened investment has been made in Singapore's Home Improvement Programme and Neighbourhood Renewal Programme while a new Lift Upgrading Programme aims to be completed by 2014. The locality is to double the size of its rail network to 280 km by 2020, while many wetlands are to be converted into recreational spaces through the Active, Beautiful and Clean Waters programmes.

Tokyo

Locality overview

Tokyo remains one of the key command and control centres of the world economy. The Greater Tokyo Area, approximately comprised of the Tokyo metropolis and three other surrounding prefectures, is estimated by the UN to be home to the largest urban metropolitan population in the world, at 35.7 million in 2007. Moreover, the estimated metropolitan GDP of USD 1.19 trillion in 2005 places it 1st in PricewaterhouseCoopers' study of the world's wealthiest urban agglomerations. Tokyo's strengths in manufacturing and R&D have ensured that it is a top rank global commercial centre, although its financial services sector remains relatively underdeveloped.

Impact of the downturn

Tangible

Employment

Tokyo's employment suffered an immediate hit, with industry associations identifying considerable job losses for low-skilled temporary and contract workers especially in the manufacturing industry, although some improvement has been recorded in this area. South-American Japanese immigrants have been especially hard hit. Tokyo has also been hit by failing to go through with promised graduate hirings, while job losses have been considerable in the financial and capital markets and property sectors among foreign capital firms.

SMEs

The global recession has had a big impact on the business environment of SMEs in Tokyo. SMEs have witnessed a marked deterioration of cash flow and the rapid decline in orders, causing one of the tightest business environments yet experienced in the city.

Tokyo Metropolitan Government's 2006 collateralised bond obligation (CBO)

– CBO All Japan - which had been securitised by combining the bonds of more than 1 200 small businesses - had a total value of USD 900 million. The bond marketing plan had aimed to make it possible for small businesses unable to issue corporate bonds alone to procure funds from the capital market, collateral-free and without a guarantee. However as a result of the finance crisis, the bank with whom the loans had been made, Shin Ginko Tokyo, fell into difficulties and, coupled with small business weakness, Standard & Poor's downgraded the a key portion of CBO All Japan from B- to CCC-. Both small businesses and the TMG have been seriously affected by this development.⁴¹⁴

Metropolitan finances

The economic crisis has seriously dented the financial base of Tokyo's metropolitan government. Tax revenue is forecasted to drop by JPY 750 billion (USD 7.5 billion) in 2009/10, the largest decrease in history.⁴¹⁵

Intangible

Pessimism about the future

Alongside the more tangible aspects of the economic crisis, an emerging discontent has been identified with the health care system in Tokyo, crystallised around high-profile health tragedies including the death of a mother in labour who was successively refused treatment. This is allied with a renewed concern about the future of Tokyo's aging society. Tokyo's citizens appear less confident about safety, social security and quality of life.⁴¹⁶

Response

Examples of initiatives or strategies

The TMG no longer places considerable expectation on the national administration to provide all the solutions to local crises, and it has adopted a stance of proactively implementing new measures that will serve as a guide for other regions and the national government to follow. Tokyo's 2009 budget

of 6.6 trillion yen (around USD 73 billion) has been labelled the largest fiscal budget of any metropolitan government in the world. This aggressive budget was achieved despite the huge loss in tax revenue, because of internal prudence in recent years that produced 20 000 staff cuts, and a resulting 25% lower debt.

Upskilling the population

Tokyo has led the central government in formulating two fast-track supplementary budgets and is creating employment opportunities through the enactment of public works. In addition to fully harnessing the potential of Tokyo Shigoto job centre, opportunities are to be made available for people to develop skills needed for regular employment. The age limit of vocational training programmes for occasional workers will be raised, and evening classes created to enable on-the-job training. New job fairs for recent graduates have been instituted, targeted at students whose job offers were cancelled, with secured participation by companies from a broad range of industries that lack personnel.

Tokyo's pool of available human resources will be directed towards long-term nursing care, which has lacked staff in recent years, with 1 000 people a year provided assistance to receive training, and also encouraged to join SMEs who have also been under-served. In 2009/10, a scholarship system is being established at Tokyo Metropolitan University to support young people with work experience who are returning for more education.

SMEs

To provide financial support for struggling small businesses, Tokyo's Governor made assurances in early 2009 that the city would redevelop its institutional loans, including the emergency credit guarantee system. The TMG, local credit associations, and credit unions have combined to establish a scheme to provide additional financing to small businesses. A "Machinery and Equipment Collateral Loan System", provides a new route for procuring funds, which does not have to rely solely on real estate mortgages or personal guarantees.⁴¹⁷

Looking over the longer term, the TMG is joining with support organisations such as Tokyo Metropolitan Small Business Center and the Tokyo Chamber of Commerce and Industry, to launch the Tokyo Project for Management Improvement. This project employs business consultants to visit

2 000 companies during 2009/10 to provide advice for better management. With the cooperation of the National Federation of Small Businesses, efforts are being made to improve management and identify future strengths through a professional diagnosis, while a business improvement organisation promotes and supports the development of business plans and management plans based on new resource and technology management schemes.⁴¹⁸

This programme also encourages the formation of groups of SMEs capable of receiving orders and purchasing goods jointly and more efficiently. In order to improve profitability and opportunities for technology companies that can support the city's manufacturing base, a group technology infrastructure support project has been created in conjunction with the Small Business Corporation. The project promotes SMEs as a coherent group, by enhancing and strengthening their technical capacity through three year support schemes. The aim is to create a strong group of SMEs to trade with large companies as equal partners, thus revitalising and strengthening the technology base of local manufacturing.⁴¹⁹ The programme also supports SME installation initiatives by utilising a low-interest leasing system.

Olympics

The city has allocated an extra JPY 100 billion (USD 1.1 billion) for the 2016 Olympic Games in the 2009 fiscal budget, taking Tokyo's contingency fund for the Games to JPY 400 billion (USD 4.4 billion). The city aims to demonstrate that even during the global downturn it is still capable of allaying all budget concerns.

International populations

The Tokyo Metropolitan Government has established an Asia Human Resources Development Fund that enables Tokyo Metropolitan University to begin accepting talented Asian students onto doctoral courses to conduct cutting-edge research for up to five years within "advanced research" programmes. Thanks to the fund, the university plans to select two students for each programme in 2009/10. The programmes include the study of advanced medical technologies such as proteomics, and urban water adaptation measures.⁴²⁰

Environment and eco-finance

Tokyo's metropolitan government has identified the economic crisis as an opportunity to promote the creation of new green markets that can steer the city-region towards a new developmental stage. It has prioritised the rolling out of next-generation cars as a means to reduce the city's environmental impact. Next-generation vehicles are expected to form the environmental pillar of the city's future strategy. A plan to launch electric vehicles across the city in July 2009 has been announced, by providing financial assistance and tax incentives for buyers alongside an information campaign to inform citizens of the social and environmental benefits of their uptake. The aim is for at least 15 000 electric vehicles in 5 years,⁴²¹ while the new Toyota Prius has simultaneously received a record number of orders.

Meanwhile concentrated efforts are being taken in Tokyo's waterfront to implement initiatives using cutting-edge environment technologies, thus creating city-wide models for energy-use and transportation. In cooperation with the private sector, solar power generators will be installed in a defined area, together with a campaign for ships to turn off their engines at Hinode Pier.

Tokyo's metropolitan government aims to provide new financial support to the efforts of environmentally conscious companies embarking on "eco-finance" projects in 2009. The government seeks to take advantage of the financial downturn, to build momentum for environmental initiatives, including eco-schemes of large businesses.

Enhancing urban infrastructure

Infrastructural investment is conceived as a key instrument to forge the city's direction out of the economic crisis. New efforts are underway to improve air capacity, port integration and reduce congestion.

Haneda Airport's new runway is to be fast-tracked with an increase in funding by the metropolitan government. A commitment has been made to begin runway services by October 2010, which will allow for more daytime international flights. The government will also strongly advocate dual-use of the Yokota Air Base in new negotiations with the US government. In an attempt to boost the region's distribution capacity, the three ports of Tokyo, Yokohama, and Kawasaki will be integrated in the near-future, through the establishment

of a port authority for Tokyo Bay. Unified container ship docking fees were introduced in April 2009, and a comprehensive shared vision of the three ports is expected in 2010/11. Finally talks on the protracted Tokyo Outer Loop Road (Gaikan) have been brought forward and requests for improved road revenue made to the central government.

Tama development

Tama and the surrounding islands have been prioritised in the wake of the economic recession because of the area's worsening health and infrastructural vulnerability. Doctors are being specially dispatched to public hospitals in the area, while a new employment placement service has been instituted to match up suitably qualified health professionals with appropriate institutions. In the 2009/10 fiscal year, the Tama Industrial Support Center is to open to help strengthen the managerial and technological capabilities of SMEs in the area. Finally, a new seven year regional co-operation strategy has been agreed to develop metropolitan roads in the area called the New Partnership for Road and Town Development. Together these policies form the backbone of the newly completed Tama Development Programme that provides a comprehensive plan for future development.⁴²²

Home care services

Tokyo aims to capitalise on its high density of businesses and non-profit organisations to build new networks to provide community services such as long-term care, health care, and elderly supervision. The capacity of group homes for elderly people suffering from dementia will be increased to 6 200 people by 2011/12, while in 2009/10, a night-time emergency call line and new services for home visits are foreseen. The construction of rental housing exclusively for the elderly has begun, replete with medical clinics and home care services, although this development has been limited due to the crisis.

Reforming healthcare

Tokyo is tackling the shortage of doctors in the fields of pediatrics and obstetrics/gynecology. Hospitals are being designated for perinatal cooperation as of March 2009. Fully comprehensive perinatal centres are to be established

in metropolitan hospitals, capable of permanently accepting requests for emergency admission of expectant mothers. Steps are to be taken to secure the personnel needed to bolster the system of patient care and further improve the working conditions of doctors. This would include the establishment of a new system to pay allowances for deliveries and emergency care duties. Tokyo Local Emergency Centers are to be established in 24 locations in the locality to work for cooperation between local hospitals and coordinate the transportation of patients.

Auckland

Locality overview

Auckland is New Zealand's largest local economy with approximately 1 414 800 people living within the locality boundary. The locality represents over 30% of the population and economic output of New Zealand. The economy is based on the service sector, including major finance and banking institutions. The Mercer Index ranked Auckland fourth in the world for quality of life in 2009, while the World Bank ranked New Zealand number two for ease of doing business in 2008.⁴²³ Infrastructure in Auckland is robust. The region has a bustling port and airport, and for this reason is often seen as the "gateway" to New Zealand.

Tangible impacts

Growth rates

In the last quarter of 2008, Auckland region's economy continued its downward trend in the face of global recession. The regional economy's annual GDP growth fell to 1.1% in the year to December 2008, down from 2.4% in the year ended June 2008 and 3.125% in the year ended December 2007.⁴²⁴

Indicator	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
GDP (annual average)	3.1%	2.9%	2.4%	2.0%	1.1%

Source: See Endnote⁴²⁵

According to a presentation by economist Grant Andrews in November 2008, growth in the New Zealand economy in 2009 and 2010 will be positive but weak and the Auckland region will grow more rapidly than New Zealand as a whole as a result of locally generated consumption and investment.⁴²⁶ This projection suggests that the impact of the global recession will be mild for Auckland and New Zealand as a whole. However, concerns are beginning to grow that impacts may not be mild, but instead delayed and moving towards the acuteness of those felt in places like London given time.⁴²⁷ Many of the indicators are proving such a hypothesis correct.

Business Conditions

In the fourth quarter of 2008, a record 74% of Auckland's businesses felt the general business situation had deteriorated relative to the previous quarter. This has deteriorated significantly from 41% in September 2008 and marks a large drop in business confidence to a new low point not previously seen in the data series.

Property market

Despite lowering mortgage rates and increased housing affordability, the number of residential building consents has gradually been declining over the last year and is well below peaks of nearly 6 000 in 2004. Despite the crisis however, strong growth has continued in the value of non-residential consents, increasing by 12.6% between June 2008 and March 2009, and 3.6% in the last quarter.⁴²⁸

Consent statistics for the Auckland region (annual average)				
Indicator	Jun-08	Sep-08	Dec-08	Mar-09
Number of residential building consents (new)	11 549	10 491	9 523	8 727
Value of non-residential building consents (\$millions) (new + altered)	1 473.8	1 553.2	1 600.6	1 659.6

Source: Statistics New Zealand, INFOS⁴²⁹

Construction

According to forecasts put out by Infometrics Ltd, the construction sector slump will impact the Auckland region more than the rest of New Zealand. This is because the high population growth has put pressure on the residential dwelling stock in Auckland. This is expected to worsen over the next couple of years as investors wary of the construction sector collapse. This will make it difficult for the residential construction sector to recover. As a result, the Auckland region is likely to face a housing shortage over the next 12 to 18 months.

There is pressure from the Auckland Business Forum for the Government to

lift the momentum on completing Auckland's core transport network. The NZD 1 billion boost to the State Highway Programme will not only help traffic problems but it will give the construction industry and large workforce confidence going forward.⁴³⁰

Investment

Auckland city business investment intentions also hit new lows in the December 2008 quarter with a net 48% of businesses expecting to invest less in buildings and net 40% expecting to invest less in plant and maintenance in the next 12 months relative to the last 12 months.⁴³¹

Investment intentions for businesses in the Auckland region (quarterly values)					
Business investment intentions (net value)	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Buildings	-24.4	-25.2	-34.4	-53.1	-48.1
Plant & maintenance	-18.2	-18.4	-20.1	-52.4	-40.2

Source: QSBO, Auckland region

Unemployment

Auckland's unemployment rate has continued to rise, reaching 5.1% in March 2009. This is likely to rise further with increased redundancies as businesses struggle in the face of the economic crisis. However net migration for the Auckland region has been resilient, growing by 27% between March 2008 and March 2009.

Annual average Auckland region unemployment (%)					
Indicator	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Unemployment rate	3.78	4.05	4.23	4.65	5.13

Source: Statistics New Zealand, Household Labour Force Survey

Source: See endnote⁴³²

International trade

Container volumes hit an all-time high of 59 585 at Ports of Auckland in December, compared to 52 599 for the same month last year (+13.2%).⁴³³

However stifled growth in the economies of New Zealand's main trading partners has dampened demand for New Zealand products abroad and this is reflected in a slight weakening of annual growth in exports through Auckland's ports.

International tourism

Auckland International Airport's overseas passenger numbers dropped by 6.9% in February, mirroring a decline in numbers flying with Air New Zealand as the global downturn reduces demand for travel (Businesswire, 23rd March).

Intangible impacts

Business confidence

Despite lower taxes, interest rates and fuel prices, businesses in the Auckland region have given a no confidence vote to the economy over the next three months. When asked the question if they considered the business situation in New Zealand would improve, remain the same or deteriorate, 62% believed conditions would deteriorate, compared to 74% last quarter. When asked about their own business profitability, 63% believed conditions would deteriorate. The survey involved 1 500 Auckland firms.⁴³⁴

Uncertainty

In 2008, an article in the New Zealand Herald entitled "Business waits for signs of leadership" worried that the "Government's precise intentions remain unclear and stated that only a significant initiative will supply the necessary level of leadership."⁴³⁵ Aucklandplus, Auckland's economic development agency, followed suit, waiting for action before they devised their own response. The sluggish response was perhaps less proactive than other local economies across the globe affected more directly and quickly.

Response

As a result of growing pressure and in response to a prediction of soaring

unemployment, in mid-January 2009, New Zealand Prime Minister John Key promised to “help small businesses survive and avoid staff lay-offs.” In February 2009, solid measures were announced; the government have introduced the ReStart package to provide extra support to those hard hit by redundancy. They also announced that more than NZD 500 million worth of quality building projects on schools, roads, and housing would be undertaken across the country.⁴³⁶ The Government has also committed to a number of initiatives targeted at SMEs. AucklandPlus have now begun to supplement these SME efforts.

Economic development

The biggest single-year expenditure on capital projects in Auckland is forecast to be 2009/2010 with NZD 516 million set aside.

AucklandPlus, the regional economic development agency, has also undertaken various initiatives to encourage economic development. There exists a digital content sector development programme which aims to increase productivity, growth and export reach of the digital sector. AucklandPlus’ Screen Production Project will further boost Auckland’s popularity as a screen production location with technology, a training programme and international marketing campaign.⁴³⁷

Tax cuts

Details of a series of new government tax assistance measures worth more than NZD 480 million over the next four years were announced in February 2009. About 1.5 million workers will receive a personal tax cut, injecting an extra NZD 1 billion into the economy in the coming year. The initiatives will also make it easier for smaller businesses to manage their cash flows and meet their tax obligations.⁴³⁸

Support for Small and Medium-sized Enterprises

The government is expanding and promoting the advisory services available to business operators, offering Small Business Relief Packages to SMEs. The Business Package includes a rejuvenated Biz 0800 hotline, free business health checks, and a free mentoring service. The Small Business Relief Package is a welcome investment in the small-business (SME) sector, said Auckland Chamber of Commerce head Michael Barnett. The SME sector – making up 95% of all businesses and the largest employer group overall – is the most vulnerable sector NZ business.⁴³⁹

In February, Auckland recorded a good response to the government business package with over 500 requests for information having been received from businesses. Popular requests cover issues such as business planning, cash flow, debt management and employment.⁴⁴⁰

In March, the Auckland region launched an online Business Opportunities Guide aimed at providing local businesses with the information they need to cash in on Rugby World Cup 2011. Developed by AucklandPlus, the development agency declared that the sporting event is an economic opportunity the city cannot afford to miss.

In 2008 AucklandPlus also began a two-year pilot scheme of PLATO™ New Zealand, an international business mentoring and peer support programme. The two-year pilot in Auckland offers owners and managers of small and medium sized businesses a unique opportunity to receive comprehensive training and mentoring alongside like-minded companies.⁴⁴¹

Revising Auckland city’s long-term strategy

Auckland City Council, the largest council within the region have made some changes to the last 10-year plan. Taking into account the difficult economic situation, they made organisational efficiencies and changed the progress or scope of some of the capital projects.

The evidence: non-verified local economy “snap shots” from across the globe

Berlin

*Locality overview*⁴⁴²

Over the last 15 years, Berlin’s economy has undergone a fundamental structural change as the growth of the service sector has gone hand in hand with a decline in heavy industry and construction. This development was assisted by significant funding from the European Structural Funds used to target the economy and infrastructure. The local economy received almost EUR 1.3 billion in the six-year funding period that ended in 2006, and roughly the same amount has been made available in the current funding period, which runs until 2013.

Today Berlin and its surrounding area boast many strong companies; in particular small and medium-size companies are key to Berlin’s economy. Exports, which grew by around 38% between 2000 and 2006, underscore the productivity of Berlin’s industry. Electrical engineering, food products, chemicals, mechanical engineering, and motor-vehicle manufacturing are some of Berlin’s traditionally strong sectors. In addition, trade and services also play a major role. In 2007 the Berlin had a budget surplus for the first time since German reunification and it was used to reduce Berlin’s existing debt (roughly EUR 60 billion). Yet Berlin’s financial situation is still heavily influenced by high debt and correspondingly high interest payments and the Senate continues to work to meet this challenge with a consistent budget consolidation course.

Impact of the downturn

Berlin has remained relatively immune to the economic crisis. The spokesman of the finance department has summarised Berlin’s position by saying “we were behind on the economic upswing, and now we’re behind on the downturn”. According to press articles, Berlin “can’t even afford a crisis”. Indeed, some of the city’s previous weaknesses are now helping it to survive the crisis.⁴⁴³

Tangible impacts

*Berlin firms relatively unaffected*⁴⁴⁴

Firms in Berlin began to be impacted by the global crisis much later than those located in other regions. This can be explained by the fact that many of the companies located in Berlin utilise a different operating model to their counterparts in other German local economies. Firstly, many of the small enterprises do not use credit or use it very moderately, which means that “they do not grow 200% in one year but also do not fall so low” as an owner of a small high-tech firm explains. Another key differentiator is the fact that Berlin’s firms export less than large multinational companies located in Munich or Hamburg. However, medium sized companies are now beginning to experience the adverse consequences of the economic downturn.

Unemployment

A spokesman for the Berlin finance department has said that the locality’s unemployment will inevitably rise, but this won’t significantly shock the locality’s system because it will affect areas where worklessness is already high. Furthermore, 80% of Berlin’s economic output derives from the service sector, which doesn’t typically react immediately to economic downturns, and a further 10% is derived from the federal and state government.

A popular strategy is for firms to reduce working hours. Around 280 firms affected this strategy for 6 000 of their employees in February. The Chamber of Commerce and Industry expects that many more may follow this strategy as it is reflected in the opinion surveys they conduct among the businesses.⁴⁴⁵

*Tourism*⁴⁴⁶

The recession is tourism. The numbers presented by Berlin’s tourist office in October showed a drop of visitors, especially from the USA and the UK. That said, Berlin’s tourism industry appears more resilient to the recession than other European destinations such as London or Milan. It is the city’s low prices, cheap accommodation and Berlin’s role as a hub for low-cost airlines that means Berlin remains an attractive destination. Summing up, the Tourist

Office expects stagnation in the numbers of visitors rather than significant decline.

Response

Regional development organisations' play a vital role

Despite the lack of a local anti-crisis package from the local council, Berlin businesses can count on the assistance from the initiative created by number of regional development organisations. "Berlin trotz der Krise", which translates as "Berlin despite the Crisis" was created by the Chamber of Commerce, Chamber of Crafts, Senate Department for Economy, Technology and Women as well as the Senate Department for Integration, Employment and Social Policy, Investment Bank Berlin-Brandenburg, Federation of Enterprise Associations Berlin-Brandenburg, the regional branch of national Employment Office.

Workforce investment

The information and assistance offered in the scope of "Berlin trotz der Krise" is mainly focused towards workforce investment and can be classified in the following categories⁴⁴⁷:

Assistance for businesses:

- Reduced working hours.
- Training advice.
- Financing support.
- Advice on economic problems.
- Information on procurement from the national Economic Stimulation Package II.

Assistance for employees:

- Advice from trade unions.
- Employment Office: Advice and information on reduced working hours.
- Advice on training possibilities for workers.
- Legal advice and training opportunities through the Berlin Chamber of Crafts.

Cardiff

Overview Impact

City Economy

The recession has had a significant impact on St David's 2, the flagship retail and leisure development in central Cardiff which is due to open in October 2009. Nearly half (43%) of the retail space in, the GBP 675 million had yet to be let in May 2009⁴⁴⁸. Hayes Apartments, a development of 304 apartments in seven high rise towers above the St David's 2 centre, has also been affected: in November 2008 it was reported that only 8 of the 304 apartments had been sold⁴⁴⁹. The St David's Partnership announced that all seven of the high rise tower blocks would be externally finished, with one being fitted-out and the remaining blocks left empty until the property market recovers.

There have been a number of high profile cutbacks amongst local businesses, including:

- The closure of the Ventura call-centre in the Splott area of Cardiff resulted in the loss of 600 jobs.⁴⁵⁰
- Potential threat to 550 jobs in the Zurich Offices in the City Centre.
- Car climate control system maker AB Automotive announced plans to close its Cardiff plant with the loss of 157 jobs in July 2008.⁴⁵¹
- Barclays cut 300 jobs at Firstplus, its home loans division in Cardiff in July 2008 due to slowing demand⁴⁵² and a further 109 in December 2008 when a function was outsourced to a third party in Stratford-upon-Avon.⁴⁵³

Local Governance & Leadership

- Reduction of the Bank of England Base Rate are predicted to bring about an estimated loss of interest on Cardiff Council investments of GBP 3.2 million.⁴⁵⁴

Quality of Place

- A Deloitte hotel occupancy survey showed that occupancy rates in Cardiff during the first quarter of 2009 stood at 59.6%, down from 64.8% last year. The revenue hotels Cardiff made on each room fell more at 7.1%, although this was less than the national average of 10.3%.⁴⁵⁵
- House-builder Bellway halted construction of two blocks of flats in Cardiff Bay in summer 2008 due to lack of demand amongst buyers.⁴⁵⁶ Work does not yet appear to have resumed.

Responses

City Economy

- **Support for SMEs:** the Cardiff Council Budget for FY 2009/10 includes additional support of GBP 750 000 toward existing packages of support for SMEs looking to raise funds for start-up or capital investment⁴⁵⁷
- **Loans, grants and equity:** GBP 650 000 of the GBP 750 000 made available to SMEs will be used to create a Capital Cardiff fund that offers support including loans, grants and equity stakes (equity investment does not increase the debt burden of a business and can give businesses greater flexibility) to start up businesses and existing companies that need assistance to undertake investment.⁴⁵⁸ Authority has been delegated to the Corporate Director (Economic) to develop and implement the new Capital Cardiff Development Fund for businesses⁴⁵⁹.
- **Supporting entrepreneurship:** working with local Enterprise Agencies, up to GBP 100 000 will be used to create a new entrepreneurship/start up fund that grants between GBP 500 and GBP 5 000 to new entrepreneurs, sole traders and start-up companies, with priority given to businesses that are created as a result of redundancy.
- **Further revenue assistance to SMEs:** allocating Grants are available normally up to GBP 5 000 based on a maximum 50% contribution⁴⁶⁰

- **Expansion of existing schemes:** an additional GBP 62 500 has been allocated to existing SMEs revenue assistance schemes and Cardiff Council intends to expand the Business Diagnostic scheme to analyse finance, operations and strategy within companies and provide a detailed insight into how best to support businesses.⁴⁶¹
- **A new business network:** Cardiff Council is making progress on setting up a new Business Leaders Network following the demise of the Cardiff Chambers of Commerce.⁴⁶²

People & Labour Markets

- **Redundancy support:** Cardiff Council, Careers Wales, Jobcentre Plus and the Benefits Agency have come together to offer a holistic redundancy support package named ReAct which provides a redundancy action fund to help people attain skills, overcome obstacles and identify employment opportunities following redundancy. Currently the ReAct team is contactable both day and night to inform companies in Cardiff and the Vale of Glamorgan of the support available.
- **Improved access to training:** Cardiff Council has allocated an additional GBP 62 500 to the Local Training & Enterprise centres that provide coordinated front end support across Cardiff to help people access training and work with employers and local job seekers to help minimise the impact of any job losses⁴⁶³. An additional GBP 60 000 has also been approved for 1 year temporary staffing to assist the enhanced services at the Training and Enterprise Centres.⁴⁶⁴
- **Targeting the disadvantaged:** Cardiff Council has recently signed a Local Employment Partnership agreement, which will target particular groups of disadvantaged job seekers. The aim is to place 100 people into work at the Council whilst offering intensive employment preparation training, work trials, work placements, and subsidised work places for people on the New Deal.⁴⁶⁵
- **Credit unions and financial advice:** Adult Learners' Week in Cardiff included a course entitled "Coping with the Credit Crunch" designed to help people through the recession and manage their money better⁴⁶⁶. Cardiff Council has provided GBP 19 000 to support the

creation of a Business Development Worker post for Cardiff Credit Union to help strengthen the role of the credit union in the city.

- **Sector specific support:** building on the opportunities offered by the St David's 2 development, the Cardiff Training and Enterprise Centres have worked with the St. David's 2 Construction Job Shop to place people into construction work throughout the city region. Cardiff Council has also contributed GBP 60 000 establish a Retail Job Shop capable of dealing with large scale recruitment in the city centre in FY 2010/11.⁴⁶⁷

Local Governance & Leadership

- **Council Tax increase:** Cardiff Council imposed a Council Tax increase of 4.3% in 2009/10.
- **University partnership:** Cardiff University is one of five Welsh universities that have pledged to work together to create a "innovative and dynamic economy" and drive the Welsh economy out of the recession.⁴⁶⁸

Quality of Place

- **Creative use of empty premises:** Should occupancy rates at St. David's 2 not increase to the 80-% level anticipated by the joint developers Cardiff Council will work with partners and colleagues if required to support use of void space by community projects or for creative art.⁴⁶⁹
- **Cardiff Commitment:** in April 2009, 21 South Wales hotels (including the Hilton) signed up to the Cardiff Commitment, a pledge to cap room rates during major events and conferences which it is hoped will encourage more visitors to come to the city.

Long-term Vision

- **Cardiff Ambassadors:** The Cardiff Ambassadors Programme, designed to promote the city's "offer" to potential investors, was launched by the Cardiff & Co public-private partnership in partnership with Cardiff University, UWIC and the University of Glamor-

gan in March 2009. High profile ambassadors from the world of business, academia, sport and entertainment are tasked with positioning the city as a destination of choice for potential investors and conference organisers.⁴⁷⁰

- **Place shaping and shielding:** Cardiff Council recognises that its long-term “place shaping” regeneration agenda needs to be matched by “place shielding” policies to reflect changing economic conditions⁴⁷¹. The new support initiatives are contained within the Corporate Plan 2009-2012 strategic aim to establish measures to support the local economy.

Cologne

Locality overview

Cologne is the fourth largest German local economy and the biggest locality of the economically strong Nordrhein-Westfalen state. The economy of Cologne is dominated by the food industry, the automotive industry, the chemical industry and the media. But the tertiary sector with research, administration, exhibition, insurance companies, banks and the headquarters of large industrial plants is also important. Other important sectors include tourism and hospitality. Around 80% of all employees work in service sector.

Tangible impacts

*Fiscal budget*⁴⁷²

When the local council discussed the impact of financial crisis on the Cologne economy, they expressed moderate optimism due to the fact that the local economy is well diversified. However, the opposition showed a more down-to-earth attitude, suggesting a close monitoring of industries such as financial services which generates 30% of the city tax revenues. Other at risk industry sectors include car manufacturing and heavy industry.

*Business conditions*⁴⁷³

In the beginning of April 2009 Cologne Chamber of Commerce and Industry presented results of a survey conducted on 250 local businesses. Apart from the standard questions on business situation and expectations for the coming six months, the firms were asked whether the financial crisis in the banking industry has resulted in problems with them obtaining credit. Around 25% of the surveyed companies declared that they suffer more difficult financing conditions. Furthermore, the number of firms that have been declined credit recently increased to 3.8%. Although this figure does not appear excessively high, it is significantly above that of last year when less than 1% of companies were refused financing. As a consequence, the Chamber decided that no “general credit crunch” had been experienced, however a “perceived credit

crunch” exists and the conditions under which companies in various industries finance their investments have certainly worsened in recent months.

Intangible impacts

*Business confidence*⁴⁷⁴

According to a study conducted by Cologne Chamber of Commerce and Trade at the beginning of 2009, the confidence index has dropped by 23 points and reached a historic low level of 77.7 points. 50.8% of entrepreneurs participating in the survey did not believe that their firm’s performance would increase over the next six months. In some sectors this value was even higher, for example 73% of logistic companies expected worsened business performance.

Response

Urban development

The 110.3 million from the national Economic Stimulation Package is to be split between investments in education – EUR 72.6 million and infrastructure- EUR 27.7 million.

Support for Small and Medium-sized Enterprises

The Chamber of Commerce and Trade organised a workshop aiming at providing entrepreneurs with an overview of benefits of the national Economic Stimulation Package II. It also opened a hotline where entrepreneurs could receive more information about available help.

*Advocacy with central government*⁴⁷⁵

Cologne authorities have based their anti-crisis strategy mainly on obtaining additional funds from the national stimulation package.

London

Locality overview

London, with a population of over 7 million, is the capital of the United Kingdom and the largest locality in the European Union. The sheer size and diversity of London is outstanding; it is one of the world’s most important business, financial and cultural centres. It is also home to the European headquarters of 33% of the world’s largest companies.

London is widely regarded as the primary location in Europe for business. The London economy contributes around 17% of the UK’s total GDP and is comparable in size to that of Sweden, Belgium and Russia. The London Stock Exchange is the largest in the world, accounting for more turnover than the combined contribution of New York and Tokyo. London’s domestic and international connections are second to none. London Heathrow, the world’s busiest airport, is just 15 minutes from the centre of the locality. The future management and development of the transport system and how best to ensure its ability to cope with increased demand, is an ongoing issue.⁴⁷⁶

Impact of the downturn

London has been hit particularly severely by the recent economic downturn. The very same drivers of London’s success since the last recession in the early 1990s of openness, the financial services cluster and high levels of global connectivity have been the principal causes of the locality’s vulnerability to the economic imbalances in the United States of America of mid-2008. As Mayor Johnson puts it: “analysts declare that the UK will be the worst affected country in the developed World.”⁴⁷⁷

Tangible impacts

Unemployment

Job losses are spiralling (could reach as high as 40 000 in the City of London and projections suggest that 370 000 jobs could be lost London-wide - 7.9% of all jobs in London - by December 2012).^{478 479}

Firms closing or entering administration

Across the capital, there have been many organisation's which have closed or entered administration. Woolworths, a chain store which has existed for decades is one the highest profile example of firm closures across London and indeed the country. However, there are many more examples. For instance, branch closures either planned or have been completed by Thomas Cook, Cheltenham and Gloucester Building Society, and Nationwide.^{480 481 482}

Property market

House prices are falling (many elderly Londoners who had planned to release house price equity for their retirements now cannot).⁴⁸³

Fiscal budget

Key service deliverers face a shortfall with their revenue being tied closely to the economic performance of the capital. Almost half of Transport for London's GBP 7.6 billion annual income is "vulnerable" to changes in the capital's economic performance.⁴⁸⁴

Civic Unrest

Derived from scenario-based work of *The London Collaborative*⁴⁸⁵ initiative, it is suggested that in London economic hardship may result in a rise in the far right and racial tensions in the locality.

Intangible impacts

Business confidence

Stung by the impact of unsuccessful speculation either by themselves or others, financiers at the current moment are tending to sit on, rather than invest their funds. A total of GBP 1.244 billion of transactions took place during the 3rd quarter. This was 40% down on Q2.⁴⁸⁶

Consumer confidence

Consumer confidence is falling. Confidence in the banking system appears lower in Britain - 4.2 out of 10 - than in bankrupt Iceland, which polled 4.6.⁴⁸⁷

Response

Before the credit crunch struck, the London Plan considered the risk of a global financial slowdown in its scenario-based work. During the winter of 2008/9, the process of debating more precisely what the London response to the recession should look like began proper. The result of this process was the release of the Mayor's Economic Recovery Action Plan in December 2008.

Describing the task of building London's response to the downturn, Mayor Johnson writes:

"To create this Economic Recovery Action Plan, we have scoured every area of our operations to decide what we can do, and what will work...No stone has been left unturned."⁴⁸⁸

The Mayor's Economic Recovery Action Plan identifies over 50 actions to help London through the down turn, which include "launching new programmes, remodelling existing ones and bringing forward planned ones."⁴⁸⁹ This process will be funded by refocusing budgets in excess of GBP 3 billion. The GLA will spearhead a public sector-based response to the downturn; the main points of the Executive Summary are detailed below:

Helping businesses

- Promoting tourism

The weakening pound will be seen as an opportunity. There will be a drive to boost the visitor economy and the exports. Visit London launched an additional GBP 1 million winter sales campaign.

- Promoting trade

The London Development Agency is supporting exporters with a new programme of trade fairs, trade advisers and trade missions.

- Supporting the financial sector

Taking forward the recent review of London's financial services competitiveness led by Bob Wigley, the Mayor fully supports the creation of a new London Financial Services Board to promote the whole of this sector abroad.

- Supporting Small and Medium-sized Enterprises

Payment times, restrictions and red tape have been cut for SMEs working with the GLA and there will be a renewed drive to ensure that SMEs are aware of the support available to them. To help traders in west London, the Mayor has announced the abolition of the Western Extension Zone of the Congestion Charge.

Helping Londoners

- Economising bureaucratic processes and freezing prices

The Mayor is, for the first time in the GLA's history, freezing the precept. He is also looking for efficiency savings of more than GBP 950 million over the next three years across the GLA group.

- Supporting homeowners and investment in the housing stock

GBP 5 billion investment over the next three years is used to get London's housing market moving again. The money will also for the first time help Londoners threatened with repossession by buying an equity stake in their home. Energy saving initiatives will also save Londoners money.

- Workforce investment – training

The Mayor, with the London Skills and Employment Board (LSEB), will focus the combined skills and training spend of the London LSC and the LDA – in excess of GBP 700 million a year – to increase support for people who have recently lost their jobs. The GLA family is also pledging to offer 1 000 apprenticeships each year.

Positioning London for long term recovery

- Urban development - significant infrastructure investment

London is investing heavily to modernise its infrastructure, especially in relation to public transport. A programme of academy schools has also been announced to improve the basic skills of young Londoners. In addition, the Mayor is championing a new International Convention Centre, which is projected to attract extra business tourism which will inject an extra GBP 400 million a year into the London economy.

- Maximising the benefits of improved infrastructure

The Mayor will set up a London Business Advisory Council including representatives of business, the GLA group and other partners to assess the needs of London's economy and to tackle emerging issues.

Leadership agenda

Which built the Action Plan included the London Assembly's Economic Development, Culture, Sport and Tourism Committee seminar on London's response to the changing economic situation. Held on the 10 December 2008, the debate centred around what is happening to London's economy and what roles the Mayor, the London Development Agency (LDA) and other public bodies should be playing to support London's economy and maintain its global competitiveness. The open panel discussion involved senior representatives from organisations such as CBI London, the London Chamber of Commerce & Industry, the Federation of Small Businesses, the Trades Union Congress, the City of London Corporation and the London Development Agency. The results of the discussion, as well as other consultation mechanisms, helped to codify the Mayor's Economic Recovery Action Plan.

Marseille

Locality overview

Marseille is a major French centre for trade and industry. The locality has excellent transportation infrastructure (roads, sea port and airport), with its airport - Marseille Provence Airport- being the fourth largest in France. It is the main arrival base for millions of tourists each year as well as serving a growing business community.

Today, the economy of Marseille is dominated by the New Port, which lies north of the Old Port, a commercial container port and a transport port for the Mediterranean. 100 million tons of freight passes annually through the port, 60% of which is petroleum, making it number one in France and the Mediterranean and number three in Europe.

Petroleum refining and shipbuilding are the principal industries, but chemicals, soap, glass, sugar, building materials, plastics, textiles, olive oil, and processed foods are also important products. The locality also serves as France's leading centre of oil refinement.⁴⁹⁰

Impact of the downturn

Roland Blum, deputy mayor of Marseille said in March when the budget was discussed:⁴⁹¹ "Among large cities, Marseille was the most resistant to the crisis, thanks to the policy that has been pursued for 15 years".

Tangible impacts

Fiscal budget

In 2009 the local authorities expects EUR 9 million less income due to the impact of the recession on the real estate market.⁴⁹²

Unemployment

According to the deputy mayor, consistent policy and a focus on the development of services as the key sector of the local economy is the reason behind a conservative increase in unemployment – of only 5.5% compared to 12% on the national level.

International trade

The economic crisis has hit France's biggest port with full force and it threatens social unrest. Traffic at the port of Marseille-Fos has fell by 21% year-on-year since the beginning of 2009. The transport of solid bulk cargo fell by 58% in February alone and by 51% in the first two months of 2009. Such drop in activity has been explained by the crisis in the steel industry. Container traffic also slowed by 31% due to a decrease in shipping between Asia and Europe, which represents 60% of the container traffic at the port.⁴⁹³

Civic unrest

"Today workers are angry... angry because we all know there's a crisis, but companies are using it as an excuse to restructure", says an employee of the Marseille port. The workers have already taken to the streets in force in January. They protested against the impact of the current economic downturn on workers and expressed their dissatisfaction with anti-crisis package prepared by the locality.⁴⁹⁴

Response

In Marseille anti-crisis actions are shared between Marseille council and urban community departments. Both authorities plan increased investments in their 2009 budgets in order to stimulate local employment and prevent loss of development momentum.

Budget adjustments

In March 2009, the urban community department voted on a budget that is

“rigorous” but “anti-crisis” with a solid investment budget of EUR 330 million. In the same month, the city council adopted a budget described by the Mayor as a “budget of management, of economic stimulation and social action.”⁴⁹⁵ The municipality has implemented a strategy for 2009 to support the economic development of Marseille.

Urban development

The council budget assumes EUR 235 million for investment, taking into consideration a stable reduction of debt and a desire to streamline operating costs. Projects launched by the previous administration, such as extensions of the metro, will continue. In addition, new investments are planned such as creating a new bus line, a new tram line, a ferry and a port on the island of Friuli and a semi-pedestrian area of Old Port.

Increase in local tax

“Due to budgetary constraints, including the contraction of the financial assistance of the principal partners of the city, it was decided to implement a tax increase of 4.9%” Marseille mayor has explained. Struggling with already high debt (EUR 1.75 billion in the city and EUR 1.38 in the urban community), the locality had no choice but to look for new ways to increase its revenues in order to be carry through planned investments. The increase was not free from criticism because: though Marseille is not the only French region that decided to increase its taxes in response to the recession, Marseille has implemented tax increases more frequently than most over the last few years.

*Economising bureaucratic processes*⁴⁹⁶

The council has set a goal to stabilise its staff costs which represent 57% of the operating budget. There is another objective to maintain social spending and secure a high level of investment to the tune of EUR 235 million in 2009 (EUR 1 billion over five years), while stabilising the debt. “We have created a momentum, our concern is not to slow down and to participate in national economic stimulation plan”, says Jean-Louis Tourret, Deputy Mayor of Finance of Marseille.

Cape Town

Impact of the downturn

Tangible

Decreasing growth rate

Cape Town experienced negative growth of 1.8% for quarter 4 of 2008.⁴⁹⁷

Financial sector shielded

Cape Town’s banking sector has been shielded by a strong regulatory culture, limiting its exposure to the global crisis.⁴⁹⁸

Investments and construction

Despite the global economic downturn, there is “no sense of a crisis” in Cape Town where investors are still investing millions into inner-city developments, Cape Town Partnership Chief Executive Andrew Boraine says. “Developers may be more circumspect because of the recession, but they are not pulling back,” he said. Boraine said the initial momentum for this development came from the private sector. But the economic downturn had made the private sector more cautious and the public sector was picking up much of the investment opportunities.⁴⁹⁹ Indeed according to the Property24 website, “the number of building plans submitted to the City’s Strategy and Planning Department between July and December 2008 totalling 13 528, decreased by almost 5 000 when compared to same period in 2007 which saw the submission of 18 493 plans.”⁵⁰⁰ That said, four new hotels, including Sol Kerzner’s One and Only, will be ready in time for 2010. A further four hotels will be completed shortly thereafter. In addition, Cape Town’s preparations for the 2010 FIFA World Cup™ have reached an advanced stage, less than 400 days before kick-off.⁵⁰¹

Office market performing well

In 2008 the Cape Town Partnership reported a 96% occupancy rate in the CBD's 842 000 m² of office space. Andrew Boraine said most of the city's office space remained occupied and there had been no significant increase in vacancies.⁵⁰²

Businesses closing/downsizing

Some businesses in the CBD have been forced to close in the past few months but new businesses opened fairly soon in the premises vacated by the old ones.⁵⁰³

*Intangible**Consumer confidence*

The effect of the financial downturn on retailers has yet to be calculated, but certainly it has had some effect.⁵⁰⁴

Uncertainty

Recently, in April 2009, a new Mayor was elected. This means that for the majority of time since the global crisis began, there has been great uncertainty in the leadership realm.⁵⁰⁵

Response

At present there is not a discernable coherent city response that is in direct response to the crisis. This is in part because of defiance that Cape Town is facing a crisis and in part because due to its turbulent history Cape Town has been in crisis mode for over 15 years.⁵⁰⁶ Nevertheless, the locality is engaged in very comprehensive long-term development plans, which are indirectly helping the local economy and its population through these turbulent times.

Urban development

Cape Town is currently committed to a 15-year infrastructure development programme based on projected load growth and the assessed remaining life of the equipment. For 2009, the proposed capital budget of ZAR 6.2 billion for 2009 is aimed at continuing the progress the city has made so far which has seen it more than triple the rate of infrastructure spending in three years. In the process this has created up to 12 000 jobs per year through the Expanded Public Works Programme. Major projects in which they will invest the capital budget include:

- ZAR 679 million for electricity infrastructure.
- ZAR 907 million for water and sanitation infrastructure.
- ZAR 810 million for the Integrated Rapid Transit system and ZAR 985 million for the completion of the Greenpoint Stadium.
- ZAR 278 million for landfills and another ZAR 115 million for the Fisantekraal wastewater treatment works.
- ZAR 107 million for optical fibre broadband infrastructure.
- ZAR 89 million for the completion of the Hospital Bend project.
- ZAR 28 million for Enkanini Informal Settlement Upgrade.
- ZAR 20 million for Browns Farm.
- ZAR 15 million for Delft (The Hague).
- ZAR 68 million for Housing Land Acquisition.⁵⁰⁷

2010 World Cup

Hosting the 2010 FIFA World Cup™ gives the City of Cape Town a unique opportunity to improve its infrastructure and market itself to the world. By harnessing the funds made available nationally or 2010-related facilities, the City is concentrating on creating a legacy of this sporting event to make post-2010 Cape Town a more desirable destination for leisure and business travellers, investors, and of course, its residents. Indeed most of the investment and development in 2009 will be 2010-related.⁵⁰⁸ In relation to the recession, Cape Town is fortunate that the 2010 World Cup is creating work; the ZAR 4.5 billion new stadium project has created jobs for over 2 500 workers. Other

major infrastructure projects include upgrades to Cape Town International Airport; public transport (including a new Integrated Rapid Transit System); roads and electricity infrastructure. The area surrounding the new stadium, the 85 hectare Green Point Common, is presently undergoing an extensive upgrade to incorporate a newly-redesigned golf course, sporting facilities for several different sporting codes, and public recreation areas.⁵⁰⁹

Electricity

The City of Cape Town has earmarked almost R900-million to upgrade the metropole's electricity network in the coming financial year. This budget forms part of a three-year capital programme totalling ZAR 2 494 billion. The rationale for the investment into the city's electricity infrastructure is based on the fact that upgrades to these substations will essentially reduce the risk of power failures.⁵¹⁰

Water and sanitation

The City of Cape Town proposes to spend ZAR 786 million in the next financial year to upgrade the city's water and sanitation infrastructure. Plans are also afoot to commence with a ZAR 56 million sewer replacement programme from July 2009.⁵¹¹

Investing in people

Cape Town's Mayor has told how the 2009 budget is a pro-poor budget, or rather, pro-poverty alleviation. In a time of economic crisis, it offers more support to those in need than any previous budget passed in the history of the city. This increase in support to the poor includes the support of basic rights like the right to water, and socio-economic rights like housing.

- Cape Town Government has proposed in its 2009 budget:
- A total amount of ZAR 1.01 billion for free basic services, which is more than double the amount of ZAR 456 million offered only three years ago.
- Each household continues to receive 6 000 litres of free basic water per month.

- First 4 200 litres of sewerage for each household is treated free of charge.
- Indigent registered households and all residential properties valued at ZAR 199 000 or below will receive a ZAR 3 000 indigent grant.
- Fifty free units of electricity to a household if a household buys less than 400 units per month.
- Free refuse removal at residential properties which have a value of less than ZAR 100 000.
- ZAR 10 million to be allocated for rates rebates to pensioners and disabled people with the income threshold lifted to ZAR 8 000 per month.
- Increase the indigent housing grant to ZAR 20 million in order to increase infrastructural development in this sector.

In order to further improve living conditions in disadvantaged communities, Cape Town's governance has been continuing to work on Violence Prevention through the Urban Upgrading programme, which has been launched in Khayelitsha, and is starting up in Manenberg as well. The ZAR 120 million project is a partnership between the City of Cape Town and the German Development Bank and will run over five years. Facilities which are being developed in the target areas include secure pedestrian walkways and bicycle tracks, well-managed open spaces, business facilities, sport facilities, public facilities and the so-called "active boxes". These "active boxes" are multifunctional community centres, which will provide places of safety along pedestrian walkways. Typically, these will include a caretaker's flat, and a room for area patrols. The project is based on community participation, and will offer a platform for residents to get involved in shaping their own suburb to suit their needs and lifestyle. It will involve the cooperation of 50 000 residents in each of the four areas where it will be rolled out.⁵¹²

Investing in trade

Cape Town Container Terminal is currently having its capacity increased and facilities improved.⁵¹³

Economising bureaucratic processes

The Cape Town Regional Chamber of Commerce and Industry has welcomed the war on red tape which was declared last week by the Western Cape's new Premier, Helen Zille. In her State of the Province speech, she promised a clean-out of outdated legislation which constrained local government, delayed decisions and held up investments which would build up the economy and create jobs.⁵¹⁴

Continuation of long-term strategy

Cape Town is currently strongly committed to its long-term strategy - **The 5 Year Plan**, also known as an **Integrated Development Plan (IDP)** - a strategic developmental plan, setting strategic and budget priorities. The objective of the plan is primarily infrastructure-led economic growth. The locality is committed to ensuring better roads, reliable electricity, adequate water and sanitation and a clean, safe public environment. This is to encourage investment in the local economy, to attract, grow and retain skills and capital in Cape Town and to help people escape poverty.

Beijing

Beijing is an emerging world city, China's second largest city after Shanghai and long regarded as the national political, cultural and educational centre. With an estimated urban population of 14.4 million in 2008, the city is the 16th largest urban agglomeration in the world. Its urban population is expected to increase to 16.0 million by 2020. The locality of Beijing exists within a wider region, the Greater Beijing Region widely recognised as the three province Beijing-Tianjin-Hebei region.

While not having yet achieved the same degree of connectivity and indispensability as more established world cities, Beijing's spectacular hosting of the 2008 Olympics has given the city a platform to take its world city competitiveness to a new level. Beijing's aspirations are being channelled through rapid urban infrastructure and transport development, comprehensive urban renewal programmes, rejuvenation of the central CBD to attract global firms, and the construction of a formidable skyline.

Tangible impacts

Despite the economic slowdown, Beijing set its annual growth rate to 9% in 2009, with GDP expected to surpass CNY 1 trillion (USD 146 billion – USD 8 000 per capita).⁵¹⁵ Beijing economic growth remained strong in 2008 off the back of the Olympics, with regional economic connections enhanced. With the capital's economy primarily service industry-oriented, the global financial crisis has had a delayed effect in the city, leading the 2009 budget uncertain about the progress of economic development.

Real estate demand

Over-supply has appeared as a key problem facing the Beijing office property sector during the recession. A May 2009 report by DTZ, a British-based real estate consultancy firm, showed that leasing demand for office space in Beijing began to dramatically weaken in Q1 2009 as world economic conditions deteriorated. The average office building vacancy rate during the period rose to 19%, up from 13% in Q4 2008. Average monthly rents for Beijing office buildings fell 9% over the same period. This problem is not set to disappear as 1.3 million m² of new supply is expected to enter the market in 2009, mostly

in the CBD, more than doubling the 600 000 m² of new office space in 2008.⁵¹⁶ Nevertheless house prices remain high and unaffordable, with price increases of 7.5% in the first 11 months of 2008.⁵¹⁷ While many other Chinese cities have experienced big price falls, the Beijing market, has been more immune to price fluctuation, with even second-hand homes costing around USD 1 900 per m², which is beyond the reach of most workers.

Slowing exports

The capital's industrial sector has continued to suffer since August 2008, and concerns about Beijing's industrial development have arisen. The major difficulties facing the city's companies have related to shortages of orders and a lack of financial flexibility, notably in the automotive and clothing sectors. The total value of Beijing's exports in Q1 2009 decreased by 35.4% year-on-year to USD 40.4 billion. The lack of exports has threatened economic growth and the city's development trajectory, demanding a focus on expanding domestic demand.⁵¹⁸

Social division

Beijing has witnessed a sudden rise in labour dispute cases during the economic slowdown, indicative of rising conflict between workers and employers. A series of rare public protests have occurred on diverse issues of labour disputes, accusations of police corruption, and frustration with sclerotic administrative and legal systems. Labour arbitration departments in Beijing handled 33 000 labour disputes in the first nine months of 2008, up 100% from 2007, and mostly associated with wage arrears, refusal to give overtime pay, illegal dissolution of labour contracts and refusal to pay social insurance. Poor employment practices and a rising awareness among workers of their rights have led to increased social tension in some pockets of Beijing, exacerbated by divisive policies favouring local workers over migrants.⁵¹⁹

Response

"Maintaining steady yet rapid economic development in the capital" was stated as the primary task for the local government in 2009 by Beijing's mayor.⁵²⁰ Beijing has drawn up a package of plans, involving CNY 140 billion (USD 20 billion) in government investment, to ensure the steady and relatively fast economic development this year.

Promotion of industrial development

Beijing's industrial promotion bureau is to complete the restructuring of five companies to foster the creation of "super-large enterprises" with annual sales valued above CNY 100 billion (USD 14.6 billion). The measures include broadening finance channels and intensifying support for export-oriented as well as environment-friendly products.

Beijing is introducing diversified policies to channel funding for companies, especially SMEs, to help them survive the financial turmoil. The city has allocated CNY 5 billion (USD 700 million) to stimulate industrial development, restructure enterprises and provide subsidies. The financial support will focus on projects under construction in 2009. Full interest subsidies for loans of fixed-asset projects will be granted to those put into production by October 2009.

Beijing has also injected nearly CNY 3 billion (USD 400 million) to stabilise and diversify employment. The unemployed from suburban areas, college graduates, migrant workers and veterans can acquire loans of CNY 80 000 (USD 11 000) each to set up their first business, and a second loan of CNY 100 000 (USD 14 000).⁵²¹ This reinforces a November 2008 measure of the municipal government to promote the employment of local workers ahead of migrants. A new system provides employers annual subsidies of up to CNY 10 000 (USD 1 500) for employing urban hukou-holding jobseekers. The system preferentially supports employment opportunities to urban dwellers over rural and unregistered migrants. Finally the city has created 10 000 jobs in community work. Beijing will also attentively implement a "moderately loose monetary policy", to ensure that the current year's yuan loan increase is not lower than in 2008.

Financial services platform

In May 2009 the Bank of Beijing and the Beijing Investment Promotion Bureau signed a framework agreement to build Beijing's international financial services platform. The Bank will provide CNY 5.0 billion (USD 700 million) of credit to meet the financing needs of foreign firms. New services for foreign firms include cash management, credit products and bond underwriting. The Bank and the Bureau are to integrate their resources in a spirit of innovative co-operation to attract more domestic and foreign firms to invest in Beijing. In March 2009, the Beijing Municipal Bureau of Finance was established as China's first municipal and provincial level finance bureau. The bureau will be in charge of the planning and development of the city's finance industry, and is under the Municipal Commission of Development and Reform.⁵²²

Infrastructural investment

In 2009 the municipal government's fixed asset investment was raised by 15% to CNY 30.5 billion (USD 4.5 billion), with the main focus on improved infrastructure, mainly citywide rail transit lines. The biggest infrastructure spending in 2009 is on public transport, primarily the subway network, which is accounting for one third of the budget, making Beijing the largest expander of the railway network in modern China. The total investment on railways is expected to exceed CNY 50 billion in 2009, with part-financing from other investors. With the spending, Beijing will open a new subway line in the west part of the city in late 2009. It will also begin construction of four new light rail lines in suburban Beijing, while continuing to build four other subway lines. The goal is to establish a rail service for all residents, who will never be more than 1 km from a station on the city's 19 line subway network. By 2015, a quarter of all Beijing's commuters, 8.8 million, are expected to use the metro.⁵²³

Another major infrastructure project is the Puhuangyu expressway, whose construction is expected to boost the development of a comprehensive business district in southwestern downtown Beijing. The 2009 construction of the 15 hectare business district, combining shopping, hotels, catering and entertainment, is set to be a key driver of economic development in south Beijing, aided by the Expressway and subway Line 5.⁵²⁴

Real estate and affordable housing

In order to re-establish a healthy real-estate market, the city is to encourage the consumption of standard or larger housing, accelerate the development of a second-hand home market and a house-leasing market. A real estate investment trust fund has been established to broaden financial sources for the capital's real estate sector. Meanwhile municipality unveiled plans for cheaper homes at the end of 2008 to provide a total of 8.5 million m² of price-restricted housing in 2009. While the affordable housing project targets the low-end market, it is not expected to impede the development of the city's high-end real estate market, despite concerns that the strategy could squeeze out realty investment.⁵²⁵

Congestion and emissions solutions

Under January 2009 municipal regulations, all high-emission vehicles with yellow environmental protection labels are banned from driving within Beijing's Fifth Ring Road at all times – extended to the Sixth Ring road in October 2009. Beijing has set aside 1 billion yuan (USD 140 million) to pay CNY 25 000 (USD 3 500) subsidies to owners of high-emission vehicles which will be removed from city roads to help reduce pollution. Such vehicles account for 10% of the 3.5 million vehicles, and half of vehicle emissions. The aim is for 80% of such high-emission vehicles to be taken off the road, reducing pollution by 300 000 tons to 400 000 tons a year.⁵²⁶ Beijing also plans to implement raised flexible parking fees in central areas to ease congestion and designate more space for pedestrians and cyclists.⁵²⁷ These measures complement the extended regulation to restrict car usage in Beijing for one day a week, a successful idea implemented for the Beijing Olympics.

Fiscal savings

Government spending on foreign trips has been cut 20% in 2009 in an effort to crack down on officials misusing public money on sightseeing tours. Future overseas trips for Beijing officials will have to adhere to a strict schedule, with finance departments working out annual budgets.⁵²⁸

Hong Kong

Locality overview

Impact of the downturn

The small size and highly open orientation of Hong Kong's economy has meant that the Special Administrative Region of Hong Kong has inevitably suffered an acute downturn in the financial crisis, entering recession in late 2008.

Tangible impacts

Growth rates

Hong Kong's economy contracted by 2.5% in the fourth quarter of 2008, with GDP growing by just 2.5% for 2008 as a whole. Early forecasts indicate a 2-3% decrease in GDP in 2009, the first year-long negative growth since the Asian financial crisis in 1998. The territory is facing its most serious economic test since 1945.

Fiscal budget

The Hong Kong government's land revenue, one of its primary income sources, declined by almost two-thirds in the first nine months of the 2008/9 fiscal year. Government agencies have also witnessed considerable revenue declines. The Kowloon-Canton Railway Corp (KCRC), a government-owned train operator, has experienced serious losses due to depreciation in its railway assets and interest charges. KCRC recorded a net loss of HKD 232 million in the 2008, compared to a HKUSD 700 million profit in 2007.

A deficit of HKD 9.8 billion (USD 1.3 billion) in the Operating Account and a deficit of HKD 39.9 billion (USD 5 billion) in the Consolidated Account for 2009-10 has been forecast, but the SAR is very confident of a return to surplus in the Operating Account by 2012-13.⁵²⁹

Unemployment

Unemployment is high, at 5%, and may be set to rise to 6.5%, but still some way below the historically high levels of 8.8% immediately after the SARs crisis in 2003.

Firms closing

The impact of the crisis has been particularly felt by export-led Hong Kong manufacturers. Fewer orders and tighter credit have meant a high number of the 70 000 Hong Kong-owned factories in the Pearl River Delta have gone out of business. Private-sector business activity contracted for the seventh consecutive month in January 2009, with the volume of new orders plummeting amid weak global demand.⁵³⁰

International trade

A glut of unused shipping containers is currently being housed near Hong Kong's port. In total, Hong Kong's exports suffered their biggest year-on-year decline in value in 50 years, falling 21.8%.⁵³¹

Tangible impacts

Image and confidence

Hong Kong has lost some of its image as a vibrant finance hub as a result of the downturn, exacerbated by the Chinese national government's endorsement of Shanghai as a global finance hub by 2020. Between October 2007 and October 2008, Hong Kong's Hang Seng Index fell from its all-time high by more than 65%. Its niche cultural and luxury markets, which rely on the presence of affluent international populations, have suffered. While an exodus of young artists and small arts groups have seriously affected the performing arts sector, the locality's jewellery industry has seen a dramatic decline – up to 40% – in sales and exports to key markets in Europe and the United States in early 2009. The showpiece International Jewellery Show also reported its first decline in attendance since 2001, with 15% fewer overseas buyers.

Response

While the credit crunch in Hong Kong is thought to be worse than Asia's late 1990s financial crisis, the city is in a better position to weather a downturn than it was a decade ago.

Taskforce

Morgan Stanley Asia Chairman Stephen Roach and Li & Fung Ltd. Chairman Victor Fung were among 10 people installed at the head of a public-private task force to respond to the credit crisis, alongside Donald Tsang. Proposals from task force members have been aimed to turn the crisis into an opportunity for the SAR, enhancing its international competitiveness.

Hong Kong is set to adopt a further economic stimulus package in mid-2009 to counter the impact of the global financial downturn, according to Chief Executive Donald Tsang.

Each household in the SAR is thought to have already benefited by HKD 25 000 (USD 3 300) from the HKD 57 billion (USD 8 billion) worth of relief measures already put in place. The city has close to HKD 400 billion (USD 50 billion) available to spend, and Tsang has assured that Hong Kong "will not be stingy, and will increase relief measures in the middle of the year should it be necessary to ease the public's worries."

Budget adjustments

Hong Kong's 2009-10 annual budget incorporated a counter-cyclical multi-layered strategy to combat the effects of the global financial crisis. Budget priorities were stimulated by the urgent need to create and sustain employment, increase the SAR's competitiveness, and, facilitate a return to economic growth. The Government has increased public government spending in 2009 to more than HKD 300 billion (USD 40 billion). Government agencies are finding innovative mechanisms to account for their debt. In April 2009, Kowloon-Canton Railway Corp (KCRC), announced plans to sell offshore bonds through a global medium-term note programme.

Lower tax burden to stimulate domestic demand

The Hong Kong budget of 2009 instituted a one-off tax reduction of 50% of salaries and self-assessment tax for 2008-09, up to a maximum of HKD 6 000 (USD 800). This is expected to cost the government HKD 4.1 billion (USD 550 million) and benefit all 1.4 million taxpayers. A rates waiver for the first two quarters of the 2009 fiscal year has been introduced, up a total cost of about HKD 4.2 billion (USD 550 million). Meanwhile all government user fees and charges have been frozen from July 2008 until at least March 2010. Hong Kong also guaranteed all bank deposits to boost confidence.

Economic development

The SAR's Task Force on Economic Challenges has examined the industries in which Hong Kong has a globally competitive edge, subsequently inviting experts to put forward concrete suggestions. Subsequent to their findings, Hong Kong's post-recession focus is on developing its high-technology, creative and green sectors.

- New technologies are to be promoted by providing infrastructure, manpower training, and deepening co-operation with Chinese technology hubs.
- HKD 300 million (USD 40 million) is to be dedicated to developing locally-orientated creative industries through the promotion of culture and art.
- The green economy and an improved living environment is the intended result of co-operation with the Guangdong Provincial Government under the «Framework for Development and Reform Planning for PRD Region» announced by the Chinese national government in January 2009. Electric vehicles are to be promoted as a business opportunity and an environmental initiative, through a five-year exemption on registration tax. HKD 450 million (USD 60 million) has been allocated to improve the energy efficiency of government buildings, with another HKD 450 million to help private owners with carbon audits and energy efficiency improvement projects.⁵³²

Workforce investment

The 2009-10 budget included initiatives to create 62 000 jobs and internship opportunities, with preserving employment a clear top priority. The 2009-10 Budget outlined four areas for providing and supporting employment.

- A HKD 400 million (USD 50 million) package for the Labour department to provide more training and job opportunities.
- HKD 13 million (USD 1.7 million) in additional funding for the department to help people who have lost their jobs during the financial crisis.
- HKD 140 million (USD 18 million) to help fresh graduates entering the job market through a new internship programme.
- HKD 1.1 billion (USD 140 million) to provide jobs in various sectors.⁵³³

Urban development - fast-tracking

Building new infrastructure links with the Chinese Mainland is to be hastened as a key method of enhancing regional competitiveness. The Hong Kong-Zhuhai-Macao Bridge, the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Hong Kong-Shenzhen Airport Rail Link and the Liantang/Heung Yuen Wai Boundary Control Point will all be pushed forward with renewed urgency, with the regional projects employing up to 250 000 people. Estimated capital works expenditure for 2009-10 will reach a considerable HKD 39 billion (USD 5 billion). This is part of a 5-year commitment to infrastructure that will see annual capital works expenditure reaching HKD 50 billion (USD 6.5 billion) annually. A Development Opportunities Office has also been created under the Development Bureau to better coordinate these large-scale projects.⁵³⁴

Education

Education will continue to be the Government's largest spending area, with HKD 61.7 billion to be spent on education in 2009-10. New plans are in place to double the number of overseas students funded to study at Hong Kong universities to 3 000 a year. Furthermore, about HKD 7.5 billion

(USD 1 billion) has been set aside to support the implementation of the new senior secondary academic structure to be introduced in September 2009, which is set to bring the SAR up to globally competitive standards.⁵³⁵

Finance competitiveness

To strengthen Hong Kong's role as an international financial centre, measures have been taken to improve the SAR's supervisory framework and to enhance currently limited financial co-operation with emerging markets. New legislation is planned to reform the tax code, to prevent the territory's labelling as a tax haven. The SAR is promoting the sustainable development of its bond market through a programme to issue government bonds.

In a further attempt to secure the locality's position as Asia's leading financial hub, Hong Kong has opened itself up for RMB cross-border trade settlements. The pilot programme will help the locality develop new banking business links with the Mainland and enable greater security for businesses by reducing the risks arising from exchange rate fluctuations. Links have been established with five Mainland localities - Shanghai, Guangzhou, Shenzhen, Dongguan and Zhuhai - facilitating the rise of Hong Kong as a regional RMB clearing centre.⁵³⁶

Healthcare

Public health has risen up the agenda of Hong Kong's government in recent months, particularly as health concerns appear to be threatening the SAR's post-crisis competitiveness. Annual subsidies of the SAR's Hospital Authority have been increased by HKD 870 million (USD 112 million) each year for the next three financial years, meaning that by 2011-12, support will be HKD 2.6 billion (USD 340 million) higher than prior to the recession. Tobacco duties have increased from around HKD 0.8 to HKD 1.2 (USD 0.10-0.15) per cigarette with immediate effect.⁵³⁷

Branding

Tsang has been instrumental in developing a greater brand presence for Hong Kong since the crisis. A new agency of the Hong Kong Tourism Board has

been set up in Tokyo dedicated to providing services and support for meetings, incentive travel, conventions and exhibitions in Hong Kong. The 2009 Japan-Hong Kong Tourism Exchange Year is also promoting two-way travel between the two places.⁵³⁸

Leadership agenda

Call for regional co-operation

Donald Tsang has demonstrated strong vision and leadership by calling for regional economies to act together upon the principles of openness, transparency and fair competition. He has pinpointed a clear opportunity for Hong Kong to intensify trade and investment with the Chinese mainland and regional partners, notably including Japan. Tsang has also secured a deal to ease restrictions on millions of Shenzhen residents travelling to Hong Kong, to boost Hong Kong's economy.

Change in mentality

Hong Kong has generally capped government spending at 18% of GDP, and local authorities have admitted the difficulty of the task to make a large impact on the wider economy. But there has been a clear and decisive shift away from the previous "big market, small government philosophy" that dominated leadership thinking in recent years, replaced by regular and appropriate government intervention to protect citizens.⁵³⁹

Mumbai

Impact of the downturn

Mumbai has not been as adversely impacted as European and North American localities. India was not a key player in the subprime crisis. Nevertheless, the municipal government has braced itself for a decline in financial capacity, which "will certainly affect our projects in hand and those to be undertaken in the future", according to Municipal Commissioner Dr Jairaj Phatak.

Tangible impacts

Fiscal budget

The Municipal Corporation of Greater Mumbai has lost anticipated public money to the tune of USD 3 million in March 2009 alone. The octroi vehicle tax department, which earns most revenue for the corporation, is the main area of declining revenue growth. The drop in collection per vehicle is a big turnaround, given that the corresponding collection has consistently risen in recent years. Lower revenue collection is also being observed in two other traditional money spinning departments — property tax and development charges.

Construction

As a result, the redevelopment of Asia's largest slum, the 535-acre Dharavi, has been stalled. Furthermore, a local government project to construct India's first offshore windpower project near the Bandra-Worli sealink has collapsed. The USD 10 million turbine plan was to be implemented by engineering giant Suzlon Energy, with an agreement to allow the municipal government to use the electricity generated through the non conventional source for its civic offices.

Business conditions

Economically the locality has witnessed a decline in international outsourcing demand, and a drop in corporate activity in general. Corporate placements at IIT Mumbai – usually highly sought after - have been hit, with the institution seeking help from public sector units to bail out its placements in 2009.

Tourism

Finally, in tandem with the November 2008 terror attacks, there was initially a serious drop in tourist figures. While some more recent indicators suggest the locality's long-term reputation has not been irreversibly damaged, the locality remains vulnerable to geopolitical security concerns, which may affect the presence of international populations and global firms.

Response

Support for long-term strategy

The municipal government's (MCGM) USD 4 billion budget for 2009/10 represents the highest budget in the institution's history, more than 15% up on the previous year. However the budget is notable for a lack of ambitious new projects, and the local government is likening their future financial expenditure to "a brake in a speeding car". The high sum is mainly the result of a USD 700 million internal loan (last year's USD 500 million loan was unused) and a largest-ever contribution from the accumulated surplus. The accumulated deposits and surplus over recent years have been used to their full potential.

There are no new taxes, with a clause that if recessionary trends do not reverse, citizens may have to accept tax rises in 2010/11. Almost all proposed allocations are for continuing schemes, with some even recurring due to the administration's failure to implement them in previous years. The main large-scale projects, which are already underway, are infrastructural improvements in water supply, sewerage and the Brihanmumbai storm water drainage project, since these are thought to have the "maximum effect on citizens."

The new budget is the first that is outcome-based, with a set of performance indicators for all major departments. A Monitoring and Evaluation cell in all departments along with an Outcome Advisory Board is set to oversee the planning, budgeting and expenditure monitoring of the different departments. The key targets for the stormwater drainage department are to achieve zero flooding during the monsoon, zero vector-borne diseases and international standards in cleaning. For the roads department, the main task is to provide aesthetic road infrastructure, road transportation speed, reduced accident rates. The water supply department must ensure potable water 24/7 to 100% of the locality population with zero contamination levels.

Despite national reforms mandated by JNNURM which require a civic body to curtail government costs to 40% of revenue, these costs have risen from 47% to 53% in 2009/10, indicating a long-term concern about the sustainability of employing 100 000 staff. A number of proposals are in the pipeline to generate revenue for which the municipal government expects to recover its income. New properties are to be assessed for property tax, contributing to earnings in another department. Furthermore, approximately USD 20 million has been earmarked for upgrading the Civic Training Institute and Research Centre, in a bid to improve output from locality employees.

Economic development

India's finance ministry has earmarked Mumbai to come out of the economic crisis as a new global financial nerve centre. National financial ministry officials argue that Mumbai is the best suited to emerge as a global financial centre, especially because the domestic demand for sophisticated financial services is high. The ministry will take up 49 recommendations for restructuring the country's financial regulations after the forthcoming general election. The proposals involve encouraging innovation, introducing new products and strengthening corporate debt market. They include making regulations friendly and based on principles, removing segmentation of financial markets into banking, insurance, capital markets etc and lifting the ceiling on foreign investment in Indian rupee bonds.

Encouraging innovation

As part of its 2009-10 budget, the MMRDA laid out plans to develop a 1 000 acre science and technology innovation park that will bring together scientists and industrial houses to undertake research programmes and develop products in multiple fields. The new technology park is branded as the first of its kind, and the largest in Asia, undertaken in collaboration with the Science and Technology Park in Pune. The government aims to develop the park along the lines of the innovation and technology centre near Paris, which MMRDA officials, admire for assembling leading scientists who work towards new solutions for industrial products in the fields of IT, bio-technology, nano technology and pharmaceuticals. When the park becomes fully operational, the MMRDA hope to house 25 000 people from a range of countries, with several premium R&D laboratories will be accommodated in the park.⁵⁴⁰

Urban development

Mumbai's cash-rich regional development authority, the MMRDA, is making new plans to cut the cost of Mumbai Metro line 3 by INR 3 000 crore (USD 700 million), or 20%. The MMRDA has been forced to rethink its original plan to construct a third Metro line (Metro-III) between Colaba and Bandra totally underground. The new preferred option, as of March 2009, is to have a partly underground metro, with an elevated section from Mahalaxmi to Bandra, which is barely half the cost of building an underground line.

Branding

Senior government officials aim to give the region a boost through the economic crisis through branding. In late 2008, thanks to a presentation made by Achanchi consultants in London, Mumbai's chief minister suggested that the entire metropolitan region be branded to enable it to have a higher profile in the future. Localities in the wider Mumbai region - including Thane, Kalyan and Dombivli - are to become part of an international branding exercise aimed at raising the locality's profile to attract infrastructure investments. Branding of Mumbai is also gaining new ground so that it can attract more investment for its financial institutions.⁵⁴¹

Promoting tourism

INR 300 crore (USD 60 million) has been set aside in the 2009/10 budget to developing Mumbai as a tourist hub. This money includes expenditure on heritage walks in selected areas, a cycle track along Irla nullah, a Mangrove Wetland centre, a Hutatma Smarak for martyrs, a Sanyukta Maharashtra Smarak wax museum, several beach improvement projects and the development of Haji Ali promenade.

Openness

Central government has become more prepared to grant medical visas to foreign visitors to promote medical tourism.

Shanghai

City overview

Shanghai is China's most populous city, located on the Eastern coast near the mouth of the Yangtze River to the East China Sea. The city is home to 19 million people and in 2005 was ranked the 32nd richest economy in the world by GDP. Shanghai is the largest city in the Yangtze River Delta metropolitan region (YRD), home to over 80 million people and with an enormous USD 2 trillion economy. In the early years of the 21st century, Shanghai has reinforced its position as China's number one centre of international commerce, industry and goods transport. Commentators argue China's ambition to become the world's leading economy depends substantially on the YRD's capacity for sustained growth.

Impact of the downturn

Tangible

By the standard of the global economic centres, the impact of the economic recession on Shanghai has been relatively mild, and citizen and consumer confidence has been comparatively undented. The global financial scenario has boosted China's relative economic status, providing Shanghai with a window of opportunity to develop itself into an international financial centre. The crisis is expected to have only a limited impact on the Shanghai World Expo 2010, with most participants retaining their commitment to the event. Nevertheless there have been a number of key negative effects, with no guarantee of a smooth recovery, which depends to a large extent on increased US/Europe demand.

Decline in trade and demand for products

Shanghai's exports dropped 26.2% between April 2008 to April 2009 to USD 25.13 billion, the sixth consecutive monthly decline. Private sector export volume was particularly badly hit, at around 30% year-on-year decline. Among the city's pillar industries, the output value of high-quality

steel manufacturing declined 7.9%, and the car industry fell 0.9%. Exports to the EU and the US were the worst hit, while exports to Japan in some sectors actually increased.⁵⁴² Industrial output continued to fall at a rate of around 5% per month in early 2009. The city's economic growth tailed off to 3.1% in Q1 2009, after a 9.7% growth in 2008, its first single-digit growth in 17 years. Shanghai aims to achieve an economic growth of 9% for 2009, but its economy continues to face considerable uncertainty. Where the city-region's foreign trade growth had been operating at around 20% annually, growth for the next 3-5 years is expected to be only 10%. Signs of a subdued Shanghai trade outlook were confirmed by the 19th East China Fair held in the city in March 2009, with transactions of USD 2.24 billion down 39% from 2008.⁵⁴³

Low investment in manufacturing

While Shanghai's foreign investment figures remain comparatively strong, especially in tertiary and state-owned industries, investment has fallen considerably in other areas. Investment from local hubs Hong Kong, Macao, Taiwan fell by RMB 18 billion (USD 2.5 billion) in the first quarter of 2009, down 23.9% year on year. Investment in primary industry fell 16.9%; while in secondary industry (mainly industrial investment) fell 5.9%.⁵⁴⁴ The result has been considerable unemployment as companies cut back or shut down. During Q1 2009, net new employment amounted to only 17 300 workers, down 82% from 2008. Shanghai's registered unemployed increased to 270 600 in April 2008 up 5% from the previous month. The overall unemployment target for 2009 is below 4.5%, but because there is no compulsory registration, actual unemployment rate is much higher. Many farm workers have left Shanghai because of the lack of job opportunities.⁵⁴⁵

Threat to shipping hub

While Shanghai operates the second-largest dry bulk container port in the world, its potential as a global hub was hit by a lack of capital for shippers and shipbuilders, due to a domestic and state-owned oriented local finance sector. Private foreign shipping companies using the Shanghai port, who have keenly awaited loans from Chinese state banks, have seen their prospects of receiving investment support and facility upgrades held up by the lack of liquidity. While Chinese banks have been urged to participate in shipping finance to

support the shipping business to survive the economic crisis, there is little sign of progress.⁵⁴⁶

Property market

The daily average retail property rent in Shanghai fell 1.4% during Q1 2009 to CNY 47 per m², the first quarter-on-quarter fall since 1999.⁵⁴⁷ In 2008, foreign investors spent CNY 16.3 billion (USD 2.5 billion) on real estate investments in Shanghai, down 26% from 2007. The city is expected to suffer a further 20-30% decline in overseas real estate investment in 2009.⁵⁴⁸

Fiscal income

Fiscal revenue growth is expected to slow dramatically as a result of the financial downturn and subsequent tax breaks designed to stimulate the economy. Fiscal income is forecast to grow only 6% in 2009 compared with 13% in 2008.

Departure of international populations

The number of non-Shanghai residents living in Shanghai fell in 2008 for the first time since the 1990s, down 183 000 to 6.42 million. Shanghai is witnessing far less job interest from foreign nationals. Only 200 foreign job seekers attended the 2009 Yangtze River Delta Region job fair for foreign culture and educational experts, down from an expected 600.⁵⁴⁹

Response

Shanghai's city government planned to increase spending by 8% in 2009 despite slowing revenue growth. While conference expenditures, overseas visits by city officials, and government vehicle purchases are all set to be cut, total spending in the 2009 amounts to USD 41 billion, with fiscal revenue at just USD 36 billion. The deficit has been covered by a contribution from the central government. Key budget focuses have been on urban construction and education, health and social welfare improvements.

Employment preservation

Jobs were the highest priority of the 2009 budget, with city plans earmarking the creation of 500 000 new positions. 127 Shanghai companies – including foreign firms and many export-led firms - have received government funding under an April 2009 city bailout plan designed to prevent large-scale job losses. The recipient companies have had their social security funding commitments for employees covered by the city for six months, including health, pension, unemployment and housing benefits. Bail-out recipients are also entitled to a subsidy of CNY 384 (USD 56.22) for each worker employed, about 40% of the city's monthly minimum wage. District-level governments are also required to set aside funds for the troubled companies equal to 50% of the local government allocation. Eligible companies must have already cut average staff salaries by at least 50%. Seven local government agencies have formed a coordination panel to assess applicants.⁵⁵⁰ Alongside these subsidies, vocational training plans have been instituted to help more than 150 000 local students who graduate in 2009 to find employment.

Domestic consumption stimulus

The city Commerce Commission's March 2009 economic stimulus looked towards commercial venues in residential communities, theme promotions, trade exhibitions and a regional distribution network to kick-start domestic consumption. The aim was to ensure retail sales growth of 12% (reaching USD 74 billion) in 2009. Retailers are encouraged to open more stores in communities and to use themed shopping festivals, fashion weeks and sports programmes to boost sales. Expanded vehicle consumption and increased usage of credit cards is also part of the improved financial services vision that aims to pave the way for increased consumption.⁵⁵¹

International finance hub strategy

Shanghai's mayor announced a new and enhanced strategy in May 2009 to develop a global financial centre through four key steps; attraction of more talent, strengthening the legal framework, improvement of its credit database, and the enabling of financial markets and institutions to facilitate pioneering financial innovation in Pudong New Area. As Liu Mingkang, chairman of China Banking Regulatory Commission, stated in May 2009, "Shanghai has a

relatively complete financial system, and it's a strategic and realistic move to speed up the establishment of a (world financial) centre against the financial crisis."⁵⁵²

"Breakthrough and innovation" has been identified as the key instrument for attracting financial talent, which is itself seen as the indispensable element of an international financial hub. The local government is working to improve the arbitrary, hearing and verdict processes of financial cases, while it will also cooperate with the People's Bank of China to improve the locality's credit environment through the establishment of a credit ratings system for SMEs to facilitate fundraising.

Pudong New Area will be prepared for financial innovation with a new over-the-counter equity exchange for start-up technology firms. The Area will also trial programmes to settle cross-border trade using the yuan and to set up consumer finance companies to fund household consumer purchases.⁵⁵³ The ambition of the strategy is thought to give investors confidence in Shanghai's long-term development prospects, with office building sales picking up in the Q1 2009.⁵⁵⁴

Improving port services to stabilise foreign trade

Shanghai Pudong Entry-exit Inspection and Quarantine Bureau – in charge of the city's port - issued 10 measures to stabilise the influx of foreign trade in May 2008. These reforms revolve around improving efficiency and attractiveness for foreign companies; facilities will be provided for business inspection, while export costs will be lowered and delays related to quarantine, "3C" certification and inter-modality will be reduced. Ultimately the reform and innovation aims to optimise the investment environment in Pudong. The measures are not only methods to cope with the international financial crisis but also the active steps to service long-term future development.⁵⁵⁵ More consistent overseas investment in the key strategic shipbuilding industry is being promoted alongside this. Crucially, as noted above, Pudong is now to fast track the development of financial services for the shipping industry, by encouraging capital flows to small companies to spur innovation and upgrade industry.

Investment incentives

New measures have been instituted by the local authority Finance Office in

March 2009 to promote the development of equity investment companies in Pudong New District. Newly established equity investment firms will receive the district's one-time bonus of up to RMB 15 million (USD 2 million), alongside a new series of reward and subsidy policies designed for firms and senior management, and incentives for emerging industry projects.⁵⁵⁶

Openness to foreign investment and populations

Shanghai made commitments to open more areas to overseas investors and improve government services to maintain the inflow of overseas funds in January 2009. The locality opened an online network for overseas investment - <http://wz.investment.gov.cn/SFI> - which allows investors to track applications for new ventures or modifications to existing businesses. Logistics, commerce and trade, information services, R&D and other high value-added services are being opened up to overseas investors.

The city also introduced a guideline in May 2009 to support locally incorporated foreign banks to issue yuan-denominated bonds to meet their long-term capital needs, in order to add to the 17 foreign banks currently operational in Shanghai. Furthermore derivatives including stock index futures, T-bond futures, foreign exchange futures, stock index options, interest rate options and gold exchange traded funds were given the green light, although no timetable was set for their launch.

In February 2009, a regulation was introduced to allow experienced and highly qualified professionals to make their temporary residence permits permanent, annulling the old strict quota system. The seven year requirement now falls in line with many developed countries. The reform is expected to prove very popular with long-term talented populations seeking to enjoy the local privileges of education and social services.⁵⁵⁷

Affordable Housing

A 2008 blueprint aimed for Shanghai to build 20 million m² of low-cost housing, or about 300 000 units, between 2008 and 2012. In 2008, a total of 4.03 million m² of budget housing, as well as 5.38 million m² began construction in the city.⁵⁵⁸

Environmental bonds

The Shanghai government aims to sell USD 1.1 billion worth of local bonds, 74% of the capital of which is to be subsequently directed to the city's environmental protection projects such as water treatment upgrades.

Underground infrastructure

Metro construction is set to accelerate, with Metro Line 7, the second phase of Line 8 and Line 9 and the first phase of the north section of Line 11 put into operation by the end of 2009.

Expo

The Shanghai organisers of the Expo have set up a special fund of USD 100 million to facilitate the participation of developing countries.

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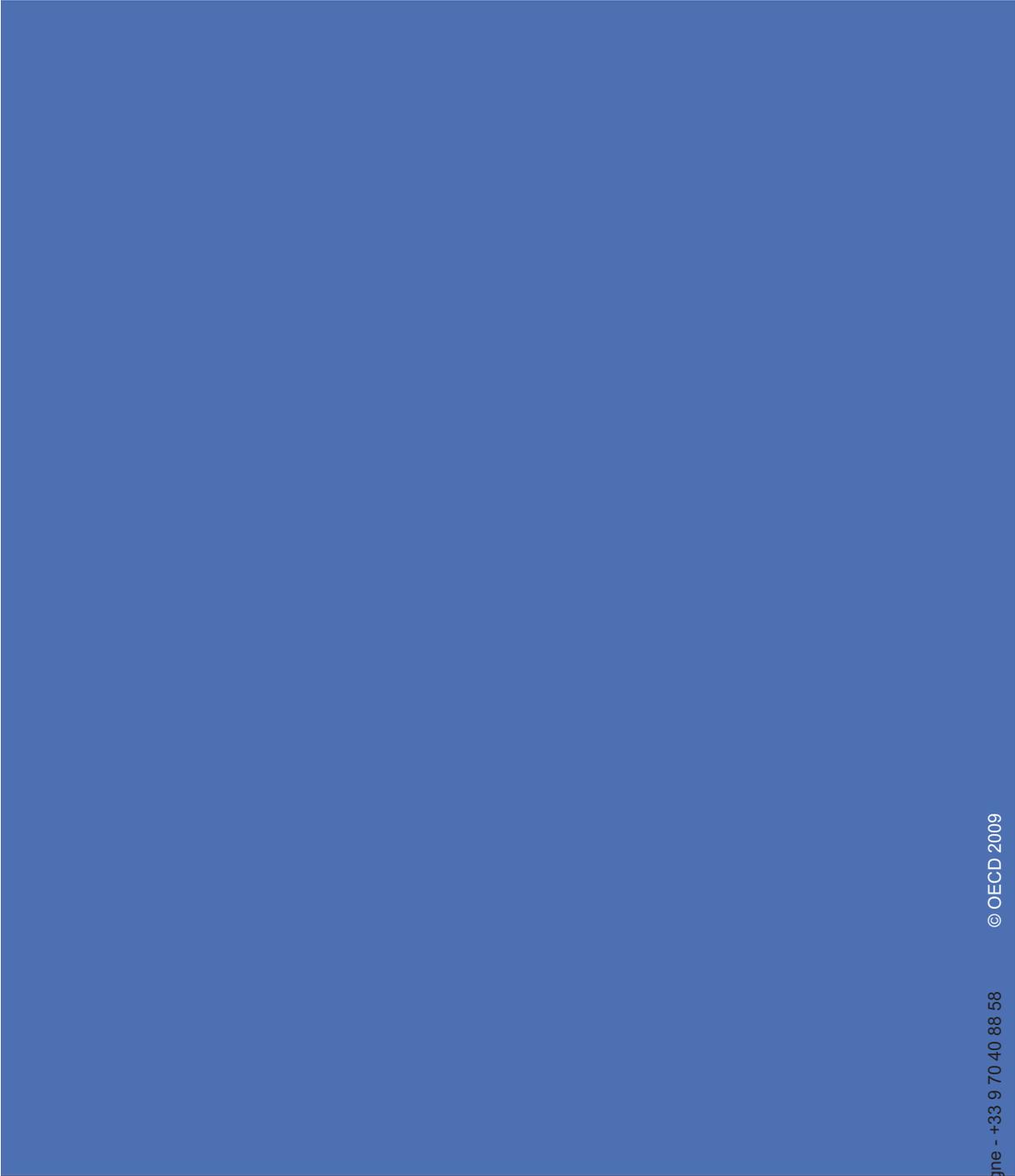
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Printing and Layout by BEL CANTO F92100 Boulogne for :

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