

Vallejo, California. From the Fringes of the Metropolis, a Case for the City Region System of Survival¹

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Abstract

This working paper investigates the innovative city region of San Francisco (the Bay Area). however, it does not focus on the city's core, instead it analyzes one of the districts in its social, economic and geographical fringes: the city of Vallejo. Vallejo, even though it was performing relatively well, it filed for bankruptcy in 2008, upon the genesis of the current global economic slowdown. Today it is the largest bankrupt city in the United States. Vallejo urgently requires a process of innovation, and in order to do so, first needs to survive. This innovation process requires more than empowering its entrepreneurial dynamics per se. The paper's findings are based on an economic geographic study of the city of Vallejo, at four key points in its history since the XIX century. The concept of 'City Region System of Survival' is proposed.

Keywords: *city region, innovation system, innovation policy, entrepreneurship, economic crisis, local economic development, San Francisco*

Introduction

This working paper is divided into two research questions. The first one is: *How are the entrepreneurial dynamics of the western city regions doing in the current economic crisis?* Since it would be counterintuitive to claim that entrepreneurship performance in general does well during an economic crisis², the second proposed research question is: *What are potential solutions for an economy facing this scenario?*

This paper is based on the research findings of the economic evolution of the city of Vallejo, part of the San Francisco Bay Area. For the purposes of this paper, Vallejo is referred to as a district of the city region of San Francisco. Vallejo's largest employment sector is tourism/leisure. Besides this sector, the city also offers many retirement facilities and medical services. It could be argued that since the large Naval Base was closed in the 1990s, the private sector has experienced somewhat of a boom as the city was considered one of the most business-friendly and entrepreneurial cities in California (City Website, 2010)³

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² Even though there is evidence that start-up rates increase during recession periods, this is only a facet of the entrepreneurial dynamics (Bosma, Acs, Autio, Coduras & Levie, 2010).

³ The city website shows that the city was ranked first among the 'Best Cities for Entrepreneurs in America Middle Sized Cities' -Entrepreneur Magazine, Oct. 2003-. It was ranked number 5 among the 'Best Places for Business in California' -Forbes, 2002-. It was also ranked number 9 of the 'Top 20 Medium Size Cities Doing Business in the U.S.' -INC Magazine Best Cities, 2004. (City Website, 2010)

However the entrepreneurial ecosystem has been polluted. The city has been hit hard, comparatively, by the recent housing bubble and global economic crisis. These factors forced the city to file for bankruptcy in 2008, making it the largest city in the history of California to have done so, and the only city in the United States to currently be in this process⁴

It should be noted that although Vallejo can be categorized as an ‘extreme case’, it is just one example of the unsustainable dynamics of many city regions in Western countries. On June 12, 2010, President Barack Obama sent a letter to the Congress and Senate in which he expresses his concern:

“Because this recession has been deeper and more painful than any in 70 years, our state and local governments face a vicious cycle. The lost jobs and foreclosed homes caused by this financial crisis have led to a dramatic decline in revenues that has provoked major cutbacks in critical services at the very time our Nation’s families need them most. Already this year, we have lost 84,000 jobs in state and local governments, a loss that was cushioned by the substantial assistance provided in the Recovery Act. And while state and local governments have already taken difficult steps to balance their budgets, if additional action is not taken hundreds of thousands of additional jobs could be lost. (...) Because the urgency is high — many school districts, cities and states are already being forced to make these layoffs” (Obama, 2010)

This address from President Obama is just one example of the increasingly serious concerns for the regional and local levels. The American president was quoted, however, examples from many other European leaders could also have been used.⁵

There is abundant work of practitioners and researchers regarding Local Economic Development (LED).⁶ There has been much praise for LED (Bingham and Mier, 1997), and there have also been critics, mainly for its zero-sum game consequences (Snell, 1988; Dewar, 1992). Undoubtedly LED can have a positive impact on empowering communities, however, it also creates a strong urgency for local politicians to act as entrepreneurs, something that it has been heavily criticized for its past mistakes (Goodman, 1979; Harvey, 1989⁷). An analysis of the four historical points in Vallejo's history suggests what many others have already observed, which is that “public officials basically react to external pressures” (Reese, 1995). Obviously, the “economic development policies, and ultimately the local economy, can be affected by individual local leaders” (ibid). However, the analysis in this paper suggests that the role of the local leadership may not be as significant. In this paper local leadership is referred to mainly as the networks that create LED policy as well as entrepreneurship initiatives. In a place like Vallejo, outside the core of the city region, local leadership has mainly reacted to external pressures or and been externally dependent.

⁴ “The seldom-used part of U.S. bankruptcy law gives municipalities protection from creditors while developing a plan to pay off debts. Created in the wake of the Great Depression, Chapter 9 is widely considered a last resort and filings under it are more taboo than other parts of bankruptcy code because of the resulting uncertainty for everyone from municipal employees to bondholders”. (Wall Street Journal, 2010)

⁵ E.g. The city regions of Madrid, Spain is \$7 billion in debt (Idealista, 2010), Saint-Étienne, France, debt in toxic assets (Katz, 2010); Los Angeles (Platkin, 2010), Harrisburg, capital of Pennsylvania (Kelly, 2010), etc. But also serious economic difficulties have arisen in peripheral cities of Europe and US states, including many regions that were recently thriving.

⁶ Two decades ago, there were already “15,000 economic development organizations, in the United States alone, employing between 25,000 and 50,000 practitioners” (Boyle, 1990). American researchers pointed out that LED had been “established as a new academic discipline”. (Mier & Fitzgerald, 1991).

⁷ Harvey is the most quoted geographer. He popularized the term “urban entrepreneurialism”, which refers to local politicians wasting resources in spectacle and “circus”. While I agree with this critique, the word entrepreneur it is not actually fair, a term such as “urban speculation” may have been more accurate.

In LED entrepreneurship has been embraced by scholars and policy makers in the USA and Europe, and much has been written on it t. (Nolan, 2003; OECD, 2003; Walzer, 2007, Glaeser, Rosenthal and Strangeet, 2010). However at the end of the road, local entrepreneurship policy has very limited options (Lundstöm & Stevenson, 2005; Hart, 2003), and although Vallejo has tried different strategies since the late XIX century its entrepreneurship has not showed a particular high performance when compared to its neighbors. Furthermore, this study confirms that 'community-based' development, is unequal across cities. Making places with fewer resources (education, income, etc.) in a worse position to do well than places possessing these factors.

This paper proposes the concept of 'City Region System of Survival'⁸. This includes two main ideas that complement each other, in order to create a better place for citizens. First, the life of the city (or district) depends on external factors. Second, city region actors need to realize they are an organism and therefore should actively coordinate among the different members. One of the important aspects for cities to be able to have a fertile ecosystem, where entrepreneurial dynamics and innovation capabilities can evolve, is recognizing the potential conflict against the local (city region) elites, as suggested by Robinson, 2002; Rodriguez-Pose, 2008; Florida, 2010; Walker, 2010b; Schafran, 2010 and Lundvall 2010, among others.

The initial research question of “*How are the entrepreneurial dynamics of the Western city regions doing in the current economic crisis?*” requires some sub-questions in order better understand of the broad research question. The paper then highlights the key features of the city region of San Francisco, and its district, the city of Vallejo. Next, four key points in the local-economic evolution of Vallejo are analyzed, with a final subsection that discusses some of the lessons learned from these key points. The last part of the paper proposes the 'City Region System of Survival'. Some brief final remarks conclude this working paper.

How are the entrepreneurial dynamics of the Western city regions doing in the current economic crisis?

“It is becoming increasingly the case that it is upon this new mantel of entrepreneurship that economic policy, ranging from communities to cities, states and even entire nations hangs its hopes dreams and aspirations for prosperity and security” (Audretsch, 2009). While entrepreneurship is gaining importance “the geographical pattern of innovation activities is shifting and the boundaries between local, national and global innovation systems are becoming blurred.” (Borrás, Chaminade and Edquist, 2009). Nevertheless, many academics are focusing at the city level, and they even claim that “our world order comes to be built on cities and their economies, rather than nations and their armies” (Khana, 2010). This paper aims to analyze the role of entrepreneurship at the city region level, from a broad perspective and in terms of the current western recession.

Why entrepreneurial dynamics?

Entrepreneurial dynamics deal with the analysis of sustainable strategies for the process of innovation. This line was marked by Schumpeter, when he pointed out that the entrepreneurial process is “the fundamental engine that sets and keeps the capitalist engine in motion” when creating new goods, inventing new methods of production, creating new business models, and localizing new markets (Schumpeter, 1942, p. 83). He

⁸ This working paper, obviously does not aspire to introduce a new concept in the economic development discussion. In fact I agree with the statement of Lundvall, Vang, Joseph and Chaminade (2009), when they claim that “The innovation system has become part of policy language world-wide – what is needed now is to re-conquer the concept and bring it back to what was intended with it 25 years ago”. More on why introducing the term 'City Region System of Survival' will be addressed in the section with its name.

pointed out that “innovation is (...) not any more embodied typically in new firms, but goes on, within the big units now existing” (Schumpeter, 1928), currently known as intrapreneurship or corporate entrepreneurship. For Schumpeter (1947), the “defining characteristics [of the entrepreneur are] simply the doing of new things or the doing of things that are already being done in a new way (innovation)”, and obviously it is also done by establishing new firms, as he acknowledge in all of his work.

Innovation is created by entrepreneurs. However, one should not think they are the only actors in an environment. The system of innovation has to be understood in a framework “which encompasses all institutions which affect the introduction and diffusion of new products, processes and systems in a national economy” (Freeman, 1992). There has been large literature in this field, however, “there remains a bias among scholars and policy makers to consider innovation processes largely as aspects connected to formal processes of R&D, especially in the science based industries.” (Jensen, Johnson, Lorenz and Lundvall, 2007)

Why in the Western world?

West refers to EU and USA. Both blocs have always had a close relationship, as seen in periods of growth and crisis (E.g. 1873, 1929, 2008). The formerly known second and third worlds, had their own socioeconomic evolution and continue to do so. Japan, Korea and some city regions in Southeast Asia have also had strong links with the West but have maintained a different trajectory when compared to EU and USA. In quite a different economic cycle are the successful Chinese city regions. Looking at the analysis of 150 metropolis worldwide according to the Global Metro Monitor (2010), it is clearly shown that the economic slowdown has hit the European and United States metropolis, and not those particularly in the Asian Pacific Rim.

Why city regions?

This paper focuses in the city region. In some cases this classification coincides with the metropolitan level, much has been studied in the US on Metropolitan Statistical Areas and in Europe this could coincide with levels 2-3 of NUTS. Jacobs (1984) described the city regions in an open way:

“In the hinterlands of some cities —beginning just beyond the suburbs— rural, industrial, and commercial workplaces are mingled and mixed together. Such city regions are different from all other regions, having the richest, densest, and most intricate economies to be found, except for those of cities themselves”. (ibid. p.45)

She also pointed out that “by no means do all cities generate city regions” (ibid.), and identified San Francisco as one of the few that had created one. In the last decade there has been an increasing interest in the city region level (Scott, 2001), and while there is not a clear definition of the concept (Rodriguez-Pose, 2008), it seems the city region could be related to the research done on labor-market regions, which “As a geographical unit, (...) are often used to determine intra- and interregional (e.g. knowledge transfers and labor flows)” (Timmermans, 2010, p. 158)

Also terms such as megaregions (Florida, 2010), and megacities (Buijs, Tan, Tunas, Gerards, 2010) are attracting much interest among researchers, and possibly in the future will be used more often because of the necessity of addressing a new spatial fix, as will be over viewed in the next subsection. These terms are intimately related to the concept of the city region (even though the term “mega” suggests a larger agglomeration), it could be only a difference of semantics. This paper uses the term city region because it emphasizes the interplay between the core of the city and the region.

Rodriguez-Posé (2008) points out many of the potential advantages of the city region approach. The main reason is because “City-regions are considered to be at an ideal scale for policy innovation”; this is because a) Cities’ internal diversity is bread through constant innovation, b) successful dissemination of policy innovation , and c) the proximity to policy makers. Rodriguez-Posé then investigates “whether city-regions are the panacea”, and concludes that city regions should not promote a city region policy per se, because this will lead to greater inequalities and control by the city region elites. Instead he argues for a more cohesive policy and governance.

In the strand of systems of innovation, most of the studies have followed the national and regional levels, from Lundvall (1992) and Cooke (1998) respectively⁹. It is crucial to understand the innovation process at these levels, however the metropolitan or city region level has only received some attention (Fischer, Revilla Diez and Snickars, 2002). It could be argued that this level is included in the regional analysis, and to a certain extent it would be the case. Even though the regional innovation system has some critics (Doloreux & Parto, 2005), using some type of 'city region innovation system' can be a good focusing tool for understanding innovation.

In all, the level of the city region seems relevant to analysis the process of innovation. This paper is an attempt to explore the geographical unit of the city region.

Why the current economic crisis?

Much literature understands economic crisis as part of economic waves. (See Pike, Rodriguez-Posé and Tomaney, 2007, p.82-83 for introduction). As pointed out, the current economic crisis may be an inflection point for the economy. Florida (2010) claims that after the 1873 crash, there was the rise of the giant industrial city (cities currently in the Rust Belt). Subsequently, after the 1920s came the genesis of the suburbanization, which was open territory to urban growth, and its subsequent extreme urban sprawl. In the case after the Long Depression (1873 onwards), he used the example of San Francisco, and how its cable-car system was seen as “the most distinctive, progressive feature of California” an icon of a new type of city (Florida, 2010, p.16).

The same way they changed the spatial fix back then with the rise of big industrial cities and later suburbanization, the change that may come out of this economic wavewould be towards more dense, walk-able and sustainable cities. This could suppose significant changes for our working and living conditions in the Western city regions, and therefore there would be a lot of room for innovation. (ibid.) This working paper could be a step in this research line, but it also finds some limitations with city region evolving through recessions approach.

All in all, the subsections above has laid the foundation to answer, *How the entrepreneurial dynamics of the Western city regions are doing in the current economic crisis*. The importance of the city region level has been pointed out in order to understand the innovation process and its situation in the current economic crisis or turning point.

Methodology

In order to understand the current city region , this paper will analyze the city region of San Francisco, which has been one of the most innovative ones in the world. However, this study does not focus on the most well-known districts of San Francisco, but Vallejo,

⁹ Besides the geographical units, another point of view is the *sectoral* system of innovation (Malerba, 1999). Taking this too serious, one could conclude that the sector of high tech in the city region of SF has been outstanding, forgetting other industries and socioeconomic variables.

a struggling city in its periphery. Vallejo is certainly an 'extreme case' (Flyvbjerg, 2001). This case has been chosen because it activates "more actors and more basic mechanisms in the situation studied" (ibid: 78).

Primary and secondary sources were used for the historical evolution of this paper. Background information for the current situation of Vallejo was mostly obtained using media articles, recent academic working papers and interviews.

Historical sources have come from a dozen books covering many aspects of Vallejo, most of them found at the libraries of the University of California, Berkeley and the library of the Naval and Historic Museum of Vallejo.

Interviews were done from February to July 2010. Efforts have been made to talk with a wide variety of local actors in the main networks. This included representatives of a of public entities (government, education, city employees, etc.), a dozen small businesses, citizens groups, journalists, and short interviews with around 40 citizens of Vallejo. Conversations concerning Vallejo were also carried out with a large number of people from the city region in order to contrast opinions and views. Extensive notes were taken of all of these conversations and interviews. In a few cases, emails were used as an interview medium. A few interviews were done by telephone, but the preferred method for interviewing was face-to-face meetings. The only group that presented repeated difficulties to a formal interview was the police department.

I was also an active observant in a pivotal City Council meeting in which the firefighters' contract was renewed. To complement the qualitative research I also visited and observed the city numerous times during the first semester of 2010.

The city region of San Francisco

The city region of San Francisco is commonly known as the Bay Area. It includes San Francisco, Berkeley, Oakland, San Jose, and the Silicon Valley cluster among other places. In total it has nine counties and 101 cities. Its size makes it quite politically fragmented. The city region has roughly 7 million inhabitants, and with all the necessary caveats its GDP was estimated at nearly \$400 Billion in 2006.¹⁰ (Bay Area Economic Forum, 2008)

The case of the San Francisco region has been studied as a paradigm of innovation since the Gold Rush of 1840s. Later its powerful industry in the early XX century commanded attention, and most recently Silicon Valley became the object of uncritical view of economic growth and a powerful symbol of US industrial leadership and entrepreneurial spirit (Walker, 1995). Of particular interest to this study, Cooke and Morgan (1998) pointed out Emilia Romagna, Baden- Württemberg and Silicon Valley as the best three examples of Regional Systems of Innovation.¹¹

¹⁰ Comparatively, Denmark's was around \$275 Billion.

¹¹ Regarding Silicon Valley, there are approximately 400 books and 1000 journal articles discussing it (Stanford and UC Berkeley libraries catalogs show similar numbers). However, there is very little about its adjacent cities, which are clearly interdependent. Saxenian (2000), the scholar of excellence on the subject, already noted that this hotbed area would not have been feasible without the human and capital resources from the long-time locals of the surrounding areas of the city region. However, little is known about the dynamics within these adjacent cities. In other words, these communities complement the economic dynamics of the city region but are rarely studied.

However, one should look at more than the Silicon Valley district, as some evidence supports the idea that there is a “need to consider the larger metropolitan context in order to understand the relationship between high tech clustering and the internal performance of manufacturing establishments” (Suarez-Villa, 2002). Regarding this larger metropolitan context, or city region, it has not been until recently when key persons in Silicon Valley have begun expressing their concern for firms there. Andy Grove, senior adviser to Intel and former Chief Executive Officer, explained:

“Bay Area unemployment is even higher than the (...) national average. Clearly, the great Silicon Valley innovation machine hasn’t been creating many jobs of late -- unless you are counting Asia, where American technology companies have been adding jobs like mad for years.” (Grove, 2010)

He points out how many companies in the area, like Dell, have one U.S worker for every ten in China. (ibid). This pattern has been followed by many companies and has helped them achieve astonishing results. For example, Apple in 2010 had over 15 Billion USD in profits (Apple, 2010). Grove (2010) believes that the off-shoring strategy of many firms in the Bay Area are a “tragic mistake”¹².

The city region of San Francisco is fully immersed in the socioeconomic problems of California. According to Walker (2010b), such problems seems to have reached a worrying point. *“Today, California has run aground on the reefs of inequality and racial division, inferior schooling and incapacitated government, while those who profited from the boom times have refused to share their good fortune with new arrivals.”* One of the main routes of economic distress among the citizens has been seen in the staggering housing bubble and subsequent economic catastrophe. The effects of the housing bubble, although felt worldwide, must be kept in mind in California since the bubble was at the epicenter of this recession. The Bay Area had skyrocketing home values and subsequently unparalleled numbers of mass mortgage and sub-prime loans (Walker, 2010b). (See figure 1)

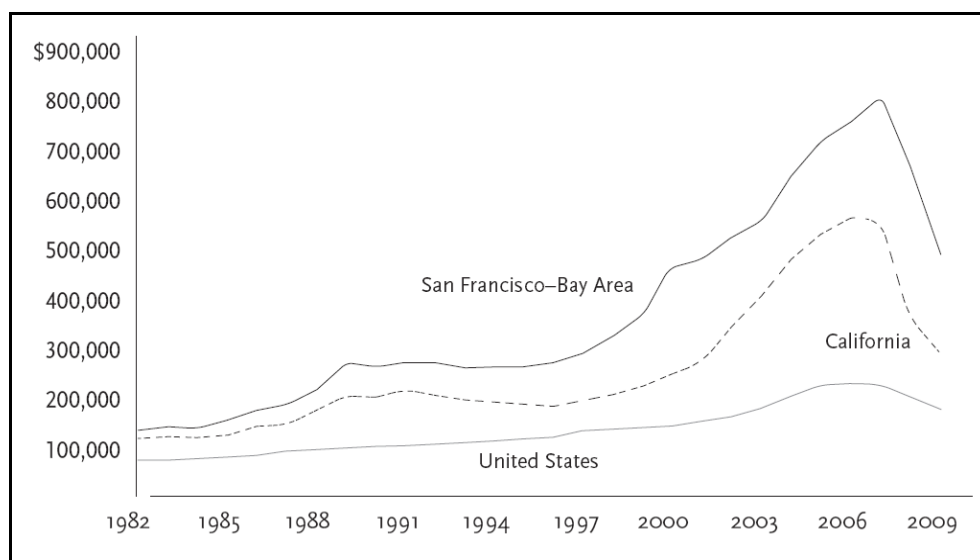


Figure 1 Median home prices (Walker, 2010b)

¹² Although Grove does not point it out, probably the most worrisome factor is that the spin-offs and/or spillover effects that made the Bay Area flourish (Saxenian, 1990,) were geographically shifted when companies off-shored productions and much of the engineering process.

Due to the price increases “San Francisco, in particular, has become dramatically richer, older and whiter. Meanwhile the working class, especially young families of colour, have moved to the fringes of the major conurbations” (Walker, 2010b). This will be covered in more detail in the next section.

This paper supports the notion of a more united Bay Area, or cohesive city region, instead of one marked by substantial inequalities. Obviously, it is not the first document to do argue for more cohesion. In the 1950s and 1960s there was a lot written on the need for a regional government (or new regionalism) in the San Francisco Bay Area and the idea has had a resurgence since the early 2000s (Walker, 2007). This way of understanding local economic development is applicable to many city regions in our Western cities which have inherited a bygone political segmentation.

The city of Vallejo

The lands that today make up Vallejo used to sit on fertile land that different native American tribes used to share. The city owes its name to Mariano G. Vallejo (1808-1890) who took military possession of these lands as a Mexican General born in California. Later he strongly supported having California join the United States. He wanted “to create his dream of a thriving new state capital. Vallejo wished the site to be called Eureka, but his fellow citizens insisted upon naming the city in his honor” (Visitors, 2010). For a short period of time the city was the capital of California¹³.

There were several reasons the pioneer Mariano Vallejo chose this location. Besides the fertile lands, the city sits at the confluence of two rivers, has perfect weather in contrast to the foggy coast, has deep water for ocean going ships and has favorable tides for sailing to the Ocean. Some of these reasons also seemed to influence the Navy which chose this spot to locate its first base on the Pacific Coast in 1854.

The current city has approximately 115,000 inhabitants. Measuring from its political boundaries Vallejo is the ninth largest city in the San Francisco Bay Area and is located in the northern periphery of the city region. (See map).

Vallejo is very ethnically diverse. The 2000 census noted that it was the most diverse city in the county. Many citizens are proud of this fact, and one can appreciate the diversity while driving around the city. Unlike in many other American cities, the different neighborhoods are relatively unsegregated. The current ethnic composition of the city is remarkably balanced between four main racial classifications : White (non-hispanic), Black (non-hispanic), Hispanic and Asian. (See figure below)

¹³ Mariano G. Vallejo, also named the neighboring town Benicia after his wife. He hoped the area would work together as a marriage, however, the towns of Benicia and Vallejo soon developed a bitter rivalry. Benicia was also the capital of California for a short period of time.

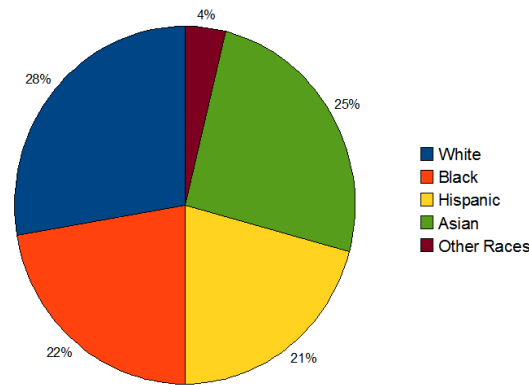


Figure 2 Ethnical composition of Vallejo (Data: US Census, 2010)

Vallejo is currently regarded as a working class, suburban bedroom community. With the exception of the amusement park, within the city region it is not very attractive to live and visit it. This negative stigma was exacerbated when the city became infamous for going bankrupt¹⁴. This has led many in the area to believe that the city has always struggled; however, it has a fascinating economic past. In the late XIX century many believed that Vallejo could become an important world metropolis because of its geographical location. However, these perspectives only lasted a few years. During most of the XX century, Vallejo was regarded as a Navy town. The Naval Base and military shipyards closed in the mid 1990s, yet the economic impact was tempered by or (went somewhat unfelt since it coincided with) fast growth in the housing sector of the Bay Area.

Since Vallejo's bankruptcy in 2008 it seems that the main challenge has been to adjust its budgets in order to pay the salaries of city employees, which is a very intricate political issue (Mish, 2010). Today the case of Vallejo is watched by many other cities who are financially struggling and are considering filing for bankruptcy (Kelly, 2010). For some, Vallejo might represent the 'canary in the coalmine', therefore there are significant reasons to learn how the city got into this process, its evolution and actors, and how they are trying to get out of this situation.

Vallejo and the four key points in its Local Economic Development

There are four points that are crucial to understanding the city of Vallejo. In each of its booms there has been tremendous economic and demographic growth. The four booms and busts, or peak of the economic cycles, of the economic development of the Vallejo are I) 1868: The train arrives, II) 1941: WWII and Navy Town, III) 1960: Extreme Downtown Redevelopment, and IV) Bay Area Growth & 2008 Bankruptcy.

1868-1879. The train arrives

"The natural situation of Vallejo is unsurpassed on our coast for general commercial and manufacturing businesses. The vicinity of Vallejo is in its agricultural resources the richest part of the State" (Vallejo Chronicle, 1871, p.7) This 'real-estate description' which abounds in the American writings of the XIX century, it is actually not an overstatement. Vallejo is the natural port of many agricultural lands (such as the Napa Valley) and it was a fast growing city in population, political representation and economic indicators due to exporting agricultural products. The local newspaper kept narrating that, "The advantages of Vallejo have been recognized by capitalists, who have built and purchased a

¹⁴ In the last three decades there have been roughly 40 cities, villages, or counties that have entered into the bankruptcy process in the whole U.S. (Ruggeri, 2008)

system of railroads to terminate here” (ibid.). In 1868, “Vallejo took one new life with the completion of the Sacramento-Vallejo line” (Marr, 1955), which was with great difference, the fastest railroad route between the capital Sacramento and a Pacific harbor. The cheaper fees of its harbor made it quite competitive against the farther San Francisco¹⁵. Import and exports soured through the new commercial hub. Many agricultural related products were exported to Europe, Asia and South America (Vallejo Chronicle, 1871). Because of its strong production and export of wheat, the largest flour mill on the Pacific Coast was built in its waterfront.

Having the railroad arriving to Vallejo supposed “the city’s first real estate boom” (Kern, 2004). It was also the catalyst of the city being transformed in a commercial one. By that time in all the U.S., all local leaderships knew that the train was crucial for the city survive. No steamboat could compete against it¹⁶. The citizens of Vallejo, understood well that “In these days of rapid communication a position is almost, if not quite as necessary to maintain supremacy as a favorable commercial site.” (Vallejo Chronicle, 1871: 56).¹⁷ Nevertheless the competitive advantage of Vallejo as the most direct route to the Pacific from Sacramento, only lasted for a decade. When a competitor railroad company, opened a direct line from Suisun City (Fairfield) to Benicia in 1879 (Niles, 2008). “Vallejo found it self by-passed, sitting at the end of a branch line” (Marr, 1955). It was an announced defeat, as Vallejo is surrounded by sedimentary high mountains, other neighbor places were better suited for a more direct railroad, and similar access to the San Francisco Bay.

Mariano G. Vallejo might have not chosen this place if he had foreseen the importance of the railroad.¹⁸ These past and future events did not really bother the residents of Vallejo at that time. In 1878 the U.S. Department of Defense commenced building three docks in the Naval base, and life was good in Vallejo.

1939-1945. WWII & The Navy Town

The First World War gave an important boost to the city by establishing modern shipyards in the city. Another crucial event came in 1927 when a bridge was built over the Carquinez Straits, rerouting highway 80 through Vallejo on its way to Oakland. By the late 30's the city's nickname was 'the City of Cash' because of the significant federal payroll at Mare Island Base. However, “no other event in Vallejo's history had a greater impact than World War II. (...) Workers flocked to California to find employment at West Coast shipyards, and the result was unparalleled growth and change” (Kern, 2004, p. 101).

The population climbed swiftly during WWII. At its peak the base employed nearly 50,000 workers. Some workers resided in Vallejo, but many came from other districts of the city region. Pictures of a nice uptown during the 1940's showed crowded streets with cars, electric trams and pedestrians. Vallejo experienced a building boom following the end of WWII as new subdivisions grew on land formerly used for agricultural and farming purposes¹⁹.

The shipyards built and repaired usually small boats, but some of the most legendary American battleships and even nuclear submarines were assembled on the base. During

¹⁵ At that time, San Francisco was the biggest city of California, and Sacramento (today's capital) the second.

¹⁶ A familiar story of the time, was the Midwest economic development war between prosperous Saint Louis against the small Chicago. When the Chicago leadership got the train first there in 1852, it radically changed the growth of both cities. Chicago boomed, while Saint Louis first stopped, then shrunk and since then has never recovered. (Taylor, 1997)

¹⁷ Massive speculation related to the railway led to the Panic or Crash of 1873, and the following Long Depression put a temporary halt to commercial trade.

¹⁸ The city lost its direct line from the inland locations to better places in the 1870s. This may be why Vallejo's last train traveled its railroads in 2008.

¹⁹ This suburbanization or sprawl happened in practically all US and European city regions.

the XX century the base was the biggest employer in the city. There were all type of engineers, as well as “a wide variety of trades including riggers, shipfitters, draughtsmen, painters, welders, machinists, mechanics, pipefitters, sailmaker, electricians, pattern makers, and scores of other skilled trades” (Kern, 2004, p. 28). It seems that with such capital and knowledge should have been a good platform for indigenous growth, however this did not occur. Furthermore, “branch line rail rates imposed upon some commodities shipped into and out of the area, water shortages and the proximity of large dominant government establishments [the Naval base,] have all been limiting factors on industrial growth” (Marr, 1955). Therefore, even though the base operated for 130 years (1878-1996), the city did not diversify its economy, and in fact, the base seems to have hampered the entrepreneurial dynamics of the city. This process has been acknowledged in other places by many, like Jacobs (1984), who said that “once a city, or any other settlement, comes to depend upon prolonged military work as an appreciable, normal part of its economic base, the military production must be maintained indefinitely or the economy shrinks” (ibid., p. 186).

The base later closed²⁰; however, there was a key moment when the city's leaders joined forces in an attempt to jump-start entrepreneurship in the core of the city. Unfortunately, it turned into one of the best examples of how the dreams of planners and entrepreneurs can go wrong, as will be discussed in the next section.

1957-1965. Downtown Extreme Redevelopment

“In these days of startling growth and rapid change, it is an absolute necessity that a policy setting out the pattern for future growth be adopted and followed. (...) ‘Redevelopment’ means clearance of all but the good structures and rebuilding the area according to an approved plan”. (Vallejo Master Plan, 1957. p. 18, prepared by Hahn-Wise & Associates Consulting)

Vallejo experienced significant growth during the 1950s, increasing from 26,038 to 60,877 inhabitants (See Figure 4). There were new aspirations for the city, but the 100 year old downtown by the waterfront had lost its charm. The master plan described the area as “characterized by extreme age with little maintenance, general dilapidation lack of adequate streets, [and] lack of recreation areas.” (ibid.). As one resident mentioned, it was a place for the sailors' leisure activities, but not a place for respectable families of the city. A woman who lived in Vallejo during those years put it simple: “the downtown was really bad”. The redevelopment area targeted nearly 125 acres (over 63 soccer fields), and when it took place, 600 buildings were demolished. Records show that around 500-600 families were relocated.

In 1956 the Vallejo Redevelopment Agency was established to manage the rehabilitation of the historic core of the city's downtown. The plan called for a modern pedestrian center to emerge, consisting of upscale stores, restaurants, and hotels, as well as a new post office, city hall, a civic auditorium, a library, a waterfront art exhibit and a beautiful

²⁰ After WWII, the base continued its operations. As an experienced local official (2010) expressed in an interview, “everyone believed that the base would be there forever”. However, during the last years of the Reagan administration an incident changed the fate of the base, and alas, the city. The battleship Missouri did not get the traditional invitation from the city of San Francisco. The unwritten message was that the citizens of the Bay Area did not welcome the military strategy of the government. This compounded the already strained relationship between most of the Bay Area and President Reagan, the former California Governor. Coincidentally, all the bases in the Bay Area were scheduled to be closed in the coming years. Many citizens saw this as an economic punishment (Walker, 2010a). All the Navy operations were being reduced and employees transferred. In 1996, Vallejo's Mare Island Base was closed, leaving behind a singular vacant space, with several problems and need of investments for the land remediation.

marina, among other things (Marina Vista Project, 1959). “In 1959 Vallejo received the prestigious All-America City Award from Look magazine. Vallejo was selected in recognition of its successful annexation program and its ambitious downtown/waterfront redevelopment project”. (Kern, 2004. p. 122)

According to a 1960 document, the project was projected to cost over 7 million dollars²¹. Five years later, the project had reached double the original expectations, and they started having some difficulties obtaining funding. In 1965, after the demolition was complete, a ceremony consisting of 500 distinguished citizens (with the ability to fund) allowed each guest to participate in the groundbreaking ceremony for the new complex while the Navy band played. An official declared: “This is a community-wide event, and one of the most significant and important in the history of Vallejo” (Vallejo Times-Herald, 1965).

This pompous event marked the beginning of the end. The government buildings were constructed, but the buildings dependent on the private sector never took off. Partly this was due to the national trend of building commercial centers at the outskirts of the cities and away from the traditional downtown. Vallejo's old downtown remains practically empty, with the exception of the ferry terminal which connects Vallejo to San Francisco.²² A citizen who remembered the event narrated, “we all thought it was going to be marvelous with all the new buildings. I remember going to the dedication... (...) we're still waiting for something to happen” (Vallejo Times-Herald, 1998). By 2011, a half century after starting the redevelopment, it seems the citizens will have to keep waiting.

1995-Today. Bay Area Growth & Local Bankruptcy

From the 1990s until mid-2000s there was radical economic and demographic growth in the surrounding cities of the Bay Area (Schafran, 2010). Due to the fact that housing prices became very high in the core, peripheral cities like Vallejo developed the housing sector. Therefore, even though the military base finally closed in 1996, housing growth during the same period cushioned the economic effects. This growth was driven by many of the “the new working class of California, chiefly immigrants and the children of immigrants”, which have had to flee the urban fringes of the Bay Area to find jobs and affordable housing (DeLara 2009).

It should be mentioned that while this financial boom seemed to assist Vallejo's situation, it also pushed it into the deathly process of acquiring large debts. The debt “both federal and state/local, [has grown] rapidly over the last 30 years, shooting up in the 2000s” (Bardhan & Walker, 2010)²³. In the case of Vallejo, its budget was already struggling in the mid 2000s, however, after the bust of the housing bubble and the following economic recession, Vallejo found itself in serious trouble. The city declared bankruptcy in May 2008 because of a combination of lower income and increased expenditures.

Lower city income resulted from decreased property tax revenues which declined after the bust, this included the high number of foreclosed homes. According to a local official

²¹ Of this 50% would be paid by the future sales of land to businesses, 33% would come from a Federal grant (this came from a very popular national fund for urban renewal at the time), and the remaining 17% would mostly come from bonds sold to the public. However as usual, upon construction, the costs increased from the initial plans made by the consultants.

²² Since the ferry service started in 1986, some of the empty space left by the redevelopment project has been useful to provide a large parking lot for the daily ferry commuters.

²³ It was relatively easy for cities to obtain credit because investors perceived that the debt was riskless. An executive of an investment bank that used to work corporations on restructurings and now is advising municipalities, declared in the Wall Street Journal: “People believe that municipal debt is safe based on assumptions that are no longer true. For example, it isn't safe to assume that governments can raise taxes to cover shortfalls” (Wall Street Journal, 2010)

(2010) the city's income fell from \$80 to \$60 million. Afterward, once the general economy started shrinking, sales taxes also went down²⁴.

Expenditures, on the other hand, rose quickly. By the time of the bankruptcy and even today, around 80% of the local budget is used only for salaries and benefits of the local police and firefighters (Greenhut, 2010). This figure is significantly above the average of other similar cities (USBLS, 2010). A firemen representative (2010) claimed "Yeah, we've got high salaries, but it's like us having to have two jobs." They claim that their social and family life has suffered a lot and that they have been treated very badly by the City that they serve.

However, citizens see these public employees as an abusive interest group, or a 'good ol' boy network', that has taken advantage of a working class community. Besides the large budget allocated for them, two other issues surrounding them breed animosity. First, according to several sources, half of the firefighters or police officers do not live in Vallejo, but in more upscale communities. Second, despite this fact, this group has intervened as a powerful group in the political process by supporting City Council candidates favorable to their interests. This "symbiotic relationship" is quite acknowledged in the major city region newspapers. (Oakland Tribune, 2010; San Francisco Chronicle, 2010).

"In 2008, Vallejo had a higher violent crime rate than any other comparable city in California." (San Francisco Chronicle, 2010). Only in 2010, while much of the research was done, 16 residents were killed (Vallejo Times-Herald, 2010), numerous others were injured and many private property crimes also happened. Because of the bankruptcy, the citizens have suffered due to serious funding cuts at many levels. The citizens also complain of the state of the current downtown, and many believe that it is harder to find employment. Since 2004, the school district has been bankrupt, which by law has made the overburdened State of California take over the schools. This situation is translated into poor local education²⁵. The last thing to point out, as in some other peripheral cities of the San Francisco city region, is the tough economic prospects for many homeowners.

Some informants expect that by mid-2011 Vallejo will come out of the bankruptcy, however, there is much negotiation and legal work to be done. This shows that the global housing bubble has had serious effects on this community. The consequences of the bankruptcy are unknown, as well as how it will affect the evolution of the city. Summing

²⁴ Local sales taxes are an important revenue for American municipalities.

²⁵ In the United States, the school budgets (including teacher salaries) have a strong relationship with the home prices of the respective geographic area, due to the fact that an important part of the school funding comes from property taxes. This is translated into a lower quality education in poor cities. According to the Director of the county college, "there are 12 major feeder high schools to Solano Community College and a recent test placed the three from Vallejo at the bottom of the 12" (Kea, 2010)

up, through the path dependence because of different interests groups and a lack of effective governance today Vallejo is trapped in vicious circles.

Lessons from the Four Key Historical Points

This article points out the importance of the spatial location of Vallejo regarding its economic development. To sum up, it has been shown that place, including geographic conditions such as the surrounding mountains, water and infrastructures, as well as history, matter. However, both things are not definitive²⁶. There are also other issues affecting the path dependency of Vallejo that can will not be discussed due to space constraints.²⁷

Historical documentation and interviews with key informants show that Vallejo has tried a wide variety of LED strategies over time. Such policies range from attracting industry based on low-local taxation and subsidies, hiring top-notch consultants²⁸, “buying-local” initiatives, promoting business incubators as well as all types of cultural and entertainment activities, among others. However, since the late XIX century, the entrepreneurial dynamics of Vallejo have had a low profile when compared to other neighboring places. That happens in the railroadization stage in which Vallejo’s timing to get a train can not be considered entrepreneurship, but should be considered as part of the equilibrated routine system in Schumpeter's thinking. (Andersen, 1999). With the Naval base, main entrepreneurship initiatives were put into second place for more than a century. Unfortunately for the downtown/waterfront redevelopment, it came at a moment when the national trend of business initiatives were moving out of the downtown. Finally, the last key moment discussed in this paper, the housing boom, can neither be considered entrepreneurship, but financial speculation.

All in all, LED and more specifically entrepreneurship initiatives have not really taken off in the case of the city of Vallejo. Therefore, it seems worth it to explore other options, and potential solutions to establishing a sustainable innovation process. Not only to benefit certain parts of the city region or sectors, but for the public in general. In addition, it is observed that entrepreneurship at the city-region level is quite complex, specially because of its spatial inequalities. The next question then, as presented in the introduction is: “*How can we solve this problem?*”

The next section suggests a concept that could potentially advise a city facing such circumstances as Vallejo. This is the 'City Region System of Survival'. The paper could as well use the concept of “City Region System of Innovation”. In this occasion, there are two main reasons for using the term *survival*²⁹ instead of *innovation*. First, is the abuse

²⁶ A small city like Folsom, one hour east of Vallejo, blossomed in the desert when the company Intel opened a main researching facilities there. A place is not that determinant. The city of Fairfield, 10 miles inland and in the same county as Vallejo, is of similar size and also has a military base, but has a good budgeting tradition (Osborne & Gaebler, 1993. p.119-122). Even though they are now facing some economic problems, they are not of the magnitude of Vallejo.

²⁷ Such as 1) the effects on local taxation with the California Prop. 13 passed in 1978, which cut by half the local budgets (Walker, 2010b), 2) binding arbitration with public employees contracts which has been removed in a contested election on June 9 2010, or 3) the strong orientation to 'The Experience Economy' (See European Planning Studies, 2009), in other words, focusing in selling memorable experiences to tourists and potential residents, instead of focusing in generating products and services.

²⁸ In the last decades, consultants have been taken a more relevant place. In the 1959, there were consultants who designed the mammoth downtown renewal project. Outsourcing to “professionals” is something widely used in the nation, but Vallejo massively uses them. As the ViceMayor said after loosing a close vote against the renovation of the firefighters contracts, “I'm going to say something many here won't like: The elephant in the room is that the City is run by consultants” (Gomes, 2010).

²⁹ Following the biological lexicon of the evolutionary economics, the term “survival” is used. To survive is what the vast majority of organisms (Jacobs 1984, referred to cities as organisms) do in a competitive

of the term innovation, which popularly is understood as some type of high-tech program with strong marketing support, as well as the bias of scholars and policy makers for science & technological based innovation. Second, taking into consideration the life of so many “ordinary cities” (Robinson, 2002), and now especially in the current struggling times in the western world.

'City Region System of Survival'

The concept of 'City Region System of Survival'³⁰ can be related to the literature on Systems of Innovation. This encompasses the importance given to actors and networks at the city region level, among other factors. Based on the economic evolution of Vallejo within its city region, the 'City Region System of Survival' includes two main ideas that complement each other. First, that a city's life depends on external factors. Second, local actors need active coordination, or supporting a strong network among the different local actors.

Concerning the first point, reacting to external pressures or external dependance, Vallejo's dependance has been clearly patent in all the four historical key points. However, this should not precipitate a conclusion that a local government should only work to survive in 'external dependance'. City leaders also need a crucial understanding of the importance of an effective system of coordination among them, and this coordination comes from having an open and transparent democratic process. This can also be related to the literature on efficient networks. These two points will be discussed in the following subsections called “External dependance” and “Active coordination.”

'External dependance'

The city of Vallejo has been greatly affected by factors and events at global, national, state (California) and regional (San Francisco Bay Area/city region) levels. The influence of the World Wars and various economic crisis is apparent as well as the impact of early Bay Area competition of the train route, and later national support for 'redevelopment', and Bay Area demographic growth.

However, the booms and busts that can affect nations and city regions in certain ways (Florida, 2010), do not have to necessarily be felt in the same way in the periphery. of the city regions. For example, after the 1873 crash, the city region of San Francisco became denser, decreasing the life of peripheral cities, like Vallejo. On the other hand, during the boom of the 1950s onwards, with its suburbanization (or sprawl), some small towns got benefited from the influx of all type of resources. In these situations, the local leadership of these places (either in the form of LED policy making or entrepreneurs) have to be able to adapt to the circumstances. Therefore, one could argue that small communities can only react to the circumstances, however it has been shown that the different districts of the city region can have their own booms and busts, and that the local leadership, may or may not have had a hand in it. For example, they can decide to do a redevelopment project, but they can not decide way in which urban sprawl progresses

Another external aspect is the powerful role of the national government in Vallejo. Federal decision makers gave grants for the extreme downtown redevelopment and decided to reroute a major highway (80) through the city. More relevant to Vallejo's fate was the decision of the national government to open a military base, run it and then close it after 150 years. Vallejo should have recognized that the Naval Base worked as subsidy that interfered with local economic development and entrepreneurial dynamics³¹.

environment. Today, a city needs to survive, that is adapt / innovate.

³⁰ It is not related to the Systems of Survival of Jane Jacobs (1992) dealing with moral issues and values.

³¹ Subsidies are part of the economic nourishment of many cities around the world. These include many military bases and factories (especially in the American case), but can also be in the form of sport stadia and

In acquiring external knowledge many cities rely on consultants. The city management of Vallejo openly confirmed that they prefer to hire contractors instead of offering city jobs because it is cheaper for the city. While it is important for cities to obtain knowledge from outside, they should be careful not to trust any sole architect, economist, lawyer, planner or academic. Local officials should also contrast information from different groups, which does not necessarily have to be highly paid. This idea of dialogue is tied to the next subsection.

The next section discusses the importance of a proactive dialogue and coordination between different local actors. The following section is oriented towards the current struggling situation and offers some policy suggestions for Vallejo.

'Active Coordination'

There is common agreement that local governments should promote interaction between key local actors. This is not only because governments are supposed to be chosen by its citizens, or because of the belief in justice, but also because it helps cities adapt better to different economic cycles. Having a strong network among citizens can lead to knowledge lock-in, so the principle of 'active coordination' goes always after acknowledging the importance of 'external dependence'.

There is in fact a plethora of studies on LED which calls for collaboration between the different actors (E.g. Luke, Ventriss, Reed & Reed, 1988; Bingham & Mier, 1993). Going back to the Innovation System literature, its keystone could be the active dialogue of "all institutions" responsible for making a better economy³². Thus, for an effective dialogue, the actors need to respect each other, and certain degree of equality is expected. But, to what extent is equality among different actors a required factor?

In a recent interview, Lundvall (2010), who has extensive experience in the top universities in China, was asked about the economic evolution of China. He answered:

"China's growth path is not sustainable. To make it sustainable the domestic market will need to be stimulated, pollution and waste reduced, and the beginnings of a welfare state established ... The political leaders refer to 'harmonious development' to signal a new trajectory, but they may come up against strong resistance from local bosses who have benefited from the hitherto unhampered industrial growth".(ibid.)

Lundvall suggests that local elites may resist change in socioeconomic areas. The disenfranchisement of ordinary citizens and community members by local/city region elites hampers innovation. Therefore in order to improve innovation more equality should be pursued³³.

higher-education centers. As shown in this article, cities should be aware of the fact that national governments, due to different motives can change their policies, decreasing budget allocations and damage a community, without necessarily intending to. In these situations the local leadership should make efforts to diversify their economies.

³² Calls for unity in a political system is certainly not novel. All political and even religious entities have been claiming it for thousands of years. For example, St. Paul referred to unity among the members of the church when he wrote: "As it is, there are many parts, but one body. The eye cannot say to the hand, "I don't need you!" And the head cannot say to the feet, "I don't need you!"". On the contrary, those parts of the body that seem to be weaker are indispensable, and the parts that we think are less honorable we treat with special honor." (Corinthians 1, 12: 20-23, [1 century A.D.], 2010)

³³ There are three main problems to creating a more cohesive city regions around the world. First, if the city region overall is doing well, why should one fix something that is not broken? Second, if the city is doing badly then there are rarely enough resources or capability to make changes. And third, in the majority of the city regions there is profound income inequality, not only in San Francisco as it has been shown, but in New York, London (Robinson, 2002), and now Chinese city regions (Fan, Kanbur and Zhang, 2009).

Final Remarks

Concerning the current economic slowdown, most academic research, policy makers and media has been focused at the national level (E.g. discussion about Ireland, but seldom the crucial Dublin city region). In order to have a proper economic development, more efforts should be paid at the city and city region level, where the engine of economic life is, as explained by Jacobs (1984), and recently supported by many other academics.

This working paper has analyzed the evolution of the city of Vallejo, focusing on four different key moments in its history since the XIX century. The paper takes into consideration the path dependence of the city and the current critical situation of Vallejo. It has been argued, that in order to understand the economic geography of Vallejo, it should be considered as a district of the San Francisco city region.

Understanding that the city regions are the engine of the economic process should give way to more cohesive policies. Districts across the San Francisco city region are very different, some are struggling while others are thriving economically. This heterogeneous growth is unsustainable. This paper suggests putting in place more consolidated city region policies including a similar industrial policy, cohesive infrastructure and more evenly distributed resources for education, justice, and basic services such as police and firefighters.

LED is currently facing many contradictions. Politicians at the national level, like President Obama, have asked for a multibillion dollar package to help the local-regional level, while the Republican opposition, is asking for radical cuts to these same “wasteful” budgets. Academics/consultants also present extremely different agendas and come from different perspectives. However in the end, many consultants call for competition among cities, with some Darwinian reminiscence. Furthermore, the current star field of LED, entrepreneurship, has shaped the vast majority of cities' innovation dreams.

This working paper has proposed the concept of the 'City Region System of Survival', which is intimately related to the Systems of Innovation. The paper supports the line that the challenge for many of the ordinary cities, or less prosperous districts of the city regions, it is not in the amount of their budgets, their capabilities to compete, or creating entrepreneurship policy. But, instead in their capacity to recognize their limitations -external dependence- and establish a fluent dialogue -active coordination- a) within their communities, b) communities with similar problems³⁴, and c) the elites of the city regions. For a city like Vallejo it is also important to monitor national and global trends in order to react properly. These proposals do not require expensive external consultants. All in all, acknowledging 'external dependence' and fostering 'active coordination' are the complementary ideas of the 'City Region System of Survival'.

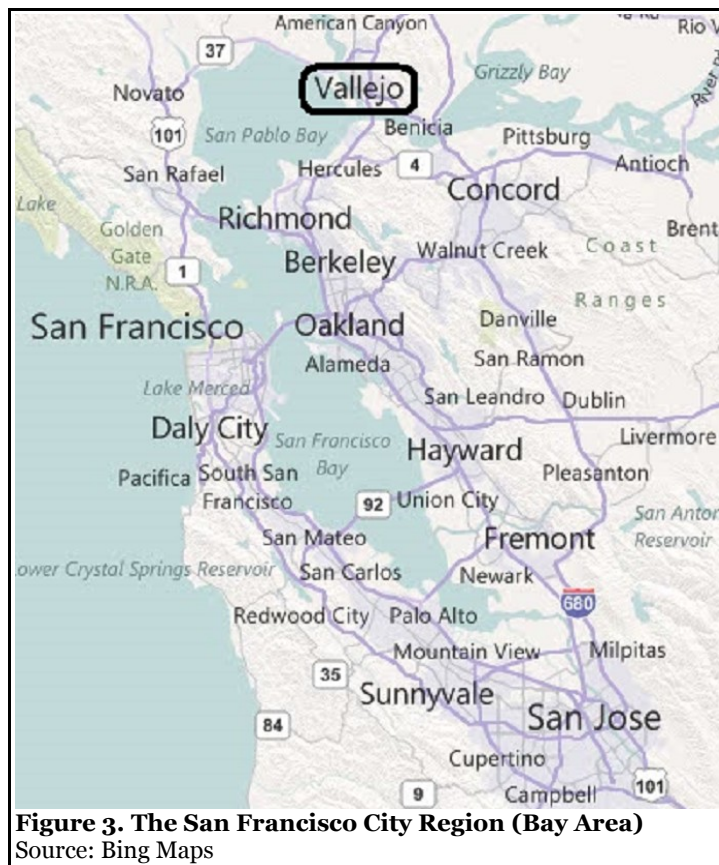
Besides the San Francisco Bay Area, there are some potential applications of the 'City Region System of Survival' for other city regions in United States and Europe³⁵. Further research is needed to learn the interplay between the city regions and innovation. Also, it is necessary to address the declining population in the towns outside the city regions and rural areas in the Western countries.

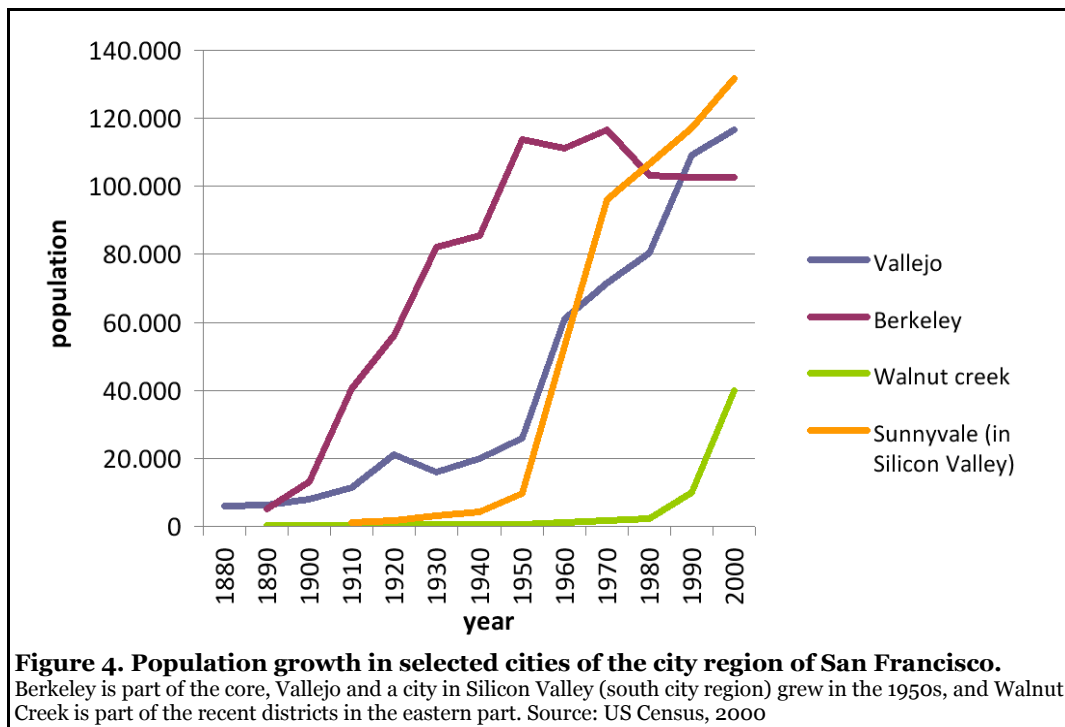
This paper suggests that only after implementing some of the principles presented in the 'City Region System of Survival' can ordinary cities focus on their entrepreneurial

³⁴ The survival of the fittest has some type of individualistic bias. Survival does not necessarily mean that organisms of the same flock/herd have to routinely compete against each other, they also learn to cooperate in order to survive.

³⁵ E.g. China already has effective Administrative Area Populations. Which cover most of their city regions. Even though confusion exists in for example a city region with multiple metropolises, like Hong-Kong, Guangzhou-Zhuhai-Shenzhen-Dongguan.

dynamics. This innovation process is needed in order to escape from the lock-in situation and diversify their economies. If not, Vallejo and other cities could end up like many cities in third world countries, where a few live in affluence while the vast majority of citizens live and die in misery.





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