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planning

Manuel Perlo Cohen  
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# **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 Manuel Perlo Cohen

Instituto de Investigaciones Sociales-Universidad Nacional  
Autónoma de México

Visiting Scholar, Institute of Urban and Regional Development  
University of California-Berkeley

### **Acknowledgement**

This working paper is part of the research I began during the final months of 2008. It came about after the first significant economic world crisis of the 21<sup>st</sup> Century, as I set out to learn about Mexican cities' responses 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, thanks to the University's excellent academic strength in all disciplines, making it the place where the world's true knowledge meets, in addition to its extraordinary libraries and electronic information services.

In addition, I want to thank Dr. Robert Cervero, Director of the Institute for Urban and Regional Development at UC Berkeley, for having invited me to spend time as a Visiting Scholar, and for his encouraging comments on my work. The other important acknowledgement that I wish to extend is to Dr. David Dowall, who generously supported me in carrying out this visit. His intellectual and personal support throughout the years has been decisive in my academic and professional life. Moreover, I want to thank professors Teresa Caldeira and Michael Dear from the Department of City and Regional Planning, and Emilio Martinez, who is on the last stretch of his doctoral thesis in the Department, because they listened to my approaches and provided me with valuable input. Also, I want to thank Luz Amelia McClellan for her translation of my work into English.

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## Introduction

The global economic crisis, which began officially on September 15, 2008 due to the bankruptcy of the investment bank Lehman Brothers, has spread throughout a wide range of countries and regions. It has penetrated rural areas and cities, has simultaneously taken over large metropolises 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 among large regions, countries, cities and neighborhoods. In the case of urban locales—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 locales have been able to mitigate the most adverse effects, and still others have emerged from the crisis onto a path of sustained growth.

There are many factors contributing to 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, in particular the extent to which 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 being 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 misguided to think 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 world; also, we seek to learn about the response of local governments 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 within my faculties and possibilities,” or that “someone else has to do the work,” will only aggravate the problem and put off recovery and 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 each does or fails 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 its end 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 in 2010 (*The Economist*, *The World in 2011*). But, even if 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 the like will persist for years.<sup>1</sup> This is the “new normal” 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 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

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<sup>1</sup> On the announcement made about the unemployment rate jumping 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 on “60 Minutes”, with Scott Pelley.  
<http://www.cbsnews.com/stories/2010/12/03/60minutes/main7114229.shtml?tag=currentVideoInfo;segmentTitle>.

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 in 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 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). About later crises, there is a broad range of work of all sorts including Castells (1987), Eichengreen (2002), Harvey (1982,2010), and Kindleberger (1986), to name a few.

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 as a smaller list of reprints between January 2008 and November 2010. He found that 407 books have been printed in less than two years.

Additionally, this phenomenon has captured the attention of many historians, including Clavin (2000), Constatine (1983), Rauchway (2008), in addition to 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: an explanation of the crisis's different impacts on the territory and the contrasting responses by local governments.

In order to shape guiding principles for this analysis, ones of a more general and heuristic nature, we have created an analogy<sup>2</sup> from the field of the study of natural disasters, specifically earthquakes. Obviously we are facing very different fields of knowledge and phenomena (earth sciences as opposed to social sciences). Their causes and effects can also be very different (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: economic crises and earthquakes are extraordinary events, and their impacts have significant effects for which we may be more or less prepared.

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<sup>2</sup> 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.

The points described next represent some of the similarities.

1) The causes are structural and inherent to the system they will affect. One comes from tectonic plate dynamics that create energy, and the other comes from features of the capitalist system such as uncertainty, speculation and imbalance between supply and demand of various components, e.g., capital, labor, raw materials, and transportation.

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 precursors announce the proximity of the event, although we can't be sure when or where they will occur.

3) Although their impact can extend along a broad radius, their intensity depends on proximity to the epicenter and on the type of wave dispersal.

4) Elements within the range affected will suffer unequal damage, depending on their degree of vulnerability.

5) Even if the phenomenon's critical phase may be brief, its destructive effects may be felt for a long term.

6) A history of past events is very important in identifying patterns of recurrence, impact and societal response.

7) Although having records is important, no event is a repetition of any other. Each is unique.

8) The mental representation and the memories of the phenomena we retain as a society and as individuals tend to diminish with time. Those generations that did not live through such phenomena will tend to think that they are not likely to experience them.

9) In spite of the destruction such events cause, there is always the opportunity to rebuild in a way that decreases future damage and vulnerability.

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.

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 their location on

the crisis map, and their own internal conditions, to wit, their degree of vulnerability.

Another example can be drawn from one of the subjects of the history of crisis that recurs most often: the refusal or the reluctance to accept that crises 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. The authors state that:

“The essence of the ‘this-time-is-different’ syndrome is simple. It is rooted in the firmly held belief that financial crises are things that happen to other people in other countries at other times; crises 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 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 the “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 these ideas in the following sections.

## **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 of crises in the 20th century provides important evidence in the sense that crises’ 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 were much more affected than others, both because of its depth and the duration.

The group of countries that were more strongly affected, such as the United States of America, Canada, Germany, Holland, Australia, Poland and Austria (Clavin, 2000) suffered 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 more developed

countries, since it was a fundamentally rural region, with an insignificant industrial presence in 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 had different effects in various 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 because of climatic and environmental factors that aggravated conditions), which led to major migrations toward regions and cities where conditions were better.

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, which led attention to shift to questions related to growth, one of the concerns being why different regions had different rates of expansion (Richardson, 1969). Perhaps, because of this reality, the topic of unequal impact generated by 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.

Some industrialized countries began to undergo sharp economic contraction tied to the process of de-industrialization, while in other countries (particularly, Latin America), the appearance of crisis was tied to the inability 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. 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. At the same time that some regions and countries recorded severe crises, in other places, economic growth has continued accelerating. Once again, emphasis in the field of study 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 economic, technical, and demographic points of view. One of those changes is urbanization. Today, more than half of the world's 6.8 billion inhabitants live in cities; 40 mega-regions contain 18% of the world's population, 66% of the economic activity, and 85% of scientific and technical innovation (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 whom 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 country's production, wealth, investment, culture and power is concentrated.

Countries' prosperity 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 work tackles 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 in regions 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 has been carried out on behalf of 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 by local governments.

We have based our examination on all the information mentioned above to generate a wide-ranging and extremely summarized view of the most outstanding impacts experienced by a large number of cities in different parts of the world.

### **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 damage are only comparable, notwithstanding the 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 economic activities, which applied both to large transnational companies as well as to small and medium-sized companies.

The effects are very diverse, 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 of 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.

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

In some cities in less developed countries, this problem is accompanied by the more serious impact: a large number of persons who are underemployed or working in the informal economy. 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 (INEGI, 2010). Underemployment in several cities reached very high levels, such as in Guadalajara, Saltillo and Tlaxcala-Apizaco where rates reached 11.08%; 14.9% and 20.1%, respectively (INEGI, 2010).

**Urban poverty.** Many of the surveys and studies show that poverty has grown visibly. The URBACT (2010) survey points out an alarming increase in the number of persons requesting food assistance, clothing and a place to sleep. In the city of Vilna, in Lithuania, for example, the number of applicants for support from soup kitchens increased 6.5 times in one year: from 800 in 2008 to 5,234 in 2009. In many Spanish cities, early manifestations of social exclusion and poverty have been reported from the beginning of the crisis.

**Housing foreclosures.** While this is a widespread impact in many countries (Spain, Ireland), it has been felt most strongly in some metropolitan areas of the U.S. According to Morris David (2010), while, in a period of 27 years (from 1979 to 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 year's end, another million will be added.

The highest rate of foreclosures occurs in those states and cities with the highest unemployment rates and where the market value of housing has plummeted (giving rise to the mortgage being greater than what the property is worth in the current market). Cities showing rates above the national average for the U.S., are: Detroit (5 times the national average), Las Vegas (4.6 times), Riverside, California, (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 a 2009 survey by the United Nations organization, United Cities and Local Governments (UCLG), one of the major consequences of the world fiscal crisis has been its impact on local governments, leading to a serious deterioration of their fiscal situation. Revenues decreased because of the economic slowdown, as did the fiscal value of real property at the same time there was an increased need for expenditures to address social needs leading many cities to experience what some analysts call the worst "fiscal crunch" in decades. Some municipal governments also lost major assets that they 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% received fewer transfers from upper levels of government, especially from the central government. The city of Tokyo suffered the largest cut in revenues and support of any metropolitan government in the world in 2009.

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

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).

Representing another point of view, a survey done by URBACT (2010) concluded that, although cities reported that the construction sector turned out to be the most affected in terms of closing down companies and bankruptcies, the industrial/manufacturing sector recorded the greatest loss of employment. This discrepancy may be explained by the fact that the construction sector uses many workers from the informal market and thus do not show up in official statistics.

In those cities whose local revenues have undergone a sharp drop and which have made 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 about European cities in the current crisis likewise indicates the considerable differences 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 responding cities. At the same time, in some cities, no increase was recorded and, in others, there was a decrease.

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. In contrast, Warsaw recorded only 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% unemployment, and Halle, whose absolute number of unemployed went down in these same years, from 17,444 to 15,967.

The importance of the differences in the levels of unemployment can be illustrated by examining the evolution of unemployment rates in a grouping of cities in the

U.S. and Mexico from before the crisis and up until the second half of 2010. In the following charts, we can see, in both countries, which cities maintained major differences in unemployment levels, and where, due to the crisis, those differences have grown.

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

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

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

**Source: Author's 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, in some cities, the slow decrease in unemployment has already begun, while in others it has stayed steady or has even gone up (Oklahoma, Huston, Miami, Riverside, Las Vegas).

In Mexico, there is a similar phenomenon of the polarization of unemployment rates. 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 areas 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 reported positive effects.**

Although the balance leans clearly toward negative effects, almost all the surveys indentified a series of positive ones, many of which took place at the same time. The survey done by the OECD (Clark, 2009) reports that “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 benefitted from the return of a “skilled diaspora,” that local economies such as Budapest, Turin and Miami have undergone tangible growth in areas such as trade and tourism, while Toronto reported positive 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 government expenditures in 2009. These localities attributed 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 reported that the reduced severity of the crisis is due, to a large degree, to the country experiencing 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 tourist activities and on certain exports. This was due to the new exchange parity resulting from the devaluation of the Mexican peso 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 the cities 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 problems can be 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, size can influence certain outcomes. Evidence suggests that disproportionately large economies felt more recessive conditions from the beginning of the recession than small and medium-sized local economies due to the fact those larger economies are more global in nature.

This same study points out, however, that large cities have greater opportunity to initiate recovery earlier, since they are capable of attracting more talent, which can mitigate the worst effects of the recession and position them for long-term recovery.

This point of view is shared by Paul Soto (2009) who, moreover, emphasizes the importance of the link between the size of the city, the diversity of its economy and the degree of its economy's 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, this effect might help to explain the differences in the crisis's impact on cities in different countries. For example, Poland did not

suffer so many negative impacts of the crisis and its cities show relatively lower unemployment rates than the other countries affected more seriously (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 in highly affected countries resemble those in countries that were less affected by the crisis.

### **3. The state of the local economy**

Findings from the URBACT (2010) survey suggest that the local economy has enormous influence on how a city will be affected. By “local economy,” we mean the activity made up of small and medium-sized companies that depend largely on self-financing, not bank loans or credits and that engage in a broad and diversified range of services, dependent more on local and regional demand and less connected to the international economy. These conditions applied to 23 cities, notably in Germany, Poland and Sweden,

A city’s prior economic performance likewise has an influence. If, before the crisis, there was already a negative trend as evidenced by high levels of unemployment, little investment and local deficit finances, it is probable that the downward trend will be accentuated (Detroit in the U.S., Saltillo in Mexico). However, we also find the contrary situation: the economies of cities that had undergone sustained growth plummeted (Las Vegas, Miami).

### **5. A high degree of specialization in vulnerable economic sectors was a common link for those hardest hit by the crisis.**

Cities whose economies are concentrated in sectors affected by the world crisis such as manufacturing, automobiles and construction (Chihuahua, Aguascalientes, Hermosillo in Mexico), speculative real estate activity (Miami, Las Vegas), and financial services (Chicago) suffered steeper decreases than cities that are more diversified and that depend less on less dynamic sectors (Mexico City, New York).

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

However, this explanation shows its limitations when considering that large urban centers with an ample diversity such as Mexico City, Monterrey and Guadalajara (services, industry, education and government) felt such a strong impact, while cities whose economies are highly specialized (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 U.K. cities affected by the crisis suggests that labor qualification is a fundamental difference in employment rates: the lower the qualification profile in an area, the more serious the crisis. The cities studied were 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 comes to this conclusion: “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 U.S. He finds that the ratio of adults with college degrees by itself explains about half the variations in unemployment rates.

However, both the reports by both the OECD (2009) and Glaeser (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 gives weight to other variables, such as the presence of heavy manufacturing (the greater the presence, the higher the unemployment) and the degree of metropolitan centralization (the higher the centralization the lower the unemployment).

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

## **V. Governmental Policies at Different Governmental Levels (Central, State and Local) Responding to the Cities' Crisis**

Public policies applied in response to the crisis in urban settings undoubtedly are quite significant in determining a given city's situation. However, their effect is difficult to evaluate for three reasons: first, very little time has passed since the onset of the crisis; second, there is a broad array of measures that different levels of government have applied, complicating the possibility of a specific rigorous analysis; and third, thousands of local governments exist around the world and we have information from only a few.<sup>3</sup>

The first difficulty cannot be overcome until enough time elapses, and there is sufficient statistical information. For the second one, 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. In an effort to overcome the third difficulty we have picked out readily available information generated by governments themselves, either local and/or national, and by international organizations.

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<sup>3</sup> As per United Nations (2010) there are 592 cities around the world with over 750,000 inhabitants. If we scroll down to those with 100,000 inhabitants, 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**

<b>Subject</b>	<b>Problems</b>	<b>Objectives</b>	<b>Instruments</b>	
<b>National Public Expenditure and Distribution of Tax Resources</b>	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	
<b>Labor Market</b>	Unemployment	Create employment	New Job Training Unemployment Insurance and Benefits	
	Underemployment	Protection against Unemployment	Study Grants New Study Programs for youth Temporary employment	
<b>Local Economy</b>	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	
<b>Local Governance</b>	Financial Crisis	Increase budget resources	New financing instruments Expenditure rationing	
	Social Unrest		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		Social peace preservation	Sustainable urban innovation programs
<b>Local living conditions</b>	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			
<b>Political presence in domestic and international affairs</b>	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: Author's 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 carrying out the analysis, we must point out that many local governments have not developed a crisis-specific policy. We do not know how many have, but there is sufficient evidence to lead us to think that the ratio is high—maybe even the majority.

A sizeable proportion of cities did not respond to the surveys. This may show either a lack of interest, an inability to answer, or a lack of any policies to report. 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, were in the process of finishing their plans, or simply did not provide information.

In Mexico, I carried out a first survey (Perlo, Paredes and Gonzalez, 2009) with local governments 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 that had been labeled as anti-crisis programs, and only 7—Celaya, Ciudad Juarez, Manzanillo, Matamoros, Mexico City, Puerto Vallarta and Tula—drafted truly new programs with specific measures. A second survey, which was applied in July-September 2010, elicited an even lower rate of reply; only 29 of the 90 cities answered (Perlo, 2010).

Another important subject has to do with the resources that central governments manage for cities. This issue is critical 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 dependent on their own income, and who manage themselves more independently of the central government are the very same cities who have experienced the 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 2.45% in real terms in 2009 (the crisis's worst year) against 2008 (Perlo, 2010). This was due basically to the fact that the federal government, which contributes about 90% of municipal income, increased the amount of fiscal resources put aside for municipal governments.

Yet, this approach is not a long-term solution. If central governments decide to cut their budgets heavily—an action that we have already seen in Greece, England and other countries—then the local governments will experience a significant decline in resources. On the other hand, municipal governments in the U.S. have

demonstrated a strong bargaining position with President Obama as evidenced in the *America Recovery and Reinvestment Act, 2009*. It remains to be seen if municipal governments will be able to avail themselves of more funds to offset their revenue losses in the future.

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 on line items predetermined by the central government.

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

"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 regard, there are many different situations. Dutch cities, for example, depend strongly on funds from the central government, yet they have a strong degree of autonomy on how they use them. This has allowed cities such as Rotterdam to design 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 pre-established criteria, objectives and use. Even in countries with a long strong local government tradition, such as the U.S., 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 variety 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 (Perlo, Paredes and Gonzalez, 2009). Others have emphasized 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 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 conducted 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 of the cases studied in the surveys shows that we have to be careful to avoid thinking that the existence of “formal” comprehensive plans with a long-term approach will guarantee that policies will be more successful than in 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 local governments had many different responses to the crisis, ranging from not changing a thing to (albeit in a few cases) formulating special plans. There is also a broad range in the targets of their policies: from social and economic changes to those with a broader focus—forming human capital, supporting urban innovation, and acting with a strategic vision for the future.

### **1. Education and human capital formation**

The city of Rotterdam, in the Netherlands, has developed an education and network building framework to help fight youth unemployment when they enter the labor market (URBACT, ROTTERDAM, 2010). This is the group hit hardest by the crisis, and in general terms, we are talking about the population with the lowest and qualifications. With funding from the national government, Rotterdam recently created a Youth Unemployment Action Plan called “Just Keep Going”, designed to keep young people in school or return them to school. It also seeks to improve cooperation among employers, educational institutions, employment services, and the youth themselves.

Another innovative program was established by the city of Jyvaskyla in Finland. It called the “Structural Change Working Group” whereby businesses, the University of Jyvaskyla, and the Ministry of Employment and the Economy converge to provide opportunities to highly-skilled workers 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, hard hit by the crisis, has adopted short-term measures such as placing the out of work in new jobs, creating new jobs, and providing financial aid to the unemployed and to poor families. At the same time, the city has created a

series of strategic initiatives designed to achieve recovery in the long term, with a focus on innovation, including new infrastructure to replace old and inefficient infrastructure in order to be ready for the future urban economy.

Another innovative program is the New York City Center for Economic Opportunity developed by the city of New York. It also 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 innovative program is the “Economic Resilience Plan” (2008) promoted by the city of Edinburg designed to help businesses diversify their services.

We have identified other efforts at innovation 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 that employ low-carbon transportation in Graz (Austria), or to city plans that improve their administrative efficiency such as an improved tax-collecting procedure in Dobrich (Bulgaria).

We cannot conclude that innovation is a policy priority in local government agendas in today’s crisis. Innovation measures do not dominate 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) in the context of tax crises for many local governments. 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 for recovery. Cities such as Rotterdam, Rennes Metropole, Newcastle, Birmingham, Eindhoven, Jyvaskyla, Gothenburg, and Obidos 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 the drop in income tax, the City Council of Jyvaskyla 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 tapped its strategic planning development capacity.

Another example is found in the city of Newcastle in the U.K. With growing unemployment that has affected the elderly and professionals, with the drop in construction and 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, which 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 a vision of the city in 2030.

One of the most interesting long-term strategic approaches is that described in the Newcastle Gateshead 1 Plan (published in January 2010). 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 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 (including the urban center), which will lead to a better integrated and more compact city.

Other cities have come up with similar plans. The city of Rotterdam has a comprehensive plan called "Rotterdam Offers Perspective," which includes joint measures to allot a significant portion of the budget to construction projects to keep and create jobs in the construction industry.

This proactive approach can also be seen in other cities (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 one of the strategies adopted by local governments, especially in large metropolises. Local governments have been active in promoting meetings, agreements and pacts that allow the strengthening of cities' negotiating and decision-making capabilities 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 attended by over



1000 mayors from around the world was held in Mexico City in November 2010, focusing on ways to combat the effects of climate change. This meeting paved the way to the drafting of the Mexico City Declaration.

Increasing the strength of negotiating positions is important for many reasons, but in particular because it gives cities access to resources controlled by national authorities, which is important because some 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 can help explain the differences between cities that we have described. This set of actions will have to undergo rigorous measuring, correlating them with variables such as employment, economic growth, and others, and isolating factors that may be equally important.

## CONCLUSIONS

1. Cities across the world have been severely hit by the crisis, putting them at 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 are significant. There isn't a linear 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. At this difficult juncture, a surprising phenomenon has been the active participation and highly visible presence of the world's mayors, especially from large metropolises. They have engaged in timely participation, have offered alternatives, and have developed proposals to fight the crisis. All these elements help make cities a fundamental actor in any response. Yet, this participation should no remain at the rhetorical level. A strong position must go hand in hand with measures, actions, programs, investment, and budgetary commitments. Otherwise, alternatives are ineffective and the cities lose credibility.

3. What cities, their local governments, and their communities do to fight the crisis is what is truly important. There are successful and encouraging examples in different regions around the world where cities—some of them small or medium-size urban centers—have put their best strengths and most compelling creative solutions forward to help themselves survive. Nevertheless, we have also found many cities that just crossed their arms and waited for the crisis to blow over and the 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 power 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, capital, political and institutional agreements, and social relations. The main advantage is that they 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 lesson provided to us by cities that have put in motion highly advanced programs is that the solution to current problems must be to build 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 its deep social, political and cultural consequences. Nonetheless, it too is an opportunity to do things anew, to open up the best resources, and to even allow imagination to run free. 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 for the promotion of extraordinary social reforms. Monumental pieces of infrastructure were built, and an astounding display of artistic and cultural activities occurred.

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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