

CITIES IN TIMES OF CRISIS

THE RESPONSE OF LOCAL GOVERNMENTS IN LIGHT OF THE GLOBAL ECONOMIC CRISIS: THE ROLE OF THE FORMATION OF HUMAN CAPITAL, URBAN INNOVATION AND STRATEGIC PLANNING

by

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Presentation

This Working Paper is part of the research I began working on during the final months of 2008. It came about after the first significant economic world crisis of the 21st Century, as I set out to learn about the responses from Mexican cities to the economic breakdown. Its main intent is to incorporate an international comparative perspective into my research on the Mexican case, and to strengthen its methodological and theoretical basis.

There are very few places in the world where one can find such an ideal location to undertake such research as the University of California at Berkeley is. This, thanks to the University's excellent academic body from all disciplines, where the World's true knowledge meets, in addition to its extraordinary libraries and electronic information services.

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Introduction

The global economic crisis, which began officially on September 15, 2008 due to the bankruptcy of the investment bankers Lehman Brothers, has spread throughout a wide-range group of countries and regions of the planet. It has penetrated rural areas and cities, has simultaneously taken over large metropolis and small urban centers, and has caused devastation in neighborhoods as well as in central districts. In short, it has spread over the most diverse geographies.

However, the devastating effect of this phenomenon differs considerably between large regions, countries, cities and neighborhoods, when a comparative analysis of the crisis particular effects is performed. In the case of urban localities –this study’s central theme– we can identify cities whose main macroeconomic indicators (employment, production, investment, consumption, public-sector spending) have suffered considerable deterioration. However, we see at the same time, that some urban localities have been capable mitigating the most adverse effects, and still others have acted well enough to get out of the crisis and have found a sustained path for growth.

There are many factors involved in such a variety of results and, although some of them are completely outside the control of the authorities in urban areas, others are related to their economic structure and financial situation, in addition to being related to the way that local governments have reacted to the crisis. One particular aspect is the form they have attenuated the most negative effects possible and, in some cases, have carried out actions seeking recovery in the medium and long term.

The participation of local governments in combating the crisis seems natural and uncontroversial. However, it is a relatively new and quite complex action which has led to questions been asked, such as: Are local governments endowed with the power, resources and capacity to develop and put in place anti-crisis plans and programs? Can their actions really be effective, can they make a difference and counteract the effects of the recession? Is it not a distraction to be thinking that local governments can “solve” the current situation when it is known that powerful forces are to be found in other places and that other more powerful economic and political actors are the ones that have the last say in this process?

Our point of view concurs with the idea that local governments should and can get involved actively and responsibly in combating the crisis but, at the same time, we understand that this intervention has its limits, and these should be identified. It is

a sphere of action that requires local government to have real and effective powers and capacities. Finally, the instruments that are going to be applied should be the right ones and should be designed to achieve precise and specific objectives.

In this study, we will review the main effects that the world economic crisis has had on cities in different regions around the planet; too, we seek to learn about the response of local governments to the crisis and make an initial evaluation of their effectiveness. In particular, we are interested in identifying those governments that are committed to policies forming human capital, urban innovation and strategic development planning.

This interest derives from what appears to be an important consideration, still subject to systematic and rigorous proof, that is, that the cities that have best responded to the challenge of the crisis are precisely those that have the best human capital, those that have invested the most in innovative urban projects and those that have a political-institutional leadership with a long-term outlook.

We do not seek to offer recipes or recommendations. Each city, with its own characteristics, resources and limitations, should generate its own response, be it individual or collective, to combat the crisis. However, we want to emphatically question the idea that local governments do not have the possibility of making significant contributions to combating the current recession. Thinking that the “crisis will soon be over,” that “it is not with my faculties and possibilities,” or that “someone else has to do the work,” will only aggravate the problems and put off recovery of growth. This particular historical climate marks a major moment of definition for local governments. To a good measure, the immediate future of each city will depend on what they do or fail to do at this time.

There are several reasons underlying the need to analyze the topics treated in this article: some of them of a theoretical and methodological nature, but the most important one being of a practical order: the crisis is still not over and we have to find the best way of combating it. In reality, despite the fact that the end of the same has officially been decreed, in truth, we are still quite far from having overcome it. In his testimony before the U.S. Congress on July 21, 2010, the Chairman of the Federal Reserve, Ben Bernanke, pointed out that the “economic outlook remains unusually uncertain.” On the other hand, the outlook for 2011 is for less growth than that recorded in 2010 (*The Economist*, *The World in 2011*). But, even if the march of the economy were to restart in a sustained manner in the medium term, the effects of the crisis, such as unemployment, insolvency, loss of housing and others will stay on for years.¹ This is the “new normality” with which we will have to live in the near future.

This is an opportune moment to review many commonly accepted theses, to review history and theory, and to put new hypotheses to the test. Perhaps these

¹ On the announcement made about the increase in unemployment rate that jumped from 9.6% to 9.8% in November of 2010, Ben Bernanke himself said “...It could be four, five years before we are back to a more normal unemployment rate. Somewhere in the vicinity of say five or six percent”. Interview with the FED Chairman Ben Bernanke in “60 Minutes”, with Scott Pelley. www.cbsnews.com/stories/2010/12/03/60minutes.

efforts may be of some use in orienting the action of citizens, companies and governments in combating the first great economic recession of the 21st Century.

I. HEURISTIC FRAMEWORK

This paper does not intend to undertake a deep and systematic theoretical exploration of what a crisis is. However, we must accept that a heuristic framework can be very useful in helping guide the particular research that one wants to work on. Therefore, I will quickly review the existing literature in this section and will submit an analogy on order to give the general heuristic principles which will be applied throughout the text.

The phenomena of economic crises have received a significant amount of attention within economic sciences. The Great Economic Depression of 1929 has been studied by renowned contemporary economists from different schools of thought. Some of the most outstanding research was carried by Galbraith (1954), by the Monetarism School represented by Friedman and Schwartz (1963), by the Austrian school represented by Murray Rothbard(1963), Ben Bernanke's research (2000), and research with a Neoclassic point or view from Cole and Ohanian (2007). On later crisis, there is a broad range of work of all sorts such as the work by Castells (1987), Eichengreen(2002),Harvey (1982,2010), and Kindleberger (1986), to name a few from a vast group of authors.

Much has been written on the current economic crisis. Thomas Bourke (2010) compiled, for the European University Institute, a bibliography of books that were published for the first time, as well a s smaller list of reprints between January 2008 and November 2010. The result is that 407 books have been printed in less than two years.

Now, in case this is not enough, we are facing a phenomena that has captured the attention of many historian, including Clavin (2000), Constatine (1983), Rauchway (2008), culture specialists such as Dickstein (2009), public policy analysts Stuart and Stack Jr., 2008), and many more pieces of work from just about all branches of social and humanistic knowledge.

In spite of such a large array of books, and I haven't even begun to touch the surface of academic articles, it is hard to find a more general theorization of the phenomenon, something along the lines of "A General Theory of Crisis" that groups different takes on the issue while it goes beyond sectorial approaches. The absence of such an approach is felt; especially when it comes to the subject we cover in this paper. Our interest is to explain the differential impact of the crisis on the territory and the contrasting responses by local governments.

Because we would like to have guiding principles for our work, ones with a more general and heuristic approach, what we have done is to aid ourselves of an

analogy to create some of the principles and questions that will guide our analysis.²

We will use an analogy from the field of Natural Disasters, specifically earthquakes. Obviously we are facing very different fields of knowledge and of phenomena (one being from earth sciences and the other one from social sciences). Their causes and effects reflect many differences (i.e. an earthquake may not be avoided in spite of the vast amount of scientific knowledge, but a crisis can be avoided, or at least lessened through actions and human intervention.) Yet, there are similarities too, as crisis and earthquakes are extraordinary events that are not part of our daily living, and their impacts have significant differences for which we may be more or less prepared.

The points described next represent some of the similarities between both phenomena. 1) The causes of phenomena (earthquakes and crisis) are structural and inherent to the system they will affect. One comes from tectonic plate dynamics which create energy subduction and release processes, and the other one comes from features belonging to the Capitalist system such as uncertainty, speculation and imbalance in different economic cycle phases. 2) We have the technical and scientific knowledge to know that they will occur. We know they can reach a certain degree of intensity and know they will have a given impact. We even know that they possess precursory phenomena which announce the proximity of the event, but we can't know for sure when or where they will occur. 3) Although they can have a broad radius of impact, their intensity depends on the proximity to the epicenter and on the form of wave dispersal. 4) Even though there are elements within the same range of affectation, they will suffer damage unequally, depending on their degree of vulnerability. 5) Even if the phenomenon's critical phase may last briefly, its destructive effects may be felt for a long term. 6) A history of past events is very important to identify patterns of recurrence, impact, and society response. 7) Although having records is important, no event is a repetition of any other. They are unique and have their own characteristics. 8) The mental representation and the memories we keep of the phenomena as a society and as individuals tends to diminish and to become erased with time. Those generations that did not live through such phenomena will tend to think that they are situations they will not be living through. 9) In spite of the destructive effect such events entail, there is always the opportunity to rebuild in order to decrease damages and vulnerability, helping us face future events in a better way.

Describing these heuristic principles or research paths is important for this investigation, since many authors have used either different or even opposing principles. I will not develop each one in this section, since that is not the purpose of this piece of work. We are not undergoing theoretical questioning, and these principles will appear in other sections.

² Holyoak and Thagard (1995), have identified three constraints that must be satisfied by a good analogy: 1) Similarity: The source of the analogy and the target must share some common properties; 2) Structure: Each element of the source domain should correspond to one element of the target domain, and there should be an overall correspondence in structure; 3) Purpose: the creation of analogies is guided by the problem-solver's goal. Analogies are not fixed forever.

In a recent interview (*The Macmillan Report*, 2009), economist John Roemer pointed out that an economic crisis brings with it a process of homogenization of risk and loss of wealth among the population. My point of view is just the contrary: a crisis exacerbates differences and produces heterogeneity among the population and within the territory. The difference in reactions depends on the place that they have within the crisis map, and on their own internal conditions, to wit, on their degree of vulnerability.

Another example can be drawn from one of the most recurring subjects on the history of crisis: the denial or the reluctance to accept that they can happen again. Such a reaction has been analyzed and criticized by Reinhart and Rogoff (2008), in one of the most comprehensive books ever written on crisis in recent times. Authors state that:

“The essence of the ‘this-time-is-different’ syndrome is simple. It is rooted in the firmly held belief that financial crisis are things that happen to other people in other countries at other times; crisis do not happen to us, here and now. We are doing things better, we are smarter, we have learned from past mistakes. The old rules of valuation no longer apply. Unfortunately, a highly leveraged economy can unwittingly be sitting with its back at the edge of a financial cliff for many years before chance and circumstance provoke a crisis of confidence that pushes it off” (p. 1).

Reinhart and Rogoff worked exhaustively to document crisis in China and during Medieval times in Europe from times reaching as far back as the 12th Century. But they specifically worked on crisis from the 1800’s onwards attempting to identify how many have occurred, to locate their epicenter or place or origin, and define their nature. Of the book’s multiple contributions, one includes finding the common elements between different types of economic crisis, in addition to recognizing the fact that each one has its very own special physiognomy. One of their conclusions is that the 2008 crisis, which they called “Second Grand Contraction,” is a Financial Global Crisis with the following components: 1) One or more global financial centers are mired in a systemic (or severe) crisis of one form or another; 2) The crisis involves two or more distinct regions; 3) The number of countries in crisis in each region is three or greater.

We will apply some of the trains in the following sections from the analogy we have presented.

II. THE UNEQUAL EFFECT OF ECONOMIC CRISES ON TERRITORIES AND CITIES

When an economic crisis takes place, be it national, regional or global, its effect on the territory tends to be uneven. The history itself of crises in the 20th century provides us with important evidence in the sense that its effects are felt differently in the territory. For example, in the case of the crisis of 1929, its impact spread to the entire world. However, some countries resulted much more affected than others, both because of the depth and the duration reached by it.

We have a group of countries that resulted more strongly affected, such as the United States of America, Canada, Germany, Holland, Australia, Poland and Austria

(Clavin, 2000). These nations underwent unemployment rates greater than 30%, plummeting industrial and raw-material production, massive bankruptcies, and a million persons without housing. In Latin America, all countries were hard hit, especially those depending strongly on exports of raw materials and agricultural products. However, unemployment never reached the proportions it did in the case of more developed countries, since it was a question of a fundamentally rural region. Industry had a presence that was little significant within the economic structure (Urquidi, 2005).

In other countries such as Great Britain, France, Poland and Czechoslovakia, although the crisis hit hard initially, economic recovery began earlier. In Japan, after the initial sharp drop, recovery began and, by 1933, the country was out of the depression, undergoing strong industrial growth, as is shown by Eichengreen and O'Rourke (2010).

Within countries themselves, the crisis hit differently in regions and cities. While average unemployment in the US for 1933 was 25%, in the cities of Cleveland and Toledo (Ohio), rates of 60% and 80%, respectively, were reported. Old industrial centers such as Pittsburg and Gary (steel), and Detroit (automobiles), as well as cities and small localities closely associated with mining fields, railway centers and small industrial plants, underwent more significant drops than other cities in the country.

The work of Rauchway (2008) shows that, during the Great Depression in the US, conditions in some agricultural regions were much more severe than in others (also for climatic and environmental factors that aggravated conditions) and this led to major migrations toward regions and cities with better conditions for survival.

In Canada, the most affected cities were the heavy-industry centers of southern Ontario and the manufacturing provinces of Toronto, Tulbury and Windsor. In Ontario, unemployment reached 45%. In England, average unemployment rates were 20-25%. However, the internal differences were major, as can be seen in the work of Constantine (1983). In the localities and cities linked to heavy industry, textiles, shipyards and coal (Yorkshire, Sheffield, Lancashire), unemployment levels were higher than in other regions. In the Northeast of England, unemployment reached 70%. In less industrialized parts (the Midlands), in the South and in the Greater London area, the effects were less severe.

After the Second World War, a large number of countries underwent a long period of unprecedented economic expansion and that led to shift attention to questions related to growth, one of the concerns being to explain why different regions had at different rates of growth (Richardson, 1969). Perhaps, because of this reality, the topic of unequal impact from the crisis remained quite forgotten.

The decade of the seventies, however, marked the beginning of economic problems in several regions of the world, opening the way for crisis in some countries. As David Harvey (2010) points out, ever since 1973, the world has known hundreds

of financial crises, compared to the few that were recorded between 1945 and 1973.

In some industrialized countries, they began to undergo sharp economic contraction tied fundamentally to the process of de-industrialization, while in other countries (particularly, Latin America), the appearance of crisis was tied fundamentally to the incapacity to pay their huge foreign debts, to sudden devaluations, and to galloping inflation (Reinhart and Rogoff, 2009).

The crisis that hit some developed countries attracted the attention of researchers interested in delving further into the differential impact of this phenomenon within the countries affected. In 1980, Frank Stilwell published a book in which he analyzes the impact of the crisis on Australia, showing the existence of marked differences in unemployment rates in cities and also in the interior of the same. While average unemployment in Sydney reached 5.4%, the suburbs in the North of that city did not exceed 2% and, in other areas of the city, went beyond 7% and, in still others, exceeded 10%.

In the 1980's, many countries in Latin America, Africa and, to a lesser degree, Asia underwent a crisis of insolvency in debt payment, devaluations and high inflation. In 1997-1998, Southeast Asia, Russia, Ukraine, Colombia and Brazil were affected by a crisis in their banking systems. However, at the same time some regions and countries recorded severe crises, in other places, economic growth has continued accelerating. Once again, emphasis was placed more on growth and on its inequalities.

It is not until the global crisis of 2008 when, once again, attention was placed on the unequal effects on the territory in eras of economic contraction, the topic we deal with below.

III. THE IMPACT OF THE CRISIS OF 2008 ON CITIES

Undoubtedly, the current crisis shares many similarities with the Great Depression of 1929 and with later events; yet the differences are also quite significant. Many are directly related to the fact that since 1929 the world has changed considerably from the economic, technical, and demographic point of view. One of those changes is the planet's urbanization. Today, more than half of the 6.8 billion inhabitants live in cities; 40 mega/regions concentrate 18% of the world's population where 66% of the economic activity is found, and where 85% of scientific and technical innovation are created (UNITED NATIONS, 2010).

Just for the sake of providing a national example, when the 1929 cataclysm occurred, Mexico had approximately 16.5 million inhabitants; 82.8% of them lived in the countryside. Preliminary 2010 census information shows that Mexico today has 112.3 inhabitants, and 77% of them live in urban locations; 41.2 million live in 11 metropolitan areas where the most of the country's production, wealth, investment, culture and power is concentrated.

Undoubtedly, the prosperity of countries depends largely on their cities' capacity to generate wealth, increase productivity, and to be the driver behind innovation. It too is clear that cities are the origin and the epicenter of a crisis that will manifest itself in the most virulent and persistent form.

Not surprisingly, from the beginnings of 2009 to date, a variety of research has appeared in which the impact of the crisis on cities has been analyzed. Some tackle sectorial aspects such as the real-estate market (Rodriguez Lopez, J., 2010), the phenomenon of housing foreclosures (Davis, 2010), or the financial debacle of urban areas (Paulais, 2009), (Heuton, 2010). Others have centered on the economic and social impact of the crisis in English cities (Lee, Morris and Jones, 2009), U.S. cities like Florida (2009) and (Glaeser, 2009). Still others have sought to analyze the response of local governments in light of the economic disaster, such as Clark (2009), Soto (2010) and Perlo, Paredes and Gonzalez (2009) and, finally, some have been interested in finding out about the relationship of the phenomenon to the structural dynamics of the capitalist system (Harvey, 2010)

In addition to this work, ever since 2009, a series of surveys and case studies have been carried out, ordered by international organizations (Clark, OECD, 2009), international associations and national local governments (UCLG, 2009), (CEMR, 2009), (The United States Conference of Mayors, 2010), and private research institutions (URBACT, 2009 and 2010), (Lee, Morris and Jones, OECD-LEED, 2009), (Wial and Shearer, Brookings, 2010), which offer material of enormous value in bringing together a wide view, fundamentally of a descriptive nature, revolving around the effects that the crisis has had on cities and the response that local governments have given.

We have decided to base ourselves on all the information mentioned before to generate a wide-ranging and extremely summarized view of the most outstanding impacts undergone by a large number of cities in different parts of the world due to the crisis.

1. The majority of the surveys of cities report severe and varied negative impact from the crisis.

All the surveys and studies show the depth and range that the great economic contraction of 2008 has had on the lives of the cities. Its negative impact and its damages are only comparable, notwithstanding their enormous quantitative and qualitative differences, to the Great Depression of 1929.

Economic life. The survey done by the URBACT program titled *Cities and the Economic Crisis* (2010), which encompasses 131 cities in the 25 member countries making up the OECD, found that 80% of the cities that responded to the survey felt a greater impact on its economic activities, which applied both to large transnational companies as well as to small and medium-sized companies.

The effects have very diversified manifestations such as the closing and bankruptcy of many companies, the slowdown in economic activity in all its branches, a decrease in investment, restriction of loans, reticence of companies to

take risks in times of uncertainty, decrease in the number of new start-ups and a decline in exports.

Unemployment and underemployment. One generalized conclusion between the different surveys and analyses is that, although the crisis manifested itself negatively in economic, social, political and other aspects, the most serious and worrisome are those linked to unemployment.

The URBACT (2010) survey found that 80% of the cities surveyed reported a rise in unemployment, both in the private sector as well as in the public. Likewise, the OECD survey (Clark, 2009) concluded that, of all the impacts, unemployment and job loss has been the most widespread up until now. Only 12 of the 41 urban economies analyzed did not report this as its main problem.

In some cities of the less developed countries, it is an even more serious problem because, to unemployment, has to be added the large number of persons that are underemployed or working in the informal sector. For example, in Mexico, while open unemployment in the 32 most important urban areas of the country reached 6.6% of EAP in the month of September, the national underemployment rate was 8.5% during the third quarter of the same year. Unemployment in several cities reached very high levels, such as in Guadalajara, Saltillo and Tlaxcala-Apizaco where rates reached del 11.08%; 14.9% and 201.%, respectively (INEGI, 2010).

Urban poverty. In many of the surveys and studies, it is clear that poverty, with different degrees and expressions, has grown visibly and notoriously. The URBACT (2010) survey points out that the situation has contributed to the appearance of different forms of poverty and that the increase in the number of persons requesting food assistance, clothing and a place to sleep is alarming. In the city of Vilna, in Lithuania, for example, the number of applicants from support from the soup kitchens increased 6.5 times in one year: 800 in 2008 and 5,234 in 2009. It also points out that, in many Spanish cities, early manifestations of social exclusion and poverty have been reported from the beginning of the crisis.

Housing foreclosures. This is a widespread topic in many countries (Spain, Ireland) and cities, but has been manifested strongest in some metropolitan areas of the United States of America. According to Morris David (2010), while, in a lapse of 27 years (comprising between 1979 and 2006), 7.5 million foreclosures occurred. In just three years (2006-2009), there were 6 million. According to the firm RealtyTrac, Inc. (2010), between January and June 2010, the number rose to 1.7 million and it is expected that, by years-end, it will reach another million.

The highest index of foreclosures occurs precisely in those states and cities in which unemployment shows the highest rates and where the price of housing has plummeted (giving rise to the value of the mortgage being greater than that of the property). Cities showing the highest rates, quite above the national average for the U.S., are: Detroit (5 times more than the national average), Las Vegas (4.6 times), Riverside (3.8), Sacramento (3.8), Atlanta (3.3), Denver (3.2), Dallas (2.6) and Miami (2.6).

Financial crises of local governments. According to the survey of the organization United Cities and Local Governments (UCLG), the impact of the global crisis on local governments (2009), one of the major consequences of the world fiscal crisis, has led to a serious deterioration of the fiscal situation of many local governments around the world. To the degree that revenues decreased thanks to the slowdown in economic activity, the reduction of the fiscal value of property and the simultaneous increase in expenditures to face social demands, many cities have found themselves in what some analysts call the worst “fiscal crunch” in decades. Even some municipal governments lost the major assets that they had invested in risk funds and banks that collapsed during the crisis.

The municipal associations of European countries indicated that 61% of those surveyed saw a drop in their own revenues and 55% responded that they also received fewer transfers from upper levels of government, especially from the central government. In Japan, the city of Tokyo underwent, in 2009, the largest cut of any metropolitan government in the world.

2. Not all economic sectors within the cities have been equally affected.

On this topic, there are different points of view. The OECD survey (Clark, 2009) found that the two most widespread impacts locally are the drop in the real-estate market and construction. However, some localities reported that the financial restrictions of the local governments had the most negative impact (Clark, 2009).

Another point of view presented by the survey done by URBACT (2010), in which is concluded that, although cities reported that the construction sector turned out to be the most affected in terms of closing down companies and bankruptcies, it is in the industrial/manufacturing sector in which the greatest loss of employment was recorded. In his opinion, this discrepancy may be explained by the fact that the construction sector uses many workers coming from the informal market that does not show up in official statistics.

In those cities where local finances have undergone a sharp drop and in which has been opted to make major spending cuts, the public sector has been strongly affected (Riga in Latvia, Antwerp in Belgium).

3. Within a single country, there are cities presenting quite varied situations.

The information we have of European cities in the current crisis likewise indicates the considerable difference between cities in the area of unemployment. The survey carried out by URBACT (2010) found that, as a consequence of the economic recession, the unemployment rate went up in 80% of the cities that responded to the surveys, although, in some cities, no increase was recorded and, in others, it went down.

Very high unemployment rates were found in the cities of Valencia, Tallin, including in the city of Czestochowa, located in Poland, a country that recorded less

impact compared to others, where high rates were recorded. In contrast, Warsaw only recorded a small increase in unemployment due to a slowdown in manufacturing activity, construction and real-estate, since, at the same time, the number of persons working in commerce, travel industry and food services increased. In 2009 in Berlin, the number of unemployed grew only 1.4%, while, in Munich, it remained stable. In some cities, unemployment even went down. This was the case of Leipzig which, from 2008 to 2009, went from 15.5% to 14.8%, and Halle, whose absolute number of unemployed went down in these same years, going from 17,444 to 15,967.

The importance of the differences in the levels of unemployment can be illustrated centering attention on the evolution of unemployment rates in a grouping of cities of the United States of America and of Mexico before the crisis and up until the second half of 2010. In the following charts, we can see, in both countries, which cities taken into consideration maintained major differences in unemployment levels, but, due to the crisis, those differences have grown.

Chart 1. Evolution of Unemployment Rates in 10 Metropolitan Areas of the U.S.A.

2007-2010*				
Metropolitan Area	2007	2008	2009	2010 *
Minneapolis	4.3	5.1	7.8	6.7
Oklahoma	4.1	3.7	5.9	6
Austin	3.7	4.4	6.9	6.8
Houston	4.3	4.9	7.6	8.2
New York	4.4	5.2	8.8	8.5
Chicago	4.9	6.2	10	9.4
Los Angeles	4.8	6.9	10.9	11.8
Miami	4.1	6.1	10.2	12.1
Riverside	5.8	8.2	13.3	14.8
Las Vegas	4.8	6.7	12	15

Source: United States Department of Labor. Bureau of Labor Statistics. Unemployment rates for Large Metropolitan Areas, 2007-2010. 2010 Not seasonally Adjusted

*** Corresponds to September of 2010.**

Chart 2. Evolution of Unemployment Rates in 10 Metropolitan areas of Mexico.

2007-2010*				
Metropolitan Area	2007	2008	2009	2010*
Campeche	2.3	2.1	2.9	3.2
Acapulco	2.4	2.3	3.9	3.4
Morelia	3.8	3.9	4.7	3.9
Colima	3.3	3.4	4.4	4.1
Toluca	3.3	3.6	5.1	4.3
Guadalajara	3.7	3.8	5.9	6.2
Mexico	6	5.8	7.3	6.4
Monterrey	4.8	4.7	7.6	7.5
Chihuahua	4.3	5.3	7.8	7.7
Saltillo	6.5	6.4	9.5	8.7

Source: Own elaboration based on the *Encuesta Nacional de Ocupación y Empleo*, INEGI, 2007 a 2010

*** Corresponds to the 1Q of 2010).**

In the U.S., the crisis increased unemployment levels in all cities, but, in some of them, the increase was much more considerable. When comparing 2009 and 2010, it was observed that, in some cities, the slow decrease in unemployment already began, while in other it has stayed steady or has even gone up (Oklahoma, Huston, Miami, Riverside, Las Vegas).

In Mexico, a similar phenomenon of the polarization of unemployment rates has occurred due to the crisis, which has continued on to the present. During the first quarter in 2010, Campeche recorded an unemployment rate of 3.2%, and Toluca of 4.3%, while in Chihuahua it rose to 7.7% and reached 8.7% in Saltillo. For the same period, unemployment rates showed deeper differences: while Colima, Cuernavaca and Tampico did not go over 3.50%, 4.23% and 4.39%, respectively, in Guadalajara, Saltillo and Tlaxcala-Apizaco levels skyrocketed reaching rates of 11.08%, 14.9% and 20.1%.

If we were to extend this type of comparison to headings such as the local Gross Domestic Product, consumption, investment and other macroeconomic indicators, we would possibly find polarization similar to that found in the case of unemployment.

4. Despite the majority of cities registering negative effects, we have to point out that one group of the same reported positive effects.

Although the balance leans clearly toward negative effects, almost all the surveys identified a series of positive ones, many of which take place simultaneously with the former. The survey done by the OECD (Clark, 2009) reports that it is “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 catalyzed by others. The localities which experienced the largest number of positive impacts are Warsaw and Pittsburgh” (p. 28).

In his analysis, the author of the survey pointed out that cities such as Paris and Warsaw were benefitted by the return of a “skilled diaspora” that local economies such as Budapest, Turin and Miami have undergone tangible profits in areas such as trade and tourism, while Toronto reported good performance in its financial services and rates of growth.

The survey done by URBACT (2010) found that close to 20% of the cities that responded to its questionnaire, mainly Greek and Polish cities, reported that the economic crisis did not affect the execution of their projects in 2009. These localities explained this effect to the fact that their local finances were relatively less affected and that they had loans previously committed from banks –funds from the European Union. In the case of Poland, they consider that the reduced severity of the crisis on the cities is due, to a good degree, to the country feeling the crisis less strongly than other European countries.

One survey done in Mexico in 2009 (Perlo, Paredes and Gonzalez) found that, of the 35 cities answering a questionnaire (sent to 90 cities with more than 100,000 inhabitants), nine stated that, besides the negative effects generated by the crisis, there were also positive effects on touristic activities and in exporting certain products. This was due to the new exchange parity resulting from the devaluation of the Mexican pesos vis-à-vis other hard currencies.

IV. EXPLANATIONS OF THE DIFFERENCES

1. City size

The results we have found in surveys and in analytical studies lead us to different conclusions and, to a certain degree, contrary ones. Upon analyzing the case of cities that resulted less affected by the crisis (23 of the 131 included), the URBACT (2010) survey reached the conclusion that size, in and of itself, does not explain the differences, since the same are found in large capital cities as well as in small provincial ones.

However, the survey done by OECD (Clark, 2009) recognizes that, although there is no iron-clad relationship between the size of the locality and the impact of the crisis, and that there are cases of cities of the same size in population and economic size that have been affected quite differently, the variable *size* can have a certain influence on certain processes. According to the same, evidence suggests that disproportionately large economies felt more recessive conditions from the beginnings than the small and medium-sized local economies from the recession due to the fact much of what happened in those economies is global in nature.

This same study points out, however, that large cities have greater opportunities to initiate recovery earlier, since they are capable of attracting more talent, which makes it possible to have better opportunities to mitigate the worse effects of the recession and can position themselves adequately for long-term recovery.

This point of view is shared by Paul Soto (2009) who, moreover, emphasizes the importance existing between the size of the city, sectorial diversification and globalization: "Big cities have more probability of having a greater percentage of globalized sectors that are more vulnerable to recession but, at the same time, their economies tend to be more diversified and, because of their nature, are more capable of absorbing the shock inside their wide-ranging urban economy. Small cities that are highly dependent on vulnerable sectors are in the most difficult position"(p. 5).

2. The "country effect"

The URBACT (2010) survey has referred to the "country effect," that is, to the fact that the effect of the crisis in cities will depend on the depth to which the country as a whole has been affected by the crisis. Given that the current crisis presents significant differences between countries, notwithstanding its character so spread out over all regions of the world, it might well help to explain the differences in the impact of the crisis on the cities. This is clearer when the cities of different countries are compared. For example, Poland is a country that did not suffer, in so negative a way, the effects of the crisis and its cities show relatively lower unemployment rates than the other countries in which the impact of the crisis has been greater (Spain, US, Ireland, Baltic countries).

However, the "country effect" is not very useful in explaining why significant differences exist within the countries or why some cities of highly affected countries have indicators of impact similar to those of countries that were less affected by the crisis.

3. The state of the local economy

The URBACT (2010) survey argues that the local economy has an enormous relevance to explain different situations. By conditions of the local economy, we refer to activities that satisfy the first and provide a foundation for a city's needs

and its regional surroundings. It is formed by small and medium size companies operating based on self-financing, and depend less on bank credits, have a broad and diversified services sector, are less connected to international economy and depend on internal demand.

Twenty-three cities, especially from Germany, Poland and Sweden, reported that the impact on business and employment were relatively small and concluded that, although the national context is relevant to explain the relative isolation of those cities, local economic characteristics are also key.

These cities have referred to different factors that lessen the impact: a local economy based on businesses operating locally and self-financed, rather than dependant on bank loans; an economy based on the service sector; less connection to the international economy; and an important internal demand.

Among the factors pointed out by the local governments surveyed by URBACT (2010) and that have played a role in reducing the impact of the economic crisis are the following: the service sector resulted less affected, urban economies based on small and medium-sized companies operating locally demonstrate more resistance, economies based on small businesses that self-finance themselves or that do not depend on bank loans, economies less connected to international markets, experience gained and the restructuring of the local economy due to the previous crises.

The prior economic behavior of a city likewise has an influence. If, before the crisis, there was already a negative trend, it is probable that it will be accentuated during the same (Detroit in the US, Saltillo in Mexico). High levels of unemployment, little investment, local deficit finances, undoubtedly influence many cities feeling the brunt of the crisis more strongly. However, we also find the contrary situation: cities that had undergone sustained growth and, beginning with the crisis, their economies plummeted (Las Vegas, Miami).

5. Strong economic specialization linked to the sectors hit the hardest by the crisis.

Cities with a high degree of specialization in sectors of the economy affected by the world crisis such as manufacturing, automobile and construction input sectors (Chihuahua, Aguascalientes, Hermosillo in Mexico), speculative real estate activity (Miami, Las Vegas), and financial services (Chicago) suffered stronger decreases than cities that are more diversified and that depend less on less dynamic sectors (Mexico City, New York).

The report on Northamerican Metropolitan Economies (2010), presented by the United States Conference of Mayors states that cities affected most by the crisis in states such as California, Michigan and Florida, are those where unemployment spiked due to the real-estate bubble and the strong dependency on the manufacturing sector.

However, this explanation shows its limitations as it tries to explain the reasons why large urban centers with an ample sectorial diversity such as Mexico City, Monterrey and Guadalajara (services, industry, education and government) felt such a strong impact, while cities highly specialized in tourism, such as Puerto Vallarta or Acapulco were less affected.

6. Labor qualification

Research undertaken by Lee, Morris and Jones (2009) on the behavior of 12 cities affected by the crisis in the United Kingdom, suggests that labor qualification has been fundamental to help establish a difference in job employment between cities: the lower the qualification profile in an area, the higher the crisis. They studied 12 cities (London, Newcastle, Manchester, Bristol, Glasgow, Swindon, Cardiff, Birmingham, Liverpool, Derby, Oxford) and the only exception to this was Swindon.

The OECD (Clark, 2009) survey also shares this conclusion. The survey says that “Local economies with lower skills, lower employment rates, and lower levels of specialization are particularly exposed to the crisis because they offer limited compelling reasons to retain investment and jobs and are competing largely on priced based factors which erode significantly in a downturn.” (p. 13).

Edward Glaeser (2009) reached a similar conclusion about the USA. In his opinion, and in light of the huge gap between skilled and unskilled labor unemployment levels, it is not surprising to see that skills provide the best explanation to current country unemployment rates. For Glaeser, the ratio of adults with college degrees by itself explains about half the variations in unemployment rates.

However, both the OECD (2009) report as well as Glaeser’s (2009) clearly state that worker classification has to be analyzed using other variables of equal standing. In the first case, local economies that fared the best are those with the highest level of skilled workers, the lowest initial unemployment rates, and top economic specialization levels. The latter case says that other variables, such as the weight of heavy manufacturing (the higher the weight the higher the unemployment) and the degree of metropolitan centralization (the higher the centralization the lower the unemployment) must too be taken into account.

The next section will discuss different responses and action programs by local governments to the crisis.

V. GOVERNMENTAL POLICIES IN DIFFERENT GOVERNMENT LEVELS (CENTRAL, STATE AND LOCAL) TO CITY CRISIS

Public policies applied by the public sector to the crisis in urban contexts undoubtedly are quite significant in determining the situation a given city will live. However, we do face a condition that is difficult to evaluate for three reasons: first, very little time has passed since the onset of the crisis making their efficiency hard to evaluate. The second one is that there is a broad array of measures that different levels of government have applied, complicating the possibility of a specific rigorous analysis on the state of the cities. The third one is that thousands of local governments exist around the world and we have information from only a few.³

About the first difficulty, all research and published surveys agree that one must have had enough time elapsed, and sufficient statistical information, to work on a comparative analysis of local policy impact and efficacy. About the second difficulty, we have created the chart below to give a schematic view of the variety of governmental responses, taken basically from the UCLG (2009) and the OECD (2009) surveys. We have tried to solve the third difficulty through a practical method –we have picked out ready available information generated by governments themselves, either local and/or national, and by international organizations.

³ As per United Nations (2010) there are 592 cities around the world with over 750,000 habitants. If we scroll down to those with 100,000 habitants, the number of urban locations increases considerably, reaching about 4500 cities. Considering that many of them are built by multiple political-administrative units, the number of local governments must be around tens of thousands.

Chart 3. Local Government Actions to The Economic Crisis

Subject	Problems	Objectives	Instruments
National Public Expenditure and Distribution of Tax Resources	Decrease in tax resources allocated to local governments	Maintain or increase programs directed to public works, education and social security	Emerging programs on tax aid to local governments
		Maintain or increase tax participation to local governments	Promote the decentralization of social programs and infrastructure structure
Labor Market	Unemployment	Create employment	New Job Training Unemployment Insurance and Benefits Study Grants
	Underemployment	Protection against Unemployment	New Study Programs for youth Temporary employment
Local Economy	Business Bankruptcy	Reactivate businesses	Freeze and/or reduce taxes
	Cancelling Growth Plans	Finish projects that were begun	Simplify procedures to open up new businesses
	Drop in Tourism	Reactivate construction	Small and medium size company support programs
	Drop in Real Estate Prices	Stabilization of real-estate markets	Real-estate purchasing
Local Governance	Financial Crisis	Increase budget resources	New financing instruments Expenditure rationing
	Social Unrest	Satisfy new social demands	Increase in urban efficiency and productivity Sustainable urban renewal
	Planning Crisis	Strengthen cooperation and association efforts	Enter into agreements and accords with urban actors Create an anti-crisis program Advising on strategic plans
	Growing demand of social services and benefits		
Local living conditions	Dispossession of housing	Protect and help owners settle	Debtor aid programs
	Drop in housing prices	Urban service maintenance	Legal advice to debtors
	Lack of resources to keep providing urban services	Support the poor and vulnerable population	New programs to fight poverty
	Increase in urban poverty	Social peace preservation	Sustainable urban innovation programs
	Increase in insecurity		
Political presence in domestic and international affairs	Loss of political strength with central governments and international agencies	To strengthen leadership and institutional capacities in local governments	Formation of political alliances with other local governments
	Decrease in the ability to attract new investment and long-term development projects		Joint action programs to face the crisis Exchange of information and technical advising

Source: Own elaboration based on The Impact of the Global Crisis on Local Governments (UCLG, 2009) and Clark, Greg. Recession, Recovery and Reinvestment: the role of local Economic Leadership in a global Crisis (2009, OECD).

Before analyzing some, we must point out that many local governments have not developed a crisis-specific policy. We do not know how many have, vis-à-vis the total, but have sufficient evidence to lead us to think that the ratio is high –maybe even falling into the majority.

Surveys record a sizeable proportion of cities that did not answer the questionnaires. This may show either a lack of interest, or may be indicative of their inability to answer, or maybe even allude to the fact that cities do not have anything to report in terms of actions. URBACT's survey was sent out to 190 cities; only 131 answered. Of those who did reply, 30% said they had not taken any steps, or were in the process of finishing their plans, or simply did not provide information.

The survey was applied to local governments in Mexico between March and April 2009 and included 90 cities with over 100,000 inhabitants. The response rate was 39%, a lower rate than the one reported in URBACT II. Of the 35 cities that did answer the survey, 28 had returned to old plans and measures which had been labeled as anti-crisis programs, and only 7 –Celaya, Ciudad Juarez, Manzanillo, Matamoros, Mexico City, Puerto Vallarta and Tula– drafted real and new programs with specific measures to help face the crisis (Perlo, Paredes and Gonzalez, 2009.) The second survey, which was applied in July-September 2010, elicited an even lower rate of reply; only 29 of the 90 cities answered the survey (Perlo, 2010).

Another important subject has to do with the resources that central governments manage for cities. This issue is a critical one because part of the maneuvering margin local governments can use in light of the crisis depends precisely on tax resources from central governments.

URBACT's (2010) conclusion in this regard strengthens the importance of national policies at the local level:

“Firstly, the response at the city level is obviously heavily dependent on the national reaction to the local crisis. In some countries such as Spain, the initial response has included large injections of local investment to compensate for the decline in private construction (Plan E). In others such as Ireland and Latvia major cuts in public expenditure were already affecting local authorities. It is clear that the size, nature timing of national policies for public expenditure have a strong effect on the urban response to the crisis.” (p. 33).

Paradoxically, cities dependant on their own income, and who manage more independently are the very same cities who have experienced most problems (cities in North America), while cities with a more centralized regime (England, Holland, Mexico) to date have been able to preserve their income.

For example, in Mexico, public ingress from the main metropolitan areas grew in 2009 (the crisis's worst year), 2.45% in real terms against 2008 (Perlo, 2010). This was due basically to the fact that the federal government, who contributes with about 90% of municipality income, increased the amount of fiscal resources put aside for municipal governments.

Yet, this situation is a long way off from being fixed. If central governments decide to cut their budgets heavily –an action which we have already seen Greece, England and other countries do– then most surely it will be the local governments who will experiment a strong decrease in budget resources. On the other hand, the US municipal governments have shown a strong bargaining capacity with President Obama in order to receive federal funds. We saw this in the stimuli package called *America Recovery and Reinvestment Act, 2009*. We will have to see if municipal governments will be capable of availing themselves of more funds in the future to help compensate the drop in their own resources.

On the other hand, even if many cities were to continue receiving resources from the central government, they won't necessarily be able to spend them freely, because transfers are oftentimes "earmarked" in many centralized tax regimes, meaning that funding has to be spent in line items predetermined by the central government.

This leads us to another issue with important implications, to wit, understand the legal powers and capacities that local governments have. URBACT (2010) describes this correctly:

"The legal powers for cities to act in certain fields vary enormously between countries. In some countries, cities have a long tradition of involvement in local economic development, entrepreneurship and training. In other countries, these responsibilities are managed by national or regional bodies. One cannot expect cities to develop innovative solutions where they have no competences." (p. 3).

In this sense, there are many different situations. Dutch cities, for example, depend strongly on funds from the central government, yet they do have a strong margin of autonomy to program their spending and use it to local development. This has allowed cities, such as Rotterdam, to design and apply comprehensive and efficient anti-crisis policies. However, this is not the case in most cities in Latin America, Africa or Asia, who belong to centralized tax regimes and have to distribute income from the central government pursuant to preestablished criteria, objectives and use. Even in countries with a long strong local government tradition, such as the USA, very often the legal structure and rules are not designed to enable cities, within state-defined limits, to pursue a vision of their future, as authors Frug and Barron (2008) thoroughly documented.

The last point we will cover in this section is on the way cities have integrated a wide varieties of policies such as those described in Chart 3. We have cases of cities that prefer certain policies over others and will direct their resources to them. Some have assigned their resources to help rescue businesses, as most cities in Mexico have done, as the measures to help weather the crisis (Perlo, Paredes and Gonzalez, 2009). Others have emphasized using measures of a social nature, such as benefits for the unemployed and for the poorest part of the population, while other cities such as Rotterdam, Jyvaskyla, and Turin among some, have developed more comprehensive plans that combine actions in several areas. Moreover, several cities have integrated their crisis-fighting programs and actions into the

strategic plans that they had prior to 2008, such as Turin (2nd Strategic Plan for a Knowledge Society).

Several cities have developed plans or programs intended specifically to face the crisis, such as Rotterdam (“Rotterdam Offers Perspective”), and Newcastle (“Ten Point Response to the Economic Downturn”). Evaluations (URBACT, 2010), (Perlo, Paredes and Gonzalez, 2009), Rivas(2010), have been researched in an attempt to determine if formal anti-crisis plans exist, that is, approaches integrated into a document containing all elements of a Program with a comprehensive vision covering different aspects for the short, medium and long-term views.

Yet, the experience in the cases studied by surveys shows that we have to be careful not to think that the existence of “formal” comprehensive plans with a long-term approach will guarantee that things will be done better than cities that do not have such plans. Actually, many cities that have been especially active and have been efficient in fighting the crisis have strategies that are right on the mark for such an undertaking, even if they do not have formal plans drafted to fight the crisis, such as Jyvaskyla in Finland, Obidos in Portugal, Barnsley in the UK, and Enguera in España (Rivas, 2010).

VII. POLICIES DIRECTED AT HUMAN CAPITAL TRAINING, URBAN INNOVATION, AND STRATEGIC POSITIONING OF CITIES

We stated earlier that there are many differing responses by local governments to face the crisis. These go from those unwilling to change a thing, to those who have done something, to those who have designed –albeit a few– special plans for the present juncture. While some cities direct themselves to social and economic reactivation policies, others have a broader outlook. They have focused on forming human capital, on providing urban innovation, and on acting with a strategic vision for the future.

1. Education and human capital formation

The city of Rotterdam, in the Netherlands, has developed a very interesting approach to help fight youth unemployment by relating it to education and to a networking building that will help youth when they enter the labor market (URBACT, ROTTERDAM, 2010). The program targets the group hit hardest by unemployment: youth. In general terms, we are talking about the population with the lowest and most vulnerable qualifications to access the labor market. By using a preventive focus and funding made available from the national government, Rotterdam recently created a Youth Unemployment Action Plan called “Just Keep Going”, designed at keeping young people in school or returning them to school. It also seeks to improve cooperation between employers, educational institutions, employment services, and the youths themselves.

Other interesting examples exist about the programs local governments have set in motion in education and human capital training. The city of Jyvaskyla in Finland established a “Structural Change Working Group” whereby businesses, the University of Jyvaskyla, and the Ministry of Employment and the Economy converge to provide educational opportunities to high-skilled labor to continue their education through PhD studies (URBACT, JYVASKYLA, 2010).

2. Urban innovation

What have local governments done in the arena of urban innovation to fight the crisis?

The city of Turin, undoubtedly hard hit by the crisis, has also adopted short-term measures to face the most direct and immediate effects of the recession (such as relocating displaced workers into new jobs, creating new jobs, financial aid to the unemployed and to poor families). At the same time, the city has created a series of strategic initiatives designed to reach recovery in the long term. Within this approach, innovation has received widespread attention. The city has set itself on broadening its innovation system in order to be ready for the future urban economy it expects in the not too distant future. Infrastructure renewal has been taken into account in local and regional authority plans who acknowledge the existence of old and inefficient infrastructure. The idea is to avail infrastructure that will confer high added value to actors in the process of innovation.

One can find programs that explicitly and tacitly hold Innovation at the heart of their approach, such as the New York City Center for Economic Opportunity from the NYC government. The city recently launched an initiative to create the Federal Fund for Urban Innovation, a program that targets new ways to fight poverty (The New York City Center for Economic Opportunity, Executive Summary). Another innovation program is the “Economic Resilience Plan” (2008) promoted by the city of Edinburg designed to help businesses diversify their services.

We have located other innovation experiences such as ones that give priority to projects with a high potential to create jobs with energy-efficient standards in Edinburg (United Kingdom), or to projects with low carbon emission transportation schemes in Graz (Austria), or to plans by cities that have resorted to improving their administrative work by improving their tax-collecting procedures like in Dobrich (Bulgaria).

Upon a first review of the subject on innovation, one which must be submitted to rigorous validation, we can conclude that innovation does not appear as a policy of priority in local government agendas in today’s crisis juncture. Programs or innovation measures do not seem to stand out from the hundreds of actions, programs and policies that local governments have adopted to weather the crisis (URBACT, 2010).

Yet, the subject of innovation is more relevant than ever (Castells, 2009) inside a context full of tax crises of many local governments, one in which resources are short. In this sense, the crisis is an opportunity to do things differently, to try out

new things, and to take advantage of opportunities. If local governments do not drive innovation and try to implement it, the other levels of government will hardly do so.

3. Planning and medium and long-term views

In the URBACT II survey, 70% of cities said they had applied some type of plan or measure to fight the crisis. However, only four cities said they had a formal plan of recovery. Cities, such as Rotterdam, Rennes Metropole, Newcastle, Birmingham, Eindhoven, Jyväskylä, Gothenburg, and Obidos actually said they had explicit long-term strategies.

In light of the number of businesses closing (including the emblematic Nokia Center for Research and Development), and of the drop in income tax, the City Council of Jyväskylä in Finland adopted a new urban strategy in March 2010 for the years 2010-2013 (URBACT, July 2010). Anti-crisis actions have centered on helping highly-skilled labor to develop their own businesses, and/or even to carry on with their post-graduate work. This has all been done in close cooperation with universities and the private sector. Using the experiences from the severe recession of the 1990's, the city has resorted to its planning and strategic planning development capacity.

Another example is found in the city of Newcastle in the UK. With growing unemployment that has affected the elderly and professionals, with the drop in construction and in real-estate prices, the city's Municipal Council drafted in June 2009, a 10 Point Plan known as the Economic Downturn Response. The city used its wealth of experience gathered during the severe crisis it lived through in the 1980s, and during its "urban rebirth", to create the Plan with contains a mixture of short-term actions seeking to reduce the social consequences of the economic recession and stimulate housing. The city's long-term actions are directed towards placing the city that it predicts will emerge in 2030.

One of the most interesting long-term strategic approaches that is described in the NewcastleGateshead 1 Plan (published in January 2010) is the way the city combined special planning, urban regeneration, and a more sustainable urban economic design based on science and knowledge (URBACT, 2010).

Through new financial instruments, such as the Accelerated Development Zone Pilot for Tax Incremental Funding (to purchase debt to buy locations on the basis of the tax income they will generate in the future), and by availing themselves of their excellent universities and research centers, the Council is choosing parts of the city where it is purchasing real-estate (taking advantage of low prices) to locate businesses (low carbon and sustainable industries), research centers (International Centre for Life), and clusters (Science City) in strategic areas in the city in order to include the urban center and other zones, which will lead to a better integrated and more compact city.

Other cities have come up with similar plans and proposals. The city of Rotterdam has a comprehensive plan called "Rotterdam Offers Perspective." The plan includes joint measures to counteract the impact of the crisis by allotting a significant portion of its budget to construction projects to keep and create jobs in the construction industry.

This proactive position can also be seen in other cities where their mayors and/or municipal councils have shown a driving leadership (Mexico City, Celaya in Mexico, San Francisco, Newcastle, Rotterdam). The same applies to Austin's mayor, Lee Leffingwell, recently called a "Model for Hope" by *Time Magazine*, 2010:

"This is the time to proactively and aggressively diversify Austin's economy. We've been talking about this long enough that I think there is general agreement about where our economic focus should be moving forward: renewable energy, creative media, and medical technology. These industries are the future of Austin's economy. They can, and will –if we play our cards right– form a new foundation of sustainable growth into the next generation." (State of the City Address, February 2, 2010).

Political activity has also been part of the strategies adopted by local governments, especially in large metropolis. Local governments have been active in promoting meetings, agreements and pacts that allow the strengthening of negotiating and decision capacities by cities with national governments and multilateral bodies. International bodies grouping cities, such as United Cities and Local Governments (UCLG), Metropolis and other groups, have pushed for agreements such as the "Barcelona Declaration", the "Athens Declaration", and most recently the "Mexico City Declaration." An important world conference was held in Mexico City in November 2010. Over 1000 mayors from around the world attended this meeting, and the main issue discussed by them was combating the effects of climate change. This meeting paved the way to draft the Mexico City Declaration.

Increasing negotiating capacities is important for many reasons, particularly because it allows cities to get resources from national authorities, a noteworthy issue because there are cities that depend heavily on these resources.

It hasn't been long enough to prove if measures and actions undertaken by local governments have any real effect on their local economies, or if they are a factor of importance to explain the differences that we have described between cities. This set of actions will have to be submitted to rigorous measuring, correlating such actions with variables such as employment, economic growth, and other variables, and isolating factors that may be equally important.

CONCLUSIONS

1. Cities across the world have been severely hit by the crisis. Actually, they are the epicenter of what has now been called the Great Contraction of 2008. In spite of the general negative impact, when we compare cities, the recorded differences were significant. There isn't a lineal or simplistic explanation to the origin of these differences, but their existence is undeniable and understanding such differences can provide us with important keys in discerning why some cities are more developed, productive, innovative, and more capable of pulling through crises than others.

2. In this difficult juncture, one of the big novelties has been the strong participation and presence of the world's mayors, especially from large metropolis. They have shown timely participation, have offered alternatives, and have developed proposals to fight the crisis. This all contributes to placing cities as a fundamental actor that must be taken into account. Yet, this participation should no remain at the rhetorical level. A strong position must go hand in hand with measures, actions, programs, investment, and budget. Otherwise alternatives are ineffective and they lose credibility.

3. Yet, what is truly important is what cities, their local governments, and their communities do to fight the crisis. There are successful and encouraging examples in different regions around the world where cities –some of them small or medium-size urban centers– have placed their best strengths and creativities forward to help survive a critical situation. Nevertheless we have also found many cities that just crossed their arms waiting for the crisis to blow through and for problems to magically disappear.

4. Local governments may not be able to change the course of large events. They do not control the large macroeconomic variables (monetary, credit, tax, expenditure, international trade policies), and frequently do not even have enough tax resources or the legal powers to decide how to spend them. On the other hand, they do have many advantages, such as a final say on the destiny of the territory, understanding territory not only as a mere physical space, but as a complex web of history, of an immense-built capital, political and institutional agreements, and social relations. The main advantage is that they are who are in touch with the people. This is what allows them to do many things, for instance, to lessen the effects of the crisis and to lay the basis of their future development.

5. A teaching provided to us by cities that have put in motion highly advanced programs is that the solution to current problems must be made by building the future. This can be achieved by creating new jobs, building modern, sustainable, and technologically advanced infrastructure, and by promoting innovation, human capital formation, and improving urban management. Local governments have these factors within their grasp, especially those that have human and material

resources and who have accrued administrative experience in local economic development management and strong political leadership.

6. An economic crisis is a devastating event; it affects millions of people and marks an entire generation, in addition to leaving deep social, political and cultural consequences. Nonetheless, it too is the opportunity to do things anew, to open up the best resources, and to even allow imagination to run rampant. History teaches important lessons, again. Notwithstanding the profound bleakness, and political and social aberrations after the Great Depression of 1929, it was also a time to promote extraordinary social reforms. Portentous pieces of infrastructural works were built, and the most astounding displays of artistic and cultural doings flourished.

7. We will eventually get out of this crisis; undoubtedly we will have new growth periods followed by recessions. It has been so for centuries, especially in the recent history of Capitalism. But when recovery begins, the cities that will fare the best and have a more solid basis, will be those that did their job during this crisis.

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