

Version 2

Fixing the Future

**Innovating more effective
responses to recession**

The Young Foundation

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THE YOUNG FOUNDATION

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Summary

This paper is about how to mitigate the recession, and, where possible, turn crisis into opportunity. It has been prepared to provide a framework for thinking and action by governments and local authorities, voluntary organisations and businesses, linking the global dynamics of recession to action on the ground.

In the paper we summarise the background to the recession and the different approaches that governments around the world – national, regional and local – are taking, including what we call *protective, future investment, localising* and *insulating* responses. We describe some of the social and economic effects that are already visible, and what's likely to lie ahead.

We argue for adapting recovery plans to put a much greater emphasis on future growth industries rather than bailing out failing ones. Most available evidence suggests that the biggest employers of the next decade will be in health, education, care, environmental services and tourism. Yet recovery plans have been primarily oriented to sectors with smaller shares of employment and that are likely to further shrink in the years ahead. The care industry should be a higher priority than cars. The voluntary sector is more likely to grow jobs than retail banking.

We then recommend a series of options for public agencies and foundations to consider, both to mitigate the recession and to prepare for the recovery. These include ideas for direct job creation; youth and adult apprenticeships; creative uses of empty high street buildings (eg for fast colleges providing training and gyms); and local financial institutions that can rebuild habits of saving.

We argue that the national emphasis of policy needs to be balanced with a much bigger role for local government and voluntary organisations which in previous recessions proved more agile in finding ways to use wasted resources. And we argue that the web and social networks should be used to mobilise creative ideas, and provide small grants for their development.

Finally, we suggest potential machineries at national and city level for coordinating crisis responses (with new models of war-room), gathering intelligence on economic and social impacts (based on the US Intellipedia model used by intelligence agencies), pooling capacities for action, accelerating global learning about what works and developing new financing models (such as Social Impact Bonds).

Our central argument is that the majority of current policy responses have been – inevitably - designed to fix the past, putting right the mistakes of the banks and others. The priority in the next phase is to shift direction towards fixing the future.

Franklin Delano Roosevelt argued in 1932 for “bold persistent experimentation”, and said “it is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something”¹.

We argue for linking the two great challenges of our times that most demand ‘bold, persistent experimentation’: the need for better solutions to the short-term problems of recession; and the need for better solutions to the long-term challenges of climate change and ageing, healthcare and expanding education.



1. Introduction: financial, economic, social and political crisis

Around the world policy makers face a double challenge: how to cope with the very short-term pressures of financial meltdown and social stress, and how to prepare for the longer term changes that will ultimately aid recovery. Some of these challenges are economic and others are social – but as we show later on they are more closely connected than ever before since forecasts suggest that the biggest sectors (by both value and employment) of western economies in 2020 and beyond will not be cars, ships, steel, computer manufacturing or personal finance, but rather health, education, care and environmental services.

The ‘recovery matrix’ below summarises the challenge – how to align actions in each box, the short and the long-term, economic and social, and how to ensure that the intense pressures of today do not crowd out the claims of the future.² As governments commit future generations to enormous debt burdens, this is becoming a moral as well as a strategic imperative.

<u>Recovery matrix</u>	Economy	Society
Short-term	Demand boosts, credit guarantees, nationalization, infrastructure &c	Debt advice, jobs, mental health, averting unrest &c
Long-term	Areas of jobs growth; health, care, green, broadband, high-tech manufacturing &c	Shifts in consumption/savings patterns; time shifts; growth of social economy &c





During the rest of this paper we flesh out some of the actions which can be taken in each of these fields – and suggest how a clear sense of strategic direction can be combined with greater openness to creativity and experiment.

2. Immediate causes of the crisis and immediate responses

The immediate causes of the current crisis are now reasonably well-understood: the rise of sub-prime lending; out of control derivatives; the dramatic increase of leverage and off balance sheet finance; and then the fumbling responses around Lehmann brothers and the Troubled Asset Relief Program (TARP) package.

Everywhere financial shocks have led to direct and indirect falls in demand, and then a mix of emergency monetary and fiscal actions in response. While the western economies were hit first, the shocks have been even sharper in the east, from Taiwan and Singapore (with an annualised 12.5% contraction in GDP in the fourth quarter of 2009)³ to emerging economies such as Bangladesh which are now suffering from falling demand for their exports, and falls in the levels of remittances from their diasporas⁴.

The US and many European governments have responded by pumping liquidity into the banking system, and taking short-term actions to reduce the damage of rising redundancies, falling property prices and business closures. Some have directed money to households – lower VAT in the UK, tax cuts in Canada. Others – like France - have emphasised industry. There have been measures to support mortgage lending, and lending to small business. There have been moves to handle toxic assets, and the still unresolved choices of good and bad banks, nationalisation, and other bailouts. Some governments, including the UK, have introduced job subsidies; most have announced big increases in classic public works, bringing forward small and large

projects and programmes. China has launched one of the biggest fiscal stimulus packages with massive capital works and an increase in the tax rebate for some labour intensive goods (though remarkably, less than 1% has been devoted to health).⁵

These responses are improvised and some have had a short shelf-life, visibly failing within weeks. The package announced on 10 February 2009 in the US may have had an even shorter half life, greeted with a further fall in stock prices, and growing doubts about its plausibility and whether it deals with the underlying problems.

The scale and speed of the crisis makes many of these actions unavoidable. There is a pressing need to be seen to act, to stop the lending strikes by banks, and to follow the IMF advice that it is better to do too much than too little.

But there are clear weaknesses in many of the packages announced so far. There are grave doubts about whether the US interventions are big enough to deal with the sheer scale of potential losses (Nouriel Roubini recently estimated that these could be as high as \$3600bn, an order of magnitude larger than even the massive package pushed through by the Obama administration⁶). And there are still grave doubts whether the measures taken so far have helped the banking industry understand its need to change from being a master of the economy to being a servant. These are some of the other glaring weaknesses visible in many national recovery plans:

- many of the measures to boost consumption have been saved by customers not spent, reducing their impact on demand.
- there has been a bias to big, well-connected, declining sectors (the 'too big to fail') rather than small business or the entrepreneurial.
- in many countries there has been a bias to male industries.
- many of the actions directed to credit (such as guarantees for bank deposits) risk being not only very costly but also unsustainable if the recession is anything other than short, as well as introducing acute moral hazard.
- many of the measures have high deadweight effects – VAT cuts for example.



- many of the measures risk being low impact. For example many public works would be hard to justify in policy terms (e.g. there's little evidence that investment in school buildings has much - if any - impact on school performance).
- some large public capital projects risk being too slow moving to have much impact

However, the biggest weakness is that so few of the recovery plans are investing in the future as opposed to picking up the failures of the past. Remarkably little of the money committed by governments has been directed to investment in innovation; remarkably little is being directed towards services; and remarkably little is being fitted within a clear view of where the recovery will come from. Nor is spending connected to other societal priorities, like cutting carbon emissions or coping with ageing. The largest 13 EU economies, for example, have, since September 2008, announced economic packages worth €90 billion, or 0.78 percent of their gross national product, over the last four months but only €1.2 billion will be devoted to green investments.⁷

Longer term causes of the crisis

The biggest problem with the current recovery programmes – particularly in the US and UK - is that the short-term measures point in exactly the opposite direction to the long-term needs. In the short-term, the priority is to boost consumption and lending and borrowing. But in the long-term, the priority is the opposite, to cultivate habits of prudence and restraint and raise savings rates from their disastrously low levels.

Throughout the 2000s many commentators have predicted a dramatic economic crisis to result from the imbalances of huge US over-consumption and debt, combined with Chinese over-production and under-consumption, imbalances that have no precedent in economic history.

The only plausible long-term solutions will involve a major rebalancing, with China boosting domestic demand; reducing savings rates by creating government guarantees for welfare and health security; and slowly raising its exchange rate, probably with some controls to reduce



the risks of speculation. Meanwhile, the US will need to reshape its economy to curtail credit and debt, and to raise savings rates. Almost certainly these changes, which will take many years to implement, will require new global institutions and arrangements. Yet current policies – and some current rhetoric (e.g. the US criticising China for manipulating its exchange rate) run counter to what needs to be done, and agreed, for a long-term recovery.

3. Long waves and the current crisis

Crises are always moments when new possibilities arise. But although there have been many recessions (defined as two successive quarters of negative growth) there have been few depressions (longer, more profound, contractions of economic activity). This makes any forecasting extremely difficult as what appeared to be a recession is now revealing itself as something more like a depression.

Some past downturns were shallow and short whilst others were deep, scarring and lengthy (for example, the Great Depression only ended in the US with the Second World War⁸). History gives little comfort that recessions as deep as the current one are followed by quick recoveries. Moreover many financial crises have turned into economic, social and political ones; this was true of Germany in the 1920s and Argentina in the 2000s. In 1930s, the USA saw widespread protests, some put down by the army⁹ as well as sporadic murders of judges and lawyers associated with foreclosures.¹⁰ In the UK, the early 1980s recession led directly to extensive urban riots.

There are already signs of the current recession leading to rising social anxiety with strikes, occupations and protests around the world, some turning violent, including in Greece, Iceland, Bulgaria, Latvia and Lithuania. Most recently, there have been walkouts over the employment of foreign workers in the UK and nationwide strikes in France. All governments and civil societies are in for a turbulent time, as the risk of conflict and the search for scapegoats intensifies.

But even in the darkest times there will also be opportunities. Capitalist economic systems appear to depend on periodic crises – they are

inherent in the character of market systems rather than aberrations. And in the longer term, recessions often pave the way for profound shifts in the economy that in turn lead to renewed growth. The Great Depression paved the way for the rise of mass-consumerism in the 1930s-50s¹¹, and an economy supported by ubiquitous infrastructures for electricity, roads and telecommunications. The oil crisis of 1973¹² was followed by dramatic increases in Japan's use of solar power¹³ and an industrial shift to reduce dependence on oil¹⁴¹⁵. The recession faced by the UK in the early 1980s was followed by reductions in the power of the trade unions along with the 'Big-Bang' deregulation of financial markets.

In their later phases, downturns bring radical institutional innovation. The Great Depression helped usher in radical new economic and welfare policies in countries like New Zealand and Sweden, that later became the mainstream across the western world. In the US it led to banking reform, the payment of the veterans' bonuses and, further down the line, in 1944, the GI Bill of Rights – also known as the Servicemen's Readjustment Act. In the UK it was depression, as much as war, that led to the creation of the welfare state and the National Health Service.

These long patterns of change have been described well by the Venezuelan economist Carlota Perez whose writings on financial crises and long-run patterns of change now look amongst the most prescient, particularly in articulating the links between changes in the money economy and changes in production.

Her work has shown that frenzies of investment in new infrastructures and technologies have repeatedly been followed by dramatic crashes,¹⁶ whether in 1797, 1847, 1893, 1929 or 2008. After these crashes, and periods of turmoil, the potential of the new technologies and infrastructures is realised once new social, political and economic institutional arrangements come into being which are better aligned with the characteristics of the new economy. This is when economies grow, with swarming and bandwagon effects.

So, for example, in the 1930s, the economy transformed from one based (in Perez's words) on 'steel, heavy electrical equipment, great

engineering works (canals, bridges, dams, tunnels) and heavy chemistry, mainly geared towards big spenders ... into a mass production system catering to consumers and the massive defence markets. Radical demand management and income redistribution innovations had to be made of which the directly economic role of the state is perhaps the most important.' During the 1930s it wasn't clear which institutional innovations would be most successful, but after WW2 a new model of development crystallised with radically different institutions and policies, and elements as diverse as suburbs and motorways, welfare states and macroeconomic policies. These new arrangements underpinned an extraordinary wave of growth in the 1950s and 1960s.

Seen through this lens, Keynes's work is important but of limited use (since his theories were more concerned with the *level* than the *kind* of economic production, and with money rather than with production or technology). Instead Keynes needs to be complemented with Schumpeter's, and Perez's, insights into how waves of innovation, and periodic destruction, drive forward economic growth.

That innovation is as much about social arrangements and institutions as it is about technologies themselves. Some of these will be global – new roles for the IMF, or new institutions for the management of carbon, or redistribution.¹⁷ Some may be needed to cope with the hollowing out of middle level jobs in many advanced economies, or to raise savings rates in societies that have lost the habit of saving at the very time when their populations are ageing fast. And some will be about different kinds of service and economy (an issue discussed in more detail in the forthcoming Young Foundation/NESTA report on the social economy).

The critical point is that policies which are blind to this bigger picture are likely to fail – and policies which try to prop up visibly failing old industries and institutions will drain resources to little effect.

4. Immediate impacts

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The direct effects of recessions are fairly predictable. Recessions mean fewer jobs; less spending; individual¹⁸ and business bankruptcies, repossessions, lower tax revenues for governments; more demand for services; and downward pressures on third sector organisations as funding declines (whether from individual donors or public contracts) while demands increase.¹⁹ But the detailed patterns are likely to be complex:

- Repossessions/mortgage arrears/homelessness would be expected to rise – but lower private rent levels can also ease housing pressures for some
- Birth rates usually go down – but downshifting could be accompanied by rising birth-rates.
- School education, university education and staying on goes up
- Stress goes up – both because of debt and job insecurity.
- Mental illness might be expected to rise (and male suicides rose in 1980s Britain) – but in past recessions many places (for example Finland) *didn't* experience worsening mental health amongst vulnerable groups, in part because of differing responses that provided a buffer to them²⁰.
- More pressure on marriages as a result of financial pressures and stress – but more divorcing couples have to stay in the same house (another factor leading to worsening domestic violence).
- There is likely to be less consumption, more cost-aware consumer spending²¹, and also in some instances less damaging consumption, such as binge drinking, but hard drug use and alcoholism can rise as they are used as a coping mechanism²².
- There is likely to be higher crime in some categories including property²³, but this also potentially comes alongside declines in the types of violence associated with drinking²⁴.
- Re-offending is likely to rise (as former prisoners find it harder to get jobs).
- Public disorder and community cohesion tend to worsen, particularly where there are many unemployed young men, and underlying racial tensions.
- Immigration is likely to fall – and there have already been big outflows from the UK and there is speculation that levels of migration to the UK may fall sharply as a result of the recession or that foreign workers may return home.



- There is some evidence that levels of physical health can improve during recessions (as they did during WW2) as people eat, drink and smoke less, though there is also very recent evidence of rising consumption of cheap junk food.
- Places are likely to be differentially resilient –poorer communities with high-levels of social capital and mutual support may cope better than better-off areas where debt is high and there is a lack networks of support (whether from the family, neighbours, well-established community institutions or other sources). People will return from the private to public sectors, both as users (eg in health - hence waiting list pressures), and as potential employees.
- Behaviours are likely to harden – e.g. banks, tax authorities and housing associations become more aggressive in collecting money (which can precipitate problems)
- Policies will shift – labour market policies, for example, shift to the more employable newly unemployed, and social policy tends to pay less attention to the most at risk.

In 2008, Oxford Economics compiled a score measuring vulnerability from the credit crunch of different business sectors and applied this to the shares of employment taken by each industry for each local authority district in Great Britain. Sectors that are particularly vulnerable include banking, financial auxiliaries (excluding the insurance and pensions industry), real estate activities, the construction industry, sale of motor vehicles and the restaurant and bar industry²⁵. The areas identified as most vulnerable include the City of London; Tower Hamlets; Westminster; Edinburgh; and a number of smaller towns, such as Bournemouth and Macclesfield. Further research indicated that cities such as Leeds with a high concentration of financial service head office functions are more likely to be vulnerable than those with a focus on other industries.²⁶ Others have pointed to the even greater vulnerability of cities like Liverpool or Blackpool that have weak industrial bases, and little chance of taking advantage of lower exchange rates.

Although the Oxford Economics analysis relates to the effects of the credit crunch rather than the recession as a whole, it is interesting that a number of areas that have been scarred by previous recessions look less vulnerable. Areas of past industrial decline such as Corby²⁷, Sedgefield

and Blaenau Gwent are ranked amongst the least vulnerable from the credit crunch. This chimes with findings from the Young Foundation's recent research in Teesside and Merthyr Tydfil. While there have been greater demands for services such as consumer credit counselling, most people in these areas expect to weather the crisis, having less to lose and more experience of adversity.²⁸

This list is by no means exhaustive.²⁹ It doesn't include the subtler lifestyle shifts of downsizing, re-engagement with everything from gardening to friends. For public agencies these patterns force the question of *which* rising needs make the most claims on public resources – the newly unemployed or the long-term? The family suffering from the greatest burden of debt? The psychologically vulnerable? Those with weak social networks? Students leaving university with no job? Foreigners working in semi-skilled jobs in the UK?

5. Protective measures and resilience

Public authorities will have to act to protect people and businesses from the worst harms of the recession. So far national policies have slowed repossessions; guaranteed loans; and offered some hardship assistance. But their ability to sustain these commitments must be questionable. The queue of lobbies claiming special needs is already long, and will grow longer. Traditional industries no longer monopolise these responses. A recent Office of the Third Sector package promised £42m in help to charities, including very small ones.

Many of these measures will meet needs. But they look scatter-gun; they are not clearly linked to any analysis of which needs are most pressing; and in some cases they are unlikely to be sustainable. We recommend at a minimum that any measures of this kind are explicitly time-limited – for example, for three or six months, so that resources can be reallocated to the most pressing needs as the downturn develops.

We also recommend a greater emphasis on resilience as well as protection. In the turbulent times ahead it will become increasingly important for individuals, families and communities to improve their resilience – their ability to cope with shocks and setbacks.

These issues are being explored in more detail, including through case studies across the UK, by the Young Foundation survey on changing needs (the interim report of which was published in January³⁰). We are looking at how resilient different communities and how to improve the family and informal networks that help people get by in hard times.

We are also looking at the practical policies that can strengthen resilience. This has been a theme of many of our projects over the last few years, including counselling for the elderly schemes using methods drawn from cognitive behavioural therapy, and our work integrating resilience into the curriculum with several thousand 11 year olds in schools across England, as well as efforts to integrate resilience into ‘welfare to work’ programmes³¹. These issues will be covered in more detail in the forthcoming Young Foundation publication from Yvonne Roberts on ‘Grit and Resilience’, which brings together the evidence base on resilience from around the world as well as ideas about what can be done, particularly in education.

6. Investment in the future

In the next sections we turn to some of the other strategic options for response: what we call future investment, localisation and insulation. Future investment strategies direct public support to the industries that are most likely to grow in the recovery. Wherever possible they try to combine economic impacts with social ones. Some of the fields of likely future growth will be around high technology – manufacturing and services. But any serious forecast of the likely shape of the economy in 10 to 20 years emphasises that many of the key sectors will be ones where the public, private and non-profit sectors are all involved. Health already accounts for 10% of GDP (much higher in the USA) and is rising. Care is heading towards 4-5%, and education edging up towards 10%. All of these are already comparable or larger sectors than automotive, steel, or telecommunications. In some countries industrial

policy is already adapting to this new reality. But in many, including the UK, there is still a marked divide between policy for health (which treats it solely as a public sector issue) and policy for economic growth.

Some of the fiscal stimulus packages are at least partially shaped in the light of a strategic sense of where the economy is heading. Some are in line with the arguments of Carlota Perez and others in emphasising the strategic importance of infrastructures – broadband, high speed rail, transport nodes and distributed energy systems. Many governments are tying spending to carbon reduction targets – emphasising retrofitting, new energy systems, piloting electric and hybrid transport, and carbon sequestration. San Francisco's partnership with Shai Agassi and Better Place is a good example, putting in place the infrastructure for a rapid expansion of electric cars (and set to be matched in London). For the C40 group of the world's 40 largest cities, work is underway on a range of responses, from building insulation to mobilising vacant undeveloped land for urban agriculture, using pension fund and other financial sources. As governments are pulled into banking, attention has also turned to the design of financial products that could achieve multiple goals – for example providing mortgage lending credit on the proviso that those taking loans commit to making energy efficiency improvements or micro-renewable to their homes (most 'green mortgages' tend to be optional).

The US is seeking to use the recovery plan to enhance health as well as promote green jobs – and many projects combine both health and environmental goals, for example adapting cities to cycling and walking. In other countries, bailout packages for industries seek to impose conditions to force innovation and investment – such as adapting the car industry to low emissions &c (the Detroit package at least attempted to do this). Accelerated investment in broadband is another dimension in many places, with the potential for governments to take ownership along with private investors in national broadband companies to stimulate investment.³²

An important area for future recovery packages will be old age support: there is no doubt that this field will require radical innovation in housing, finance and care and that most societies have failed to prepare adequately for an ageing population. Systematic investment in new

kinds of housing model (for example, with clusters of homes and direct care provision), new kinds of service provision (with volunteers, home helps, concierges, and new uses of technology to support self-management and mutual, should be obvious candidates for support, yet this has been largely missing so far (the Young Foundation has various projects in action around old age, from Living Life to the Full in Manchester and Tyneside, to Health Incentives Company in Birmingham, supportmyparent.com and Friends Indeed). One major exception is the European Investment Bank which has launched several investment schemes for adapting buildings to ageing.

The UK has some national strategic frameworks which could guide future investment, for example, for carbon reduction, digital, telecommunications and network technologies and creative industries, which already make up a significant proportion of the UK economy (7.3%, which is comparable to the size of the financial services sector³³). But these haven't been closely linked to spending announcements, nor has there been any overt connection made to forecasts of future jobs growth.³⁴ Nor has there much attention to R&D funding which could be more aligned with recovery strategies. An example would be stepping up innovation in fields of R&D that are more labour intensive like for example around chronic healthcare, home based health, building materials, new transport technologies.

Entrepreneurship needs to be made a priority in all such funding schemes. Here there are good models to draw from in the past: Enterprise Allowances in the 1980s in the UK, or the recent South Korean scheme to fund 50% of the salary costs of 25,000 internships in small businesses; or the remarkable Argentinian scheme set up in the crisis earlier this decade to link thousands of displaced business executives with people starting up new enterprises.

Fully worked out future investment strategies need three elements to work in tandem:

- Support for the key infrastructures and platforms, if necessary with governments taking equity stakes if capital isn't forthcoming from other sources,

- Intensive support for innovation, across all sectors, with funds managed by specialist intermediaries in each sector,
- Support for rapid scaling and replication, which requires accreditation of proven models so that these can be quickly adopted, unlocking finance (e.g. from banks). Currently, few machineries exist to play this role (we address the question of machineries later on in this report).

The other critical long-term issue for countries like the UK and USA is how, once the recession is over, healthier habits of saving are restored. The current crisis has been exacerbated by excessive consumption and savings rates that had fallen to historically unprecedented lows, at the very time that ageing means that most people need to save much more.

7. Local solutions

The second big strand is localisation, mobilising local creativity and capacity. In the UK, most action so far has been national in origin and nature. In other countries, action has been mainly led by cities, states and provinces. This reflects greater powers, larger tax bases and more confidence. In October 2008 for example New York launched initiatives which included its largest ever capital infrastructure plan; plans for creating green jobs through building upgrades and incentives; policies to prevent foreclosures and outreach advocacy; buying and transforming distressed properties to create affordable housing; opening a network of financial empowerment centres and debt management awareness campaigns. Spain's national response to recession has also pushed money down to local government to play a leading role.

UK local authorities are also responding with a wide range of actions, though not on the same scale. Some simply want to keep taxes and costs down. Kensington and Chelsea's recent £50 tax rebate is a good example³⁵. Others are adopting measures to help cash-strapped citizens – for example Wakefield Council's initiative to agree monthly payments of council tax based on what people can afford and sending daily reminders to prevent arrears being built up unnoticed. The council's

Mortgage Assistance Scheme is also providing interest-free loans to pay off arrears as well as offering routes in debt counselling and taking a number of other measures.³⁶ Other examples include the investment of £100,000 by Islington Council into the Islington and City Credit Union³⁷ and Hammersmith & Fulham Council, which provided £25,000 to H & F Credit Union³⁸. East Sussex has encouraged its own employees to use credit union facilities. Similar schemes are being introduced for small firms – opening up credit lines, delaying repossessions. Both Birmingham and Essex are reported to be considering creating their own banks to fill the gap left by the high street banks. And many are boosting support for debt counselling,³⁹ alongside the rapid growth of grassroots equivalents (including the US examples Debtors Anonymous www.debtorsanonymous.org and Shopaholics Anonymous www.shopaholicsanonymous.org).

Localisation can be a natural response to the shrinking of the global economy – and has been in all past downturns. But national policies can promote localisation - through the design of capital programmes and funding streams to promote many small-scale initiatives rather than concentrating resources on big firms, big industries and big projects. The design conditions in national plans that favour localisation include low caps on spending amounts; ‘use-it-or-lose-it’ conditions to ensure rapid spending⁴⁰; and use of intermediaries to act as wholesalers for funding. Funding schemes can then be designed to favour transformation – scoring carbon reduction, health gain or educational gain highly, and thus combining the ‘future investment’ approach with localisation.

Other national rules can also aid localisation. For example, the Department for Work Pensions’ ‘Right to Bid’, which allows anyone to submit a proposal for funding a project or programme that meets the department’s objectives, is an interesting experiment (which began in January), which may, for example, unlock some intra-corporate training capacities, or creative proposals from local authorities for helping people back to work.⁴¹ These freedoms might be used to support some of the new ideas being considered in many areas such as adult apprenticeships in the public sector (being developed by the Young Foundation’s London Collaborative with a group of boroughs). Group apprenticeships are also being seen as an important option (for example

in Westminster, drawing on twenty years of Australian experience). Other schemes are aiming to improve job search and meet key skills gaps like the Young Foundation's Fastlaners programme for unemployed graduates.

In the medium term, all governments are likely to be pulled back into direct job creation and job guarantees. Labour market policies that emphasised job search remain relevant – but are likely to miss many of the unemployed during a period when jobs will be scarce. There is a long history of schemes of this kind, including in recent times programmes associated with the Priority Estates programme and a wide range of Intermediate Labour Market initiatives, often focused on tasks such as restoration of white goods. Internationally the Dutch Melkert Jobs were a particularly interesting example which evolved through several phases in the 1990s before being integrated into local government. Some have worked best as employers, others as deployers selling on labour to a range of firms but providing a base for training and support. The best of these have generated a double dividend. But many have had poor records in terms of mainstream employment, and many performed badly because they kept unemployed people too insulated from the rest of the labour market.

We advocate steadily expanding intermediate labour market (ILM) programmes - which aim to give those outside the labour market a route back to the world of work by improving their employability through paid work combined with training. Areas ripe for expansion include fields such as insulation, call centres, childcare, eldercare, food production and building maintenance. This can be done through a variety of routes including direct contracting for job creation (with rewards for distance travelled in employability); through enabling longer periods of work in which benefits are retained alongside top-ups from local authorities and others; flexing the 16 hour rule, for example for people being temporarily laid off from big employers, allowing useful activity in sectors of likely future jobs growth for more the current 6 weeks.

We would add three key elements to any such schemes for the UK in the near future – a ratio of at least 1:2 of employed to previously unemployed people in any projects or units; an emphasis wherever

possible on customer facing jobs being the priority (so as to prepare people for future service jobs); and an emphasis on adding in non-cognitive skills supports and resilience to improve the prospects for people succeeding in other jobs in the long-term. Rapid learning is also vital on the lessons to be learned internationally from schemes such as the German Work Integration Social Enterprises, Barka in Poland, Vates in Finland, Italy's Type B social cooperatives, and the UK's various social firms and ILMs (such as Wise and Glasgow Works in Scotland or the Furniture Resource Centre).

New schemes to create jobs can then tie into specific programmes as well as broader strategies. Specific programmes may include ones like the proposals developed by the London Collaborative for street-by-street retrofitting of housing. Strategic responses may draw on examples like the re-orientation of the city of Lille in France from dependence on textile industry to financial services⁴² during the last recession. The city was able to do so in part due to successful collaboration at a sub-regional level and with central government,⁴³ and helped many workers to retrain and adjust to new skills and jobs.

We also anticipate new attention to the ways in which regulation can support local action on recession. Regulatory rules for the private sector can speed the flow of funding to local initiatives. The US Community Reinvestment Act (CRA)⁴⁴, requires banks to meet the credit needs of low and moderate income neighbourhoods (and contrary to some claims played almost no part in the sub-prime fiasco). In the UK, the option of a CRA was successfully lobbied against by the banks in the 1990s but is bound to return to the agenda (and may be helped by new legislation on social responsibility⁴⁵) in response to a growing lobby for tougher requirements on banks to disclose lending patterns and ensure they meet the needs of poor communities, for example through mortgages which can adapt as earnings levels change. In the US, legislation in 1994 established the Community Development Financial Institutions Fund⁴⁶ which has helped develop the capacity of Community Development Corporations to provide credit, capital, and financial services to underserved populations and communities in the United States. Again, the UK could use the downturn to create a comparable network, building on the existing capacity of Development Trusts and other Community Development Finance Institutions.



These could be financed by existing investment funds. In the past the City lobbied hard against any requirements to back social investment on the grounds that they are too risky. Yet experience shows that while charities and social enterprises may grow more slowly than commercial businesses they also have lower failure rates. Simple adjustments to FSA rules enabling, or encouraging, small commitments to social and local investment as part of a balanced portfolio, would transform the investment climate for social projects; and so would encouragement from the Charity Commission for foundations to use more of their very substantial invested assets for mission-related investment.

Other examples of how creative local action could be encouraged include: Living Labs, which have been experimented with across Europe⁴⁷; innovation incubators - of the kind being set up in the Basque country, South Australia and Wales- and Community Infrastructure Levies to support strategic sub-regional development⁴⁸. Many places are attempting to promote creative ways of using the resources freed up by the market, including unemployed people, empty properties and assets. In the US the “Take Back The Land” (<http://www.takebacktheland.net>) campaign is making vacant foreclosed homes available to the homeless. MySociety’s recent initiative <http://reportemptyhomes.com/> is a good example of community action to make better use of wasted resources.

Other types of innovation are likely to be needed to make the most of local capacities. We are working on possible ‘fast colleges’ which would accelerate training for key roles which are likely to expand during an upswing – childcare, health trainers, street concierges, young street guardians, health coaches, carers. One option being considered would turn over empty high street premises to become training centres, potentially staffed by groups of graduates, with networks to make the most of combinations of face to face learning and on-line learning.

New financing tools will also be needed to fund creative solutions – particularly as public spending is squeezed in 2010 and beyond. The Young Foundation has been working with Social Finance to develop Social Impact Bonds to improve the alignment of incentives between

agencies and outcomes, and these could be potential vehicles for pushing forward responses to the downturn.⁴⁹

The fall in property prices provides the opportunity for creative use of properties, ensuring that assets are used rather than removed from the market temporarily, as well as acquiring land for public or community use like on the model of Coin Street, which was given to community ownership in the recession of the early 1980s⁵⁰. For example, strengthening penalties for holding buildings vacant and opening them up for sweat equity by start ups and SMEs (i.e. equity shares for refurbishment, decoration etc), thus offering essentially free premises for SMEs and the self-employed, including in residential property.⁵¹ The Asset Transfer Trust⁵², also has the potential to play an important role. Furthermore, there is scope to build up of public sector landbanks as the property market continues to fall.

A further opportunity exists around private gyms that are likely to face difficulties in the downturn to open them up for wider community use as community health gyms, with new roles for health and exercise coaches, new services such as beauty treatments provided by supervised apprentices. Additional incentives to give time as a gym warden or coach could be provided through time banking or slivers of time, possibly using the model developed by SPICE which operates around an institution and has been successful in significantly raising volunteering levels in Housing Associations where it has operated.⁵³ The Young Foundation/Birmingham East and North Health Incentives Company provides another model which could be linked into gyms of this kind, providing points through a personalised card.

Clever use of resources can also help spark new collaborative networks at a very local level. The Help a London Park⁵⁴ initiative – in which Londoners can vote online or by text for which park they want to receive up to £400,000 for improvements – has sparked activity across London with supporters of parks setting up Facebook groups (for example the “Vote for Bunny Park” group on Facebook had 1,293 members on 23 January 2009⁵⁵) and leafleting locally in support of their park.

Whilst the recession presents a threat to social cohesion, it also provides an opportunity to build greater engagement in civic and democratic institutions. At a local authority or ward level, Civic Action Forums could bring together residents, local workers, business owners, people involved in local voluntary or faith groups, school governors, councillors and Members of Parliament to work on local responses to the recession.⁵⁶ These might use small grants to develop practical projects (e.g. for volunteers or involving the reuse of buildings among others) and to address risks, such as civil unrest and conflict, for example through Neighbourhood Taskforces⁵⁷, which the Young Foundation has piloted in Haringey and Tower Hamlets⁵⁸ that bring together groups of residents and service providers to deal with conflicts.

To mobilise public engagement we need more funded websites ('pledgesquads') encouraging people to promote ideas for beating the recession; allowing others to comment and adapt; encouraging volunteers to pledge time (subject to others pledging); and encouraging funders to do the same. With help from social networking technologies it is now much easier to mobilise collective intelligence, as well as the resources being discarded by the market. The many programmes underway to grow local leaders, such as London Citizens and the Young Foundation's Uprising programme, can support the animators of new ideas of this kind, helped by new platforms such as Hophive which aims to help people engage in their local community (<http://www.hophive.com/>) or Take Part.⁵⁹

Many employers are encouraging employees to reduce their hours (e.g. offering four-day weeks) with proportionate cuts in pay, hoping to retain staff and skills and be better prepared for an upturn. Past recessions brought many innovations of this kind (VW in Germany in the 1980s, 'Rae' days in Ontario in the 1990s among others). Germany has long had the 'kurzarbeit' scheme under which firms can reduce hours during downturns with the state paying around 60% of wage costs.

The UK government has introduced a right to request flexible working for parents with children aged under 6, and this right is due to be extended in April 2009 to parents of children aged under 16. The time

freed up is likely to be used for leisure and family, but also for new kinds of volunteering. We know that volunteering can be vital to preserving self-respect when people lose their jobs, and the government is right to be investing extra resources into the field. We should also expect freed up time to be used for business and entrepreneurship. The internet has brought with it not only the rise of Amazon and lastminute.com but the growth of thousands of micro-businesses specialising in all manner of goods and services. An increasing number of people already supplement, develop or replace their past income generation streams with new businesses facilitated by the network economy. Many use enabling platforms such as eBay, Facebook, MySpace to connect with customers and collaborators.

8. Insulating people from recession

A third set of more radical strategies aim to insulate people from the globalised money economy. These include strategies around local food production, localised energy ownership models (as in Denmark), and a wide range of mutual support, volunteering, time banks, Local Exchange Trading Systems and parallel currencies which allow people to buy and sell time, or goods, without using pounds and Euros. These are generally used to exchange such things as childcare hours, food and maintenance jobs. There is a long history of creativity around parallel currencies, from the Worgl to scrips, often accelerated by recession.⁶⁰ Germany has a particularly developed set of parallel currencies which have thrived despite the suspicion of central banks and governments. As the cash economy retreats, it makes sense to create new circuits of exchange, from the very informal ones of friends and family to the more formal routes provided by parallel currencies. Some strategies for insulation, including trade protection, can be counter-productive. But measures which can create sustainable circuits of production and consumption without damaging others are worthwhile, particularly if the recession is long. These are some of the other 'insulating' measures being adopted:

- **Localised food supplies** – the urban agriculture movement is spreading fast with individuals from Melbourne to Seattle⁶¹ spending time tending community gardens and selling produce at local farmers markets (e.g. New York's floating farm in the



Hudson river). In Valencia, food coops allow urban consumers to oversee fields via webcams. In London, Capital Growth is one example of a project working to increase the number of allotments available⁶².

- **Localised energy** - has become a priority for many cities, partly in response to volatile energy prices, with localised energy technologies such as Combined Heat and Power (CHP), taking the opportunity provided by falling land prices in particular.
- **LETS and time banking** - support for complementary currencies, such as LETS (<http://www.letslinkuk.org/>) could help insulate communities from the effects of the recession. Time banking also allows people to exchange local skills and could be an important way of maintaining care and fostering mutual support in economies affected by the recession (<http://www.timebanking.org/>). Another approach is Slivers of Time, active in East London.
- **Promoting new forms of banking that bypass the traditional institutions** – attention is already returning to traditions of mutual and cooperative finance, and the potential role of more localised banks. Sweden is one model – which during a previous recession sharply differentiated its national and international commodity banks from potentially more resilient local ones. The internet is also supporting new kinds of financial relationship that could become preferable alternatives, such as Kiva and Zopa (platforms which allow people to lend direct rather than through banks)⁶³.

9. New machineries – recovery units and cross-sector war-rooms

Crises require crisis structures. If the recession is as deep as now appears likely, governments need to respond with mechanisms more like those used in wartime or pandemics. In the past, governments have had to innovate radically new machineries to cope with severe recessions, just as they had to do so in times of war. Some are now doing the same. Australia, for example, has opted for a structure with



coordinators-general in every state linked in a tight command structure to oversee spending and ensure that it happens fast.

We advocate new central capacities at both national and local authority levels, bringing together the key sectors, with the ability to act decisively and to know what is happening. They need something of the spirit of a war-room, and to be able to act in different registers, from highly directive to enabling. These recovery units require:

- First, fast shared **intelligence** that combines formal, informal, quantitative and qualitative intelligence - for example, on what's happening in different sectors or regions. Government, and citizens, need real time data on the dynamics of downturn, from the state of banks' balance sheets and lending to credit flows to sectors, patterns of business failures, impacts on investment, development, regional and local effects, house prices etc. This needs to combine formal data, perceptions, ground level intelligence, clear views on leading indicators, and new ways of handling data - for example, learning some of the lessons from Googleflu which has shown how monitoring web searches can be a faster indicator of problems than official tracking. Governments also need quick learning from other countries (e.g. via embassies) on what's being tried and what is working, again with this made available in real time to others, from local government to foundations. The US Intellipedia site, used by 16 intelligence agencies to collate and share intelligence in real time (with over 30,000 entries and constant updating on a Wikipedia like site), is one possible model for handling this kind of complex, messy data – and there is scope for a more open approach to economic data than is possible around security.
- Second, teams to design **actions** that combine generalist skills with ground level experience of SMEs, capital projects etc – something that remains remarkably missing in most governments. These teams need to be able to analyse the normal flow of regulation and law to block job destroying measures, and to shape future actions with a sharper focus on strategic impact. They should combine all the main sectors – voluntary as well as business – in both design and implementation.
- Third, the ability to coordinate **communication** – not just because messages are vital to rebuilding confidence, but also because when



things go wrong, the risks of departments and agencies engaging in blame shifts are high. One example is the risk of rumours and miscommunications leading to riots, as happened in Birmingham two years ago, and across the north-west at the beginning of the decade.

Along with the characteristics described above, recovery units of this kind need to work with some of the style of past units like the Rough Sleepers Unit or the Delivery Unit: seconding in people from the different sectors likely to be at the forefront of the crisis; focussing on a small number of time-limited projects such as, for example, overdrafts and SMEs, retrofitting and social housing, fast-tracking public buildings refurbishment; problem-solving as much as policy-making; using all the tools of government from regulation and legislation to funding; and sometimes working in formal partnership with others, from businesses to foundations.

In parallel, work also needs to be done to address some of the medium term issues already coming to the fore from recession responses:

- Simpler rules on purchasing and commissioning, and streamlining of planning and other decisions needed around public works;
- The need for a different style of auditing to reflect the better risk management strategies that governments need to adopt to promote innovation;
- The need for tough competition policies to ensure that tendencies to monopoly and cartels – which commonly appear when governments respond to recessions – are held in check.

Finally, to build confidence communication needs to be two ways, not one way. In America, Barack Obama used <http://change.gov/> to open up channels of communication between the Office of the President-elect and citizenry during the period of transition to government. *The Citizen Briefing Book* allowed citizens to give their ideas for tackling the issues facing the Obama administration. This met with an overwhelmingly positive response - 125,000 users submitted over 44,000 ideas and cast over 1.4 million votes; and the best rated ideas were presented to

President Obama after he was sworn-in. *Seat At The Table* allowed users to track the meetings that the Obama-Biden Transition Team held, view documents provided to the team and leave comments. Australia's 2020 summit also showed how the public could be engaged in big, difficult long-term issues.⁶⁴

Closer to home, Camden Council carried out a similar process by hosting open meetings in individual wards as part of the consultation process on its Community Strategy, and many places are now learning how to integrate public engagement of this kind with the major social networking sites (e.g. Facebook and MySpace). Approaches of this kind may scare governments. But the question is how the fears, anxieties and stress resulting from the recession can best be channelled rather than whether they will occur.⁶⁵

10. Preparing for the “budget crunch”

Regardless of the impact of the fiscal stimulus in the UK over the coming year, it is likely that public spending will be severely squeezed in 2010/11. Even the official forecasts anticipate the end of real growth. Most expect much sharper cuts, with these being exacerbated by recent moves to bring spending forward. These are bound to lead to more acute tensions between national and local government. Attention is fast turning to how cuts will be done, and whether these will contribute to transformation, localisation and insulation or the opposite.

Governments have many familiar ways to handle periods of retrenchment and cuts:

- classic targets for incremental reductions, with all their well-known limits (such as across the board percentage cuts for discretionary spending);
- freezes on spending, recruitment or headcounts – which are crude, but sometimes effective so long as they remain short-term;
- savings that can be achieved through shifting regulation and inspection to risk based approaches as opposed to across the board approaches;



- contestability – which in the right circumstances can drive down costs 10%+, though not in the short-term.

There are also more creative methods such as imposing larger reductions and claw-back with incentives – in some cases, these can be highly effective in bringing forward more creative solutions, but they require strong oversight to prevent gaming (which usually takes the form of proposing cuts to the most politically sensitive programmes). There are methods for redesigning and streamlining services (whether top down or bottom up) – for example, as the Pensions Service has done using its visits to peoples' homes to handle issues for many other agencies. There are many ways of reshaping incentives - incentives for keeping proportions of capital and revenue savings – which are reasonably well proven. These have generally been used between national treasuries and national departments but can also apply to localities. For example, Kent County Council proposed variants of this for support for incapacity benefit.

Amidst all of these measures the critical issue is to preserve what's truly valuable. During the recession of the 1980s huge damage was done to Britain's social infrastructures through ill-considered cuts – and many would argue that taxpayers are still paying the price in the form of higher than necessary levels of crime, unemployment and mental ill-health. At the Young Foundation, we are pursuing new financing options that improve the alignments between central and local agencies, encouraging the latter to take actions which will lead to savings for central government on prison numbers, benefits spending or acute hospital incidents. Social Impact Bonds are one variant of these, developed with Social Finance, and many others are conceivable. As resources become scarcer the need for new tools of this kind will become ever more pressing.

11. Conclusion

In this initial paper we have set out an analysis and a few illustrative examples. There are many other ways of turning even the most severe crisis into an opportunity. Over the coming months we aim to gather

and share other examples, and lessons from implementation. Our key argument is that:

- strategies need to move from the tactical – coping with the intense immediate threats – to the strategic. That has to involve introducing a clear bias towards investing in the future, and supporting areas of potential jobs growth, which are likely to include ones where the public sector and third sectors are heavily involved – health, care, education, environment – and where the boundaries of the social and economic blur. The traditional perspectives of industry departments are ill suited to what needs to be done.
- if large sums of public money are to be invested, they should be invested in innovating better solutions to the problems we will face no matter what, from ageing to climate change.
- strategies need to support fast, small scale, entrepreneurial projects and not be monopolised by big organisations. The ‘too big to fail’ may also turn out to be ‘too big to succeed’.
- strategies need to prepare for a long and deep recession which will require radically different policies, from direct job creation to support for exchange networks that enable people to share time, skills and assets.
- every city and nation needs to become better at learning. The whole world is experimenting in real time in an uncertain and frightening environment. We need much quicker ways to exchange lessons. The OECD is pooling national recovery plans - but bottom up networks are also needed. The Social Innovation Exchange (SIX) – the global network hosted by the Young Foundation – is one example.

Seen in the long view, the key question for governments and for societies will be whether they can ‘accelerate into the curve’ – using the downturn to speed up the adoption of new processes and industries. Recessions tend to be a time when social innovation is both needed and, arguably, more possible. Crises shouldn’t be wasted. But too many of

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the actions being taken now are looking backwards, not forwards,
fixing the past rather than fixing the future.



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⁵¹ The Community Empowerment, Housing and Economic Regeneration Bill contains provisions "to ensure councils consider the sale or transfer of under-used properties, lands or parks to local community groups, co-ops and social enterprises. So a disused shopping or community centre could be handed over to local people to ensure publicly owned assets properly benefit local people rather than just being left redundant", but this could be taken further to help these groups get up and running where necessary and deal with other public properties being sold (e.g. properties being sold by the NHS). Communities and Local Government (15 May 2008) "Three new rights to right local wrongs - new Community Empowerment Bill to harness petition power". Available at <http://www.communities.gov.uk/news/corporate/804997> (Accessed 13 February 2009)

⁵² Information about the Asset Transfer Unit is available at <http://www.atu.org.uk/>

⁵³ New Economics Foundation (2008) "Case Study 4: Building a resident-led housing association – Taff Housing Association in Cardiff" in *The new wealth of time: How timebanking helps people build better public services*. More information about SPICE is available here: <http://www.justaddspice.org/>

⁵⁴ More information about 'Help a London Park' is available here: <http://www.london.gov.uk/parksvote/>



- ⁵⁵ The 'Vote for the Bunny Park' Facebook group is available here:
<http://www.facebook.com/group.php?sid=0&gid=47927436339>
- ⁵⁶ Recent legislation can help this sort of approach. <http://www.nlgn.org.uk/public/press-releases/sustainable-communities-act-the-key-that-finally-unlocks-real-local-potential/>
- ⁵⁷ Savage V and Bartlett L (2008) *Neighbourhood Taskforces: A tool for dealing with conflict in communities* The Young Foundation Available at
http://www.youngfoundation.org.uk/files/images/neighbourhood_taskforces_web.pdf.
- ⁵⁸ Savage V and Bartlett L (2008) *Neighbourhood Taskforces: A tool for dealing with conflict in communities*. The Young Foundation Available at
http://www.youngfoundation.org.uk/files/images/neighbourhood_taskforces_web.pdf
(Accessed 13 February 2009).
- ⁵⁹ Communities and Local Government (2008) *Communities in Control: real people, real power*. Available at
<http://www.communities.gov.uk/publications/communities/communitiesincontrol>
- ⁶⁰ See the work of Geoff Mulgan and Robin Murray on twin economies in the mid-1990s, published by Demos.
- ⁶¹ More information about the P-Patch Trust in Seattle is available at
<http://www.ppatchtrust.org/> and <http://www.seattle.gov/neighborhoods/ppatch/>
- ⁶² More information about Capital Growth is available at
<http://www.capitalgrowth.org/home/>
- ⁶³ More information about Zopa is available at: <http://uk.zopa.com/ZopaWeb/>.
- ⁶⁴ More information about Australia 2020 is available at <http://www.australia2020.gov.au>.
- ⁶⁵ Lam A (17 December 2008) "Letter From Athens: Greek Riots and the News Media in the Age of Twitter" *AlterNet*. Available at
http://www.alternet.org/mediaculture/113389/letter_from_athens_greek_riots_and_the_news_media_in_the_age_of_twitter/ (Accessed 13 February 2009)

