



XXXII. c.MET05 Policy Research Meeting

On Regional Innovation and Growth in Times of Covid-19 and Climate Change

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The Covid-19 Pandemic: Macroeconomic Shocks

- Extraordinary (Emergency) Situation: Dramatic cut-backs in consumption, production and investment activities as well as in the social interaction activities of business and commerce
- Rapid move from 'normal' risk-determined times to radical uncertainty with expected further pandemic lags
- Slow recovery transition from extraordinary to the 'ordinary'/'new normal' → investors, employers and households expectations are weakly grounded – fears of new waves of the pandemic
- No consensus regarding the speed or path of recovery – due to scale of the downward supply and demand shocks: V-shaped, Nike 'swoosh strip'-shaped, Z-shaped, W-shaped, U-shaped, L-shaped?

The Covid-19 Pandemic: Sectoral and Structural Implications

- Global economy-wide shutdowns, disruption to Global Value-Chains (GVCs) and collapse of international demand
- Disruption to Global Value-Chains (GVCs) – on the supply side these tends to be pan-regional so trade-contagion effects across neighbouring countries – this also requires a coordinated re-opening up of countries
- Trade policy: some rationalisation of GVCs and ‘near-shoring’ of activities – but opportunities for this depend on existing global trade and network structures
- Possibility of increased automation, 3D-printing, more rapid introduction of Artificial Intelligence – heavily contingent on financial markets but avoids challenges of social distancing
- Experience of previous recessions – increased productivity but not the 2008 crisis

The Covid-19 Pandemic: Sectoral Shocks

- Structural and spatial shocks
- Specific challenges for hospitality, travel and tourism, automotive, high street retail, – collapse of international demand – some medium term domestic demand response
- Graduates and school-leavers' job-markets and university towns will be heavily affected as will many education and training routes
- Scale of scarring depends on the time to develop a vaccine
- Opening up process: transition from extraordinary to 'ordinary'/'new normal' → problem of tapering of support rather than a 'cliff-edge' – no consensus as yet

The Covid-19 Pandemic: Capital & Spatial Shocks

- Capital shocks are the most important drivers of regional convergence or divergence
- Widening of yields and risk spreads both between and within all asset classes
- Massive capital reallocation – different forms of credit and lending, restructuring in money and asset markets
- Widening of risk spreads across regions → increases interregional divergence
- Initial 2020 shocks: cities/more prosperous regions → rest of regions.
- Longer term patterns are likely to be similar to the 2008 crisis – shorter-term effects on prosperous and core areas followed by longer term effects on rest of the regions

The Covid-19 Pandemic: Spatial Implications

- Some reduction of commuting (increased home-working) and increases in on-line shopping – but not for high-value activities built on tacit information
- Advantages for rural regions close to urban areas
- Shocks to the built environment in cities – reconfiguration of workspaces - redesign of real estate developments – and cancellation or postponements of many real estate developments
- Core city agglomeration advantages stalled in the short-term
- Reduced commuting frequencies can benefit largest and most prosperous cities
- Weaker city regions will suffer the most

The Covid-19 Pandemic: SME & Entrepreneurship and Innovation Implications

- Reasons: diversity, human capital, connectivity, resilience → investors' shifting perceptions of relative risk
- Teleworking and telecommuting – face-to-face and telecommuting are complements for business generation
- In the current crisis they are being used as substitutes – but advantages for knowledge workers with already-strong networks
- Capital shock will favour these more prosperous and resilient regions
- Major challenges for SMEs – cut-backs in credit availability (squeezed from above as well as clawbacks) – and especially innovative SMEs (reduced bank credit, reversal of VC markets)
- Private Equity and some hedge funds are probably the only 'winners'

The Covid-19 Pandemic: Long-Term Governance Implications

- Bigger government debt and deficits – and ‘ownership’ of key parts of the economy
- Increased power and role of national government – but speed and scale of fiscal retrenchment uncertain - willingness of markets to lend to governments in unknown
- Local administrations have been key to immediate responses in many countries – health services, information provision, community care, education reorganisation, travel and mobility management, waste management, policing and security
- Roles depend partly on levels of devolution
- Post-pandemic some reconsideration of centre-local place-based relationships for resilience

The Covid-19 Pandemic: Long-Term Governance Implications

- Capital shocks and a widening of investment yields will tend to increase interregional divergence
- Shifts to greater concentration and monopoly positions in private-sector market – tends to increase interregional divergence
- Bigger role for central government – tends to increase interregional divergence
- SMEs – especially innovative SMEs – and the cores of weaker cities will suffer the most
- Place-based SDG responses → opportunity ‘build back’ differently – local learning from other cities and regions
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The Covid-19 Pandemic: Long-Term Governance Implications

- Longer term local public finance challenges for central-local relations
- Pandemic coordination experiences: need to learn lessons country-by-country of what worked well and what did not
- Also, key place-based lessons and experiences of the transition process
- Need to re-think central-local balance of responsibilities in different arenas of governance based on evidence
- Insights for institutional and governance alignment both during the extraordinary and also the transition to 'ordinary'/'new normal'

The Covid-19 Pandemic: Long-Term Governance Implications

- Longer term uncertain policy environment – rise of nationalist and authoritarian responses due to a ‘geography of discontent’
- Lack of international coordination – health is a national competence – but a problem of perceptions
- Pandemics require coordination but so does climate change mitigation, trade promotion, R&D, knowledge flows and innovation
- Progress towards Sustainable Development Goals and Paris Agreement targets may be interrupted or reversed by the recovery process – only temporary reduction of GHGs

S4+ The European Innovation-Led Response for Local Solutions to Global Challenges

- EU Cohesion Policy – the EU regional economic development programme worth approximately €50 per annum
- Funding from different streams: ERDF innovation, SMEs, economic development, infrastructure; ESF skills and social cohesion; CF – infrastructure and land; EAFRD/EMFF – rural and maritime development
- EU-wide priorities – national and regional managing authorities (shared management), co-financing, programming
- Europe2020 agenda – smart, sustainable and inclusive growth
- *Smart specialisation* – place-based prioritisation

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- Smart specialisation: entrepreneurial search → bottom up generation of initiatives and actions
- Policy prioritisation driven by diversification around a core; possibility of local scale and embeddedness; linkages to external and internal sources of knowledge; relatedness
- Many regions prioritise smart (innovation-led) growth over sustainable or inclusive growth
- New EU-wide €1 trillion Green Deal → UN Sustainable Development Goals SDGs, growth and development
- Fundamental shift in priorities
- Philip McCann and Luc Soete, 2020, *Place-based innovation for sustainability*, JRC121271

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- Europe2020 agenda – smart, sustainable and inclusive growth
- Smart, sustainable and inclusive are often not aligned or only partially aligned in any particular locality
- Tended to be seen as a menu by many regions – smart (ERDF); inclusive (ESF); sustainable (ERDF or EAFRD/EMFF)
- The EU Green Deal means that the logical ordering between smart, sustainable and inclusive will need to shift to: *smart for sustainable and inclusive growth S4+*
- UN SDGs can hide trade-offs between goals
- These trade-offs and complementarities will be different according to place and governance/institutional context

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- Essential to build a unifying narrative
- Many weaker regions are more vulnerable to climate change, but also to mitigation strategies
- Need to ensure that weaker places do not suffer from Green Deal while more prosperous places gain – key role of Cohesion Policy
- Difficulty of making transitions depends on industries, economic structure, skills and infrastructure
- The covid-19 pandemic has heightened many of these concerns – shifting focus to employment and output recovery rather than sustainable development
- Need to unify different political economy constituencies – with regard to the role of the state and market, as well as central and local governance actors

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- Advantages of local decision-making: local knowledge and reconnaissance; 'on-the-ground' narratives, local ownership of the agenda; early-warning indicators – social and engagement evidence
- Ageing and demographic change (inclusiveness challenges)
- Automation and AI (smart, sustainable and inclusiveness challenges)
- Wellbeing (sustainable and inclusiveness challenges)
- Wages and productivity → recent evidence suggests that the link is rapidly weakening due to job polarisation, especially in cities (falling inclusiveness)
- 'Geography of Discontent' – anti-establishment political shocks

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- Search for complementarities is critical. This may involve institutional restructuring:
 - to redefine jurisdictions (internalisation of spillovers)
 - to limit power of incumbents (inclusiveness)
 - to trial or pilot new activities (sustainability)
- Complementarities and trade-offs can be better observed local scale – and acted on
- Progress via multiple small steps forward on a broad front – local and citizen ownership
- Identify opportunities for experimentation, testing, and trialling in the local context which relate to the local urban challenges

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- EU Cities: Essential need for urban innovation strategies to address societal challenges which are specific and relevant to the urban context
- Cities as hubs of innovation → knowledge spillovers and/or transparency and competition
- Cities as testbeds for new technologies – traffic, mobility solutions, health services, public service provision Cities also provide opportunities for governance experimentation → radical local government: “Political Petri Dishes”, *The Economist*, 22.09.2012
- Need for urban governance systems which allow for innovation strategies → including allowing for failures

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- Urban innovation strategies for city productivity and wellbeing → corporate and science advocates
- Innovation challenge-led strategies are much more difficult in difficult urban contexts – carbon-intensive industries and/or declining cities
- EU cities display both resilience and vulnerability: they exacerbate national post-crisis trends with growing countries driven by growing cities and declining countries weighed down by declining cities
- Effects of the real estate-related debt on the real economy are more pronounced in cities; real estate shock effects are dominated by cities → induced effects in the real economy

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- Non-Urban Settings: Need to also consider innovation opportunities and challenges related to the non-urban context: peri-urban or rural contexts
- Many rural areas – distant and isolated, adverse demographics, carbon-intensive or emission-intensive activities
- Need to identify intended ex ante outcomes, ongoing monitoring and ex post evaluation for strategic success
- Problems of local institutional and governance capabilities to drive changes
- Need for appropriate financial solutions (EIB)
- Smart specialisation challenges are now elevated to Green Deal challenges

S4+ The European Innovation-Led Response for Local Solutions to Global Challenges

- EU-wide evidence on RIS3 and S4+ performance and learning is essential → institutional infrastructure is already in place
JRC Seville
- Complementary evidence – attitudinal and social surveys
- Short-term versus medium and long-term
- Monitoring of approaches, experiences and outcomes → but also of local narratives and local perceptions – early warning systems but also early learning systems
- Civic engagement, social enterprises and third-sector actors as well as private and public sector
- Upgrading of the local and regional institutional capacity is critical