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Pushing austerity: state failure, municipal bankruptcy and the crises of fiscal federalism in the USA

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By way of a critical exploration of austerity politics in the USA, the paper examines the means by which the Wall Street crisis of 2008 has been translated into a state crisis, especially for the state at the subnational and urban scales. It examines the strategies, rationales and tactics adopted by advocates of austerity measures, which amount to a sustained effort to socialize, rescale and 'dump' the costs of the economic crisis. These manoeuvres are transforming the operating environment for state and local government in the USA, and they are remaking the terrains of urban politics at the same time.

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At the Manhattan Institute, the lead conservative think tank for urban issues in the USA, they reckon they know 'what austerity looks like'. What it looks like is the blue-collar city of San Bernardino, California, the poorest in the country after Detroit, which was forced into bankruptcy in the Summer of 2012. Writing for Manhattan's house publication, *City Journal,* Jeremy Rozansky observed in that the city's day of fiscal reckoning had arrived. San Bernardino's "slide into insolvency" had been overdetermined by "decades of anemic growth compounded by a local government in thrall to public-sector union power" (Rozansky, 2012a, 1). The city's downward path into bankruptcy proceedings was laid by Mayor Andrea Miller's 'pre-pendency' plan, which had slashed expenditures by 25%, cutting the pay of municipal workers while deferring pension-fund payments, but which had failed, once again, to close the structural deficit. "Like most other cities facing a severe budget crisis," Rozansky (2012a, 1) opined, "San Bernardino got into trouble because of its spiraling labor and pension costs." Having postponed the fiscally inevitable, the city could now only hope that bankruptcy protection would "prove the ultimate salve," by providing a mechanism for the voiding labour contracts and pension-fund obligations, while justifying new rounds of staffing and service cuts. The Manhattan Institute's consistent line has been that while this would be painful, it was *necessary*, and the city really only had itself to blame. The practiced tone oscillates between a blasé remarks about social-service cuts and the stern voice of fiscal paternalism:

> San Bernardino's austerity plan leaves an atrophied city government, but essential

> functions remain in place. Crime will likely go up, but it won't necessarily skyrocket. Greek-style looting and arson appear unlikely. Closing three of four libraries isn't ideal, but it isn't the end of civilization, either. At the same time, however, the deep cuts do make San Bernardino an even less hospitable place. Businesses will be even more skeptical about moving to a city where government can't afford to fill potholes or respond quickly to crimes because it has been compromised. [The city] can balance its budget only by boosting revenues, which requires more businesses, not fewer … San Bernardino is a tragedy—and a warning to the rest of the country (Rozansky, 2012b, 2).

There is more than a hint of grim irony in the fact that several years of fiscal purging had reduced San Bernardino to a rump administration not far from the neoliberal ideal of a 'nightwatchman state'. Three-quarters of the remaining municipal employees are engaged with either fighting fires or fighting crime, as employees of the city's beleaguered police and fire departments. But the market fundamentalists at *City Journal* will not rest until this is also a *deunionized* nightwatchman state. The messy last resort of municipal bankruptcy might enable just such an outcome, however, by permitting a radical restructuring of accumulated labour-contract and pension-fund obligations (see Knox and Levinson, 2009).[1] The Manhattan Institute's unwavering line, now that the "bankruptcy dominoes are starting to fall" (across California in particular, where the think tank had recently established a west-coast operation), is that these are the "necessary solutions" that most cities will only summon the courage to face once "the money runs out" (Greenhut, 2012, 1–2). "If bankruptcy isn't a fix for past profligate spending on public employees," Greenhut (2010, 2) had earlier speculated on the occasion of Vallejo, California's bankruptcy, "then more debt and higher taxes may be inevitable." Soon, prominent Republicans like Jeb Bush, Newt Gingrich, Jim DeMint, John Cornyn and Paul Ryan[2] were to be heard making the case that states, too, should be permitted to enter federal bankruptcy protection, a high-risk manoeuvre that would require congressional action and possibly even a constitutional amendment (Bush and Gingrich, 2011; Gelinas, 2011; Walsh, 2011). The subsequent lack of movement on this front might be explained by arguably well-founded fears of shocking the bond markets on which both states and cities have come to depend, although the issue will no doubt return to centre stage should the Obama Administration seriously broach the question of 'bailouts' for fiscally distressed states, or contemplate a second round of stimulus spending for state and local governments (see Malanga, 2012).

Such are the distinctive politics of 'austerity' in the USA, which in contrast to Europe have yet to acquire the status of official ideology at the national level, but which have been pursued with necessitarian vigour at the state and local scales (see Crotty, 2012; Krugman, 2012; Larson, 2012; Peck, 2012). Even if it has never been the dominant narrative in any explicit way, localized austerity has deep roots in the American model of fiscal federalism, which has been incubating budgetary crises at the state and local government levels for decades (see Kirkpatrick and Smith, 2011; Lobao and Adua, 2011; Levitin, 2012). The Great Recession that began in 2007 brought this to a head as never before, triggering unprecedented budget crises across all scales of the government system in the USA (see Pew Charitable Trusts, 2012; SBCTF, 2012). While some have interpreted this as an indictment of devolved neoliberalism (see Crotty, 2012; Peck, 2012, 2013), these same circumstances have—perversely—opened up a strategic opportunity for new rounds of fiscal discipline, local-government downsizing and privatization. This is an opportunity that the advocates of free-market restructuring have seized with gusto. Their message is a simple one, as summarized in characteristically uncut terms by *Forbes* columnists Brian Wesbury and Robert Stein: "good austerity is the kind that puts the pain on the government sector" (in contrast to "bad" austerity, which privatizes the pain, and "ugly" austerity, which spreads it across the public and private sectors), and this must be concentrated on the state and local government sector because "the economy can only support so much redistribution before falling apart" (2010, 1). In this way, anti-statist austerity narratives rework some long-established neoliberal storylines, seeking to justify the offloading of the costs and risks of market failure, financial overreach and deregulatory abandonment, while at the same time *downloading* these onto the economically marginalized, onto the social state and onto the lowest tiers of government.

What Mark Blyth (2013, 13) has described as "the greatest bait and switch in human history" has seen, in the space of a few years, the banking crisis that was the Wall Street crash of 2008 comprehensively translated into the *state crisis* of today. Since it has proved to be predictably difficult to justify the imposition of austerity strategies either by reference to historical experience or economic logic, Blyth goes on to argue, this feat has been accomplished by means of a concerted ideological offensive. This has taken the form of a neoliberal morality play, a rerun of a familiar story of

> "good austerity" and "bad spending" that [threatens] to lead us into a period of self-defeating budget cuts … [We] have turned the politics of debt into a morality play, one that has shifted the blame from the banks to the state. Austerity is the penance—the virtuous pain after the immoral party—except it's not going to be a diet of pain that we shall all share. Few of us were invited to the party, but we are all being asked to pay the bill (Blyth, 2013, 9–10).

The Wall Street crisis has duly become a state and local government crisis in the USA, driving an unprecedented wave of service and staffing cuts, along with new rounds of institutional transformation executed at the cusp of fiscal default. "The Great Recession that started in 2007 caused the largest collapse in state revenues on record" (Oliff et al, 2012, 1), much of which has been passed on to the cities (Peck, 2012). Conservative actors have once again occupied the center stage in the first act of this neoliberal morality play—although the facility to opportunistically exploit a crisis should not be confused with the capacity sustainably to resolve it. Crucially, the long-run consequences appear to be unmanageable within the confines of the neoliberal political settlement.

Neoliberal austerity measures are strategies of displacement. They facilitate the regressive redistribution of the costs and risks of economic stagnation, deregulatory failure and financial overreach, displacing the consequences of the Wall Street crisis from the market to the state, from elites to the marginalized and from the federal government to state and municipal authorities. As such, these strategies also represent a calculated response to neoliberalism's deepening legitimacy crisis, since they also seek systematically to displace the *responsibility*, indeed the blame, for macroeconomic failure and political mismanagement. In the process, there has been an attempt to mask the (evident) culpability of bankers and (de)regulators with a renewed ideological offensive against the public sector and the social state, against entitlement attitudes and programmes, against government workers and their unions and against the socially and economically marginalized. It is no coincidence that the 'pushers' of austerity measures have been taking aim at the usual neoliberal targets—like labour unions and social programmes—and it is also no coincidence that they have been resorting to a familiar repertoire of offensive strategies, including the enforcement of extreme fiscal discipline at the subnational scale, imperative forms of municipal downsizing and new rounds of privatization and public asset-stripping (Peck, 2012).

Austerity politics are 'push' politics in at least two senses of the word. First, and fundamentally, they involve pushing the costs, risks and burdens of economic failure onto subordinate classes, social groups and branches of government. Austerity, in this respect, is concerned with social, spatial and scalar strategies of *redistribution*; it is about making 'others' pay. Second, and clearly essential to the accomplishment of this ideological feat, the case for austerity must be discursively pushed, since its necessitarian appeal is far from self-evident, even if the language of 'belt-tightening' and 'living within our means' does appeal to a certain utilitarian commonsense. Austerity, in this respect, entails a concerted *renarration* of the financial crisis in the form of new homilies of (local) state failure, in the service of this effort to redistribute the both costs of and the responsibility for the crisis.

By way of an exploration of these twin themes in the context of devolved austerity politics in the USA, the paper proceeds in three parts. The next section explores the way in which the crisis has been narrated by conservative policy advocates and technocratic operatives, in and around the free-market think tanks, as a crisis of bloated and unreformed local government, rightfully called to fiscal account. Here, the spectre of municipal bankruptcy, not just as a legal category but as a vehicle for fiscal discipline and local responsibilization, has loomed large. This is followed by an analysis of the structural terrain over which austerity strategies are being advanced, which is diagnosed in terms of the long-gestating crises of fiscal federalism and neoliberal devolution. Representations of local state failure, its causes and culprits, can really only be understood in these wider, structural-institutional terms. A third section focuses on conditions at the end of the fiscal line, with those municipalities caught between debt-based development and structural insolvency. The Great Recession, it is argued, has exposed the limits of the neoliberal brand of 'fiscal entrepreneurialism'. The paper's conclusion reflects on the hegemonic hold of fiscal restraint as a 'new normal', and on the political and practical status of alternatives.

Narrations of (local) state failure

For more than 20 years, the American Bankruptcy Institute (ABI) has been developing programmes of research and education for professionals in the field, counting amongst its members more than 13,000 attorneys, bankers, accountants, auctioneers, lenders and 'turnaround specialists'. In 2010, the ABI published its first manual specifically dedicated to the particular knot of legal, procedural and political challenges associated with municipal bankruptcy under chapter 9 of the United States Bankruptcy Code. In light of the "unprecedented financial stress" on cities and local governments, "unmatched since the Great Depression," when local governments were first afforded protection under federal bankruptcy statutes, *Municipalities in Peril* was promoted as a "must-have for bankruptcy professionals contemplating entering [the] burgeoning practice area" of municipal insolvency (Dabney et al, 2010). One of the authors of the manual, Marc Levinson, a partner at the Sacramento, California office of Orrick, Herrington & Sutcliffe, LLP, had become something of a celebrity in this once-obscure field, having endured a 'trial by fire' as lead insolvency lawyer on the precedent-setting bankruptcy case of Vallejo, California, in 2008 (Levinson, quoted in White, 2012, A11). Levinson had practiced bankruptcy law for decades, but like most in the field had hardly any previous experience of the (hitherto little used) chapter 9 of the federal code, dealing with municipalities. His work on the Valejo case, which won him a 'Dealmaker of the Year' award from *American Lawyer* magazine, kept him awake at night. Negotiations with the unions proved to be especially protracted and difficult, while the case's public hearings often became heated: one local resident disrupted the proceedings by loudly declaring God's opposition to the bankruptcy filing. "In 35 years of doing bankruptcy law," Levinson said at the time (quoted in Bario, 2009, 89), "I've never worried about a case like I worry about this one … We're fighting for the survival of a city."

The politics of bankruptcy

Unlike corporate bankruptcies, which tend to involve a great deal of 'blocking and tackling', often en route to the raising of equity or liquidation, cities really only have the option of reducing expenditures or increasing taxes, albeit with the benefit of enhanced leverage in cutting deals with creditors and with unions: "bankruptcy isn't a strategic option" for cities, Levinson insists, "It's the option when there are no other choices" (quoted in White, 2012, A11). If municipalities can neither be liquidated nor taken into court administration, the problems that brought them to insolvency will have to be resolved in some way or another; bankruptcy 'protection' intensifies the situation without supplying additional remedies. As a result, the *threat* of bankruptcy is usually sufficient to prompt the acceptance of drastic measures, if only for fear that a court ruling could be more painful still. As the legal experts explain:

> Fiscal stress related to ongoing structural deficits and lack of reserves is much more difficult to tackle because a financing will have little impact on solving the underlying structural problem: in fact this tactic will likely make things worse by "kicking the can down the road" and increasing the overall costs to the municipality. In these circumstances, painful cuts in service levels, employee compensation and other expenses may be required, as well as increased revenues through higher taxes or fees …
>
> Municipalities feeling financial stress should work as hard as possible, accepting as much pain as they and their constituents, creditors and employees can endure, to avoid [this] path. However, for some municipalities, the challenges will be too great, the avenues of solution too limited, and the window of opportunity for corrective action too small, to avoid using chapter 9 as a tool to help right the ship (Knox and Levinson, 2009, 4, 35).

In contrast to this (characteristically cautious) bankruptcy lawyers' perspective, that cities should only consider filing under chapter 9 as a (painful and costly) last resort, leading figures in the Republican Party, along with some of their allies in the free-market think tanks, right-wing lobbying groups, law schools and the conservative media, have been making the case that governmental bankruptcy provisions should be extended—not least to avert what they regard as the still-greater threat of publicly funded 'bailouts'. Jeb Bush and Newt Gingrich, for example, wrote a widely discussed op-ed for the *Los Angeles Times* in January 2011, arguing that a new chapter should be added to the federal bankruptcy code enabling states, in addition to municipalities, to file for protection in the event of insolvency.[3] The impetus for the Bush-Gingrich proposal was that, "Federal taxpayers in states that balance their budgets should not have to bail out the irresponsible, pandering to politicians who cannot balance their budgets" (Bush and Gingrich, 2011, A19).

Touting the 'success' of earlier municipal bankruptcies like Orange County, CA (see Baldassare, 1998; Reed, 2012a), which eventually recovered its investment-grade bond rating without raising taxes, Bush and Gingrich proposed a peculiarly (but quite predictably) one-sided amendment to the federal bankruptcy code. This would explicitly protect bondholder claims (the states should not be allowed to renege on their debts to Wall Street), while forbidding mandated tax increases (placing the emphasis on expenditure cutbacks, not revenue raising). On the other hand, any new legislation should

> allow states in default or in danger of default to reorganize their finances free

> from their union contractual obligations. In such a reorganization, a state could propose to terminate some, all or none of its government employee union contracts and establish new compensation rates, work rules, etc. The new law could also allow states an opportunity to reform their bloated, broken and underfunded pension systems for current and future workers. The lucrative pay and benefits packages that government employee unions have received from obliging politicians over the years are perhaps the most significant hurdles for many states trying to restore fiscal health (Bush and Gingrich, 2011, A19).

For their part, public-sector labour leaders have been under no illusions as to the significance of this unvarnished threat, around which the storm clouds had been gathering for some time (see Abowd, 2012). "They are readying for a massive assault on us," observed Charles Loveless, legislative director for the American Federation of State, County and Municipal Employees, "We're taking this very seriously" (quoted in Walsh, 2011, A1).

Within weeks, in fact, this offensive against the pay, benefits and bargaining rights of public-sector workers was in full swing, and making national news. The flashpoint was Wisconsin, a symbolic home both to the public-sector union movement and to progressive 'good government', where the newly elected Republican Governor, Scott Walker, had proposed a 'Budget Repair Bill' which combined—all under the sign of fiscal necessity—corporate tax cuts with draconian restrictions on collective-bargaining rights, government-employee layoffs, wage suppression and benefit rollbacks. Opposition to the bill brought tens of thousands onto the streets of Madison in an escalating programme of protests that became known as the 'Wisconsin Spring', and which culminated in an ultimately unsuccessful recall election of Governor Walker (see Cronon, 2011; Nichols, 2012). The Wisconsin Republicans' Program, it had emerged, was anything but homegrown. It had been drafted by a conservative front organization called the American Legislative Exchange Council (ALEC), and was bankrolled by the soon-to-be-notorious Koch Brothers, billionaire supporters of a host of conservative and free-market causes (see McIntire, 2012; Nichols, 2011; Abowd, 2012, 2013b).

ALEC had been established in 1973 by Paul Weyrich and other conservative activists as a means for driving the agenda of government downsizing, deregulation and tax restraint through the nation's statehouses. Barely visible prior to the dramatic events of the Wisconsin Spring, ALEC operated mostly under the radar for many decades, meeting in private while quietly recruiting thousands of state lawmakers and scores of corporate underwriters. It has been estimated that around one-third of all state legislators are members of ALEC, although the organization's membership records remain secret (Newman, 2006). ALEC's corporate sponsors, as Table 1 reveals, include many household names, though the increased 'exposure' of the organization, in the wake of the events in Wisconsin, has caused some of the more public-relations sensitive among these to sever formal and financial ties.[4] Nominally nonpartisan, as a tax-exempt 501(c)(3) organization, ALEC's efforts have been focused on the drafting and circulation of hundreds of "carefully crafted model bills seeking to impose a one-size-fits-all agenda on the states" (Nichols, 2011, 16), the one size being a low-tax, small-state solution. Dating back to the Reagan years, when the organization established its first task force on federalism, ALEC's legislative and policy programme has been driven by a phalanx of elite-level task forces, comprising nominated individuals from its roster of elected officials and corporate members, and concerned with issues ranging from immigration and tax policy to health and economic development (see Cokorinos, 2005).[5] Along with partner organizations like

Table 1. *ALEC's corporate supporters, past and present.*

Members of ALEC's private enterprise board		
CenterPoint 360 (chair)	Energy Future Holdings	PhRMA
Altria Group	ExxonMobil Corporation	Reynolds American
American Bail Coalition	GlaxoSmithKline	Salt River Project
AT&T	Koch Companies Public Sector	State Farm Insurance Co.
Bayer Corp	Peabody Energy	United Parcel Service (UPS)
Diageo	Pfizer Inc.	
Corporations and nonprofits that have severed ties with ALEC		
Amazon.com	General Motors	National Board for Professional Teaching Standards
American Traffic Solutions	Hewlett-Packard (HP)	Pepsi
Amgen	Intuit	Procter & Gamble
Arizona Public Service	John Deere & Company	Reckitt Benckiser Group
Bank of America	Johnson & Johnson	Reed Elsevier
Best Buy	Kaplan	Sanofi
Blue Cross Blue Shield	Kraft	Scantron Corporation
Coca-Cola Company	Louis Dreyfus	Sprint Nextel
Connections Academy	Lumina Foundation for Education	Symantec
CVS Caremark	Mars	Wal-Mart
Dell Computers	McDonald's	Walgreens
EnergySolutions	Medtronic	Wells Fargo
Entergy	Merck	Wendy's
Express Scripts/Medco	MillerCoors	Western Union
Gates Foundation	National Association of Charter School Authorizers	YUM! Brands
General Electric		

Source: derived from *ALEC Exposed*. Available online at: http://www.sourcewatch.org/index.php?title=ALEC.

the Heritage Foundation-allied State Policy Network and the archipelago of free-market think tanks and political money-laundering operations, ALEC has been pursuing a "coordinated strategy [to] govern the nation from the statehouses" in accordance with a shared matrix of conservative, corporate and neoliberal principles (Newman, 2006, iv; Abowd, 2012, 2013a).

ALEC's Tax & Fiscal Policy Task Force has a mission "to explore policy solutions that reduce excessive government spending, lower the overall tax burden, enhance transparency of government operations, and promote free-market fiscal policies" (ALEC, 2011, iii). This is prosecuted not by issuing policy advice into the ether, but by placing model legislation, practical proposals and plausible political rationales directly into the hands of legislators and policymakers. ALEC's *State Budget Reform Toolkit*, for example, moves from a rearticulation of the "Jeffersonian principles of free markets, limited government, federalism, and individual liberty," through the self-fulfilling diagnosis that the states "face structural deficits created by overspending," to the advocacy of an alternative regime of "priority-based budgeting," grounded in a narrowly delimited list of "core" government functions and studded with illustrations of approved experiments, model bills and procedural tactics (ALEC, 2011, vii). The purpose here is to upend the traditional financing methodology, the so-called input model of government, in which budget deliberations focus on the needs of existing programmes (and their constituencies), in favour of an 'outcomes-based approach' suffused with ALEC's neoliberal ideology. This begins with the first principles of (limited) government, prioritizing service and programme commitments accordingly, following which funds are advanced within pre-determined budget parameters. The State of Washington's ALEC-approved charter of core governmental functions (see Table 2), is presented as a working example of how to operationalize an ideologically principled "litmus test for the hundreds of currently funded agencies, boards, commissions and programs" (ALEC, 2011, 9).

In these and other ways, ALEC and its allies seek to transform the existential conditions for budgetary deliberations. They advise that revenue or spending limits should be embedded in state constitutions; they propose that every state agency should establish a mission statement against which (publicly legible) performance targets are set; they advocate the automatic freezing of hiring and salaries for public employees in periods of budgetary stress; and they argue for the creation of standing commissions for the advancement of privatization and outsourcing, for performance auditing, for asset divestiture and leasing, and for the 'sunsetting' of departments and programmes. Circumstances of budgetary crisis provide not only the occasion but the impetus for such transformative measures, when it is rigorously maintained that 'emotional' appeals to the public good must take a back seat to fiscal fealty, and when the interests of taxpayers must trump those of service users:

> Clearly, the "business-as-usual" budgeting approach of raiding non-general fund accounts and using tricky accounting techniques will no longer rescue states from a budget crisis. States need innovative budgeting strategies to address these new economic challenges—without resorting to economically damaging tax increases. Though daunting, state budget problems can be diligently addressed by using these budget tools so lawmakers are not unduly influenced by emotional pleas for continuing funding based on unsustainable spending decisions of past years (ALEC, 2011, 38).

In the service of these transformative ambitions, ALEC has been circulating at least seventeen model bills for state legislatures relating specifically to issues of taxation, budgeting and fiscal policy, from the Competitive Contracting of Public Services Act to the Tax and Expenditure Limitation Act,[6] while pressing for the emulation of state reforms which the organization had earlier seeded (or with which it sympathizes) from Florida, Texas, Colorado, Utah, Washington, Iowa, South Carolina, Louisiana, Arizona, Michigan, Georgia, Oregon, Montana and elsewhere. Recurring features of the ALEC agenda, grounded in a mortal fear of 'bailouts' and a philosophical critique of all forms government expenditure,[7] are summarized at Table 3.

The advancement of this agenda has involved, by design, a multi-front offensive across states and cities around the country, which has been uneven in realization but nonetheless consistent in form and persistent in nature. It is an agenda

Table 2. *Washington state's priorities for government.*

Value world-class student achievement
Improve student achievement in elementary, middle and high schools
Improve the value of postsecondary learning
Improve health and support of Washingtonians
Improve the security of Washington's vulnerable children & adults
Improve the health of Washingtonians
Provide for public safety
Improve the safety of people and property
Protect natural resources and cultural/recreational opportunities
Improve the quality of Washington's natural resources
Improve cultural and recreational opportunities throughout the state
Promote economic development
Improve economic vitality of businesses and individuals
Improve statewide mobility of people, goods and services
Improve state government efficiency
Strengthen government's ability to achieve results efficiently and effectively

Source: State of Washington, Office of Financial Management, Priorities of Government budget program. Available online at: http://www.ofm.wa.gov/budget/pog/default.asp.

Table 3. *ALEC's agenda for the states.*

Deep tax cuts, especially for corporations, investors and the wealthy
Repeal or reduce income tax rates for affluent households and corporations. ALEC favours flat, single-rate income taxes, or the repeal of state personal and corporate income taxes.
Prevent new state income taxes. ALEC favours constitutional amendment banning the introduction of state income taxes.
Repeal state estate taxes. Levied on a small proportion of the (very wealthy) population, these are branded as 'confiscatory'.
Shift taxes from wealthy households and corporations to other state residents
Taxing wages more heavily than investment income. ALEC promotes broad tax exceptions for capital gains and 'pass-through income' (business profits taxed as owners' personal rather than corporate income).
Shifting from income taxes to sales taxes. Replace income taxes with direct (and more regressive) sales taxes.
Eliminating tax-based supports for working-poor households. Abolish Earned Income Tax Credits (EITCs) and other credits and rebates for low-income families.
Impose rigid limits on state revenue and spending, constraining education, health care and other public services
The Taxpayer Bill of Rights. TABOR is a state constitutional amendment limiting the annual growth state government revenues or spending to state population growth (plus inflation). Colorado is the only state with a TABOR, but similar measures have been proposed in 30 states and balloted in five (Florida, Oregon, Washington, Nebraska and Maine; all were defeated).
Supermajority requirements to raise taxes. The ALEC favours supermajority rules (two-thirds majorities) in state legislatures or ballot approval for any tax increases. California and Wisconsin have supermajority rules, which have also been considered in Arizona, Hawaii, Idaho, Maine, Michigan, Minnesota, New Hampshire and Texas.
Other mechanisms reducing funding for government services. ALEC has proposed automatic tax-cut triggers, linked to state revenue growth or the achievement of budget surpluses.

Source: adapted from Center on Budget and Policy Priorities; Williams and Johnson (2013).

that has been pushed in good times and bad for four decades now, but the collapse of state and local government budgets in the wake of the Great Recession, rendered cyclically and cumulatively vulnerable by virtue of previous 'reforms' and the dismantling of redistributive federalism has provided an unprecedented opportunity to drive transformative change. In this context, events in 'hot spot' locations often reveal the first signs of emergent waves of reform, especially where these sites of innovation crystallize elements of the evolving, generously bankrolled agenda of ALEC and its allies—attuned as this has become to the exploitation of conjunctural opportunities, vanguard experiments and neoliberal demonstration effects.

Making municipal Enrons

For more than a decade San Diego, California has been just such a 'battleground city', a favourite meeting spot for ALEC, and a strategic location in the wider effort of the "conservative movement to drive its infrastructure down into America's major metropolitan areas" (Cokorinos, 2005, v). As *City Journal* has proclaimed, San Diego has become 'ground zero' for a host of conservative experiments in pension reform, privatization and performance-based governance (Reed, 2012b, 2). Ironically, the origins of San Diego's longstanding budget problems can be traced to the administration of Republican Mayor, Susan Golding (1992–2000), who established the dubious practice of borrowing liberally from the city's pension fund, initially to cover the cost of hosting her party's National Convention in 1996. Facilitated by the city's 'laid-back civic culture', which would later extend to chronic mismanagement, FBI investigations and charges of fraud and corruption, this pattern of raiding pension funds to cover operating costs and other municipal projects would culminate in the branding of San Diego as 'Enron-by-the-Sea' (Broder, 2004). The Enron line, in fact, had come from well-connected conservative operative, Carl DeMaio, who in 2001 had established the Performance Institute in San Diego, as a national 'center of excellence' for governmental outsourcing and performance-based contracting. "Seizing the opportunity of municipal fiscal crises," Cokorinos (2005, 45) has explained, "DeMaio [used this base] to set up the San Diego Citizens' Budget Project to coordinate the counteroffensive against progressive policy measures being developed by the labour-environmental alliance that had succeeded in [securing] a voting majority on the city council."

DeMaio's *San Diego Citizens' Budget Plan*, published in 2004, contained the usual array of ALEC-approved measures, evidently with little input from actual citizens, but drawing heavily on the template developed by the Performance Institute in partnership with the Los Angeles-based Reason Foundation for (the then newly elected) Governor Schwarzenegger (see Performance Institute, 2004; cf. Cokorinos, 2005). Radical reforms of pension rights and employment conditions for municipal workers were proposed, along with an aggressive programme of outsourcing across most local-government departments—practically guaranteeing (if not seeking) confrontations with the city's public-sector unions. Widely regarded as extreme, the *Citizens' Budget Plan* nevertheless anticipated a series of significant reforms to follow. Proposition C, approved by San Diego voters in 2006, in the context of rising public anxiety over the municipal debt, installed a regime of 'managed competition', requiring city workers to tender for service contracts in competition with private providers. Stalled by political and union opposition, progress towards 'managed comp' has been slower than DeMaio and his fellow reform advocates had hoped, but the market-testing of a range of municipal services has led to reductions in costs and headcounts, even as city departments succeeded in undercutting the private-sector competition in each case (Halverstadt, 2013). Meanwhile, San Diegans are getting used to minimalist (or absentee) local government. Managed comp has yet to be applied to the street-cleaning budget, but this is one area in which service levels have already been severely degraded, following deep cuts. Residents across the city have formed 56 'maintenance assessment districts', voting to pay into neighbourhood funds for maintenance, landscaping and street-lighting in excess of (dwindling) municipal service levels. Reflecting on this resort to localized self-help, in the face of municipal incapacity, some have expressed the fear that "the city is dissolving" (Scott Lewis, quoted in Lowenstein, 2011, 28).

Rolling brownouts of San Diego's firehouses—a service normally considered sacrosanct—had earlier caused controversy when a 2-year-old choking victim, Bentley Do, died before he could be reached by emergency services, despite living just 600 steps from a neighbourhood firehouse that had been temporarily closed for budget reasons (Cooper, 2010). Carl DeMaio, who had been elected as a Republican council member in 2008, was forced to tactically trim his position: he would now not oppose the restoration of some of the fire department's budget, insisting however, in his 89-page *Roadmap to Recovery* plan, that any restored funding should be tied to a commitment to introduce alternative 'service delivery models' (DeMaio, 2010, 29). Council member DeMaio's plan, essentially a retread of the Performance Institute's *Citizens' Budget*, would not only balance the budget, but would set in train a long-range commitment to the restructuring of San Diego's city government, based on a set of unbending core commitments—a fiscal Ten Commandments of which ALEC would be proud (see Table 4). According to DeMaio:

> [W]hen it comes to our city government, San Diegans have been let down time and time again.
> Incremental and limited reforms have not solved our structural deficits … We need major change—and a new approach to achieving that change. Moreover, we need nothing less than a redefinition of what our city government does and how it does it.

Table 4. *Carl De Maio's 10 Commitments for San Diego.*

Commitment 1 *Accountability for Results* Hold city government employees accountable for clear accountable to performance goals; produce a yearly 'Performance Report Card' on municipal government.	**Commitment 6** *Fair and Open Competitive Bidding* City services should be open to competitive bidding on a regular basis.
Commitment 2 *Open Government* Conducts city business "in an open and transparent manner."	**Commitment 7** *Jobs-Friendly Policies* Focus on small businesses assistance and targeted efforts in four sectors (tourism, defence, high tech, clean tech)
Commitment 3 *Back to Basics—Clean and Safe Neighbourhoods* Make use of "new vehicles and partnerships" to basic neighbourhood services.	**Commitment 8** *Rebuilding City Infrastructure* A renewed commitment to the proper financing and effective management of public infrastructure, including streets and public facilities.
Commitment 4 *Comprehensive Pension Reform* City employees' pensions should be "no better and no worse than [those of] the average San Diego taxpayer," and they should bear more of the risks and costs.	**Commitment 9** *Regional Government Solutions* Share the funding and delivery of municipal functions with other regional agencies.
Commitment 5 *Reform City Salaries and Labour Contracts* Benchmark municipal labour contracts "to the local labor market."	**Commitment 10** *Lead by Example* Elected politicians should "lead by example" concerning their own pensions and "perks of office."

Source: derived from DeMaio (2010) *Roadmap to Recovery*

> To achieve lasting change, I present to you for your consideration this *Roadmap to Recovery*—a comprehensive framework for solving the city's immediate and long-term financial problems.
>
> *Emulating the Bankruptcy Process*
>
> Given the gravity of the city's financial problems, some have proposed bankruptcy as the vehicle for reform. I strongly disagree, but have incorporated some elements from a traditional bankruptcy proceeding into the Roadmap—achieving each without the stigma, expense, and uncertainty of a bankruptcy filing.
>
> *Balancing the Budget—Protecting Core Services*
>
> The Roadmap balances the FY 2012 budget with \$75–90 million in cost savings—and without reducing core services in police, fire, libraries and parks.
>
> *Reforming the Pension and Labor Costs*
>
> By comprehensively reforming salaries and benefits the Roadmap brings the cost of operating our city government down to sustainable levels in line with our local labor market.
>
> To hold city leaders accountable, I believe we should work together to prepare a plan, submit it to voters, and be bound by it … [T]he Roadmap puts reforms into an *irrevocable contract imposed on city leaders by the public* (DeMaio, 2010, xxi).

Convinced that pension costs had become the 'primary driver' of the city's financial problems, DeMaio championed a ballot initiative to transfer new city hires to a defined-contribution retirement scheme, comparable to 401(k) plans in the private sector, while freezing the pensionable pay of all city employees for 6 years. This measure, which became Proposition B, passed with a landslide vote in June 2012, a development that was "expected to embolden other financially strained cities and states to follow [San Diego's] lead" (Cooper and Walsh, 2012, A1). Proposition B would be the centrepiece of DeMaio's run for mayor later that year. While "continu[ing] to use pension politics as a cudgel," the mayoral candidate had learned to temper his rhetoric for the purposes of the general election, becoming "noticeably calmer and more controlled" as part of a presentational transformation that one close observer of the local political scene described as "astonishing" (Dillon, 2012a, 1, 3).

Overheard speaking more freely, at a Republican fundraiser earlier in the campaign, DeMaio had candidly declared his intent to leverage the Proposition B ballot measure into a 'national model' for public-sector pension reform, asking the party faithful, "Are you ready to make San Diego the Wisconsin of the West?" (quoted in Dillon, 2012b, 1). San Diegans, apparently, were not. DeMaio was defeated in his run for mayor by former Democratic Congressman, Bob Filner, in November 2012. For its part, *City Journal* bemoaned the electoral defeat of this 'libertarian crusader', moaning that the liberal-trending electorate had once again "put the brakes on reform at city hall" (Reed, 2012b, 1). Undeterred, DeMaio pledged to continue his campaign against government waste, announcing within weeks that he would take up leadership positions with two new organizations—the California Reform Agenda, a project of the Reason Foundation targeting the state 'pension tsunami' for transformative reform, based on the San Diego 'model', and Reform San Diego, which would resuscitate a version of the Citizens' Budget Project in order to hold Mayor Filner's Democratic administration to an unflinching regimen of fiscal accountability.[8]

Fiscal federalism in crisis

What remains of the Keynesian commitment to public services in the USA (including education, unemployment and disability insurance, corrections, welfare aid and health care for the poor) is basically delivered at the state and local level. This commitment continues to carry with it an acyclical or countercyclical logic, being geared more to social need than market conditions. This logic runs directly counter—both fiscally and ideologically—to the neoliberal imperatives of restraining social spending, devolving budgets and deferring to market conditions. While state and local government employment would once dependably rise during recessions, along with increased social spending, since the 1980s it has been falling, ever more steeply (Peck, 2012). "The current U.S. fiscal federalism arrangement is hardwired to create cyclical financial distress," Adam Levitin (2012, 1406–1407, 1404) writes, the resulting budget crises having been exploited as a "partisan sword" by Republicans. There is no sign, however, that cumulative fiscal purging is opening a path towards a sustainable small-state settlement. To the contrary, this devolved version of the Reagan-era 'starve the beast' strategy has been associated with intensifying conditions of budgetary crisis, as New Deal provisions have been progressively dismantled (Crotty, 2012).[9]

Both reflecting and locking in these conditions, most states have balanced-budget requirements and/or legal limits on spending. With this limited scope for (fiscal and political) manoeuvre at the state level, the now typical pattern is to further localize budget pressures, to pass down (or rather, *push*) cuts to local governments. Budget crises therefore trickle down. The key conclusion of a report on the 'unprecedented challenges' facing local governments in the period since the Great Recession, conducted by researchers at the Pew Charitable Trusts (2012, 3), was that the sector was gripped in a "fiscal vise, squeezed on one side by reduced state aid and property tax income … and growing demand for services on the other." Basic social and infrastructural needs are going unmet, while the scope for budgetary manoeuvre have become very strictly limited. Municipalities are barred from running deficit budgets. Moreover, all but four states have, since the late 1970s, placed restrictions on local tax-raising powers. So, when revenues from property taxes and state transfers fall, significant service reductions, coupled with the retrenchment of public-sector workforces, is often the only available course of action at the local level—short of bankruptcy. And given that bankruptcy amounts, in effect, to a process of politically unmanaged subjection to budget-driven structural adjustment, it is understandable that this is a rarely exercised option of last resort, for all its apparent appeal to some neoliberal hardliners. It is notable, however, that even when the likes of Carl DeMaio and his fellow travellers at ALEC and the Manhattan Institute express doubts about the more liberal use of bankruptcy provisions, they invariably make a strong case for simulating its *effects*, seeking other ways (for example via state collective-bargaining laws or binding tax caps) of driving spending reductions while "putting the squeeze on [the] unions" (McMahon, 2011, A17).

There are also some doctrinaire advocates of fiscal federalism, the prevailing neoliberal creed that "each level of government [should] internalize both the costs and the benefits of its activities" (Gillette, 2012, 287), who worry that the current configuration of the federal bankruptcy code has yet to be fully purged of incentives for municipalities to game the system, to free-ride on the fiscal commons and to engage in behaviour associated with negative externalities:

> [M]unicipalities have tendencies both to overgraze on the commons of more centralized budgets and to avoid the exercise of political will to satisfy the debts they incur. The current legal structure for addressing municipal fiscal distress may interfere with, rather than advance, the objectives of fiscal federalism insofar as it insulates local decisions from centralized influence and reduces the need for distressed localities to internalize the consequences of fiscal decisions … In effect, the *benefits of fiscal federalism depend on the exercise of fiscal discipline*, and that discipline only exists when there is intra-jurisdictional congruence of revenues (taxes) and expenditures (Gillette, 2012, 287, 299–300, emphasis added).

Writing in the *University of Chicago Law Review*, Gillette's conclusion is that the powers of bankruptcy judges to *impose* budgetary settlements on municipalities should be augmented, in order to deter 'strategic' use of the system by city politicians. Meanwhile, the fact that state financial aid to municipalities had collapsed post-2008, coinciding with an equally steep decline in property-tax revenues for the first time since 1980, according to analysts of the 'local squeeze' (Pew Charitable Trusts, 2012, 3), was evidently not a source of concern. To the contrary, this would only reinforce the kind of devolved financial discipline favoured by Tieboutesque advocates of fiscal federalism and interjurisdictional competition as restraints on taxation and spending (see Friedman, 1963; Oates, 1999; cf. Peck, 2011; Levitin, 2012).[10]

Unwinding fiscal redistributionism

The appeal of these anti-redistributionist strategies for neoliberal reformers is understandable, for in effect they have the effect of fiscally naturalizing small-state conditions, or at least conditions of rolling small-state *crisis*. As long as the cyclical political threat of bailouts can be averted, while incentives to play the bankruptcy system are minimized, then the historical rollback of redistributive federalism and progressive taxation effectively forces states and municipalities to live within these reduced means. The resulting logic is that minimal government functions are recalibrated according to what the local tax base will bear at the *bottom* of the economic cycle. This form of cyclical discipline is effectively locked in under the neoliberal configuration of fiscal federalism (Levitin, 2012). These structurally straitened conditions of fiscal existence do not appear, however, to be sustainable, while the small-state equilibrium that they anticipate seems likewise to be unattainable, both financially or politically.

Consider the characteristically conservative forecasts of the fiscal modellers at the Government Accountability Office: "The state and local government sector continues to face near-term and long-term fiscal challenges that grow over time," the GAO (2012, 1) reports, their "model's base case simulations show[ing] that the fiscal position of the sector will decline steadily through 2060 absent any policy changes". The GAO's calculations of the 'fiscal gap', a measure of the actions necessary to achieve fiscal balance in the course of the next half century, paints a picture of unrelenting structural pressure. Closing the fiscal gap is calculated to require, according to this independent agency, expenditure reductions of 12.7% across the state and local government sector *each and every year* from 2013 to 2062 (or a comparable increase in revenues, from taxation, fees, or transfers). These circumstances, in other words, are no longer merely cyclical.

While the GAO correctly concluded that this represented a 'national challenge', the cumulatively conclusive outcome of Washington budget crises like the debt-ceiling episode of the Summer of 2011, the barely averted fall over the 'fiscal cliff' in January 2013, and the $85 billion across-the-board 'sequester' cuts of March 2013 suggest a trend toward, rather than away from, fiscal dysfunction at the federal scale (see Edsall, 2012; Mann and Ornstein, 2012). The malign, bipartisan neglect of these issues by Washington's political class had earlier led to the formation of an independent task force, co-chaired by the former Lieutenant Governor of the State of New York, Richard Ravitch, and former Federal Reserve Board Chair, Paul Volcker. The Task Force report, which drew on a detailed analysis of six of the most populous states, together with an interrogation of national budgetary circumstances, identified an incipient fiscal crisis across all levels of government, cascading from the federal to the state and local scales. The litany of threats to fiscal sustainability was found to include: rising health care costs (driven in particular by increased Medicaid enrolments, the programme for low-income individuals and families); underfunded pension commitments for state and local government workers (totalling $1–3 trillion); underfunded liabilities for health care for state and local government retirees (amounting to more than $1 trillion); the long-run erosion of grants and transfers to the states from Washington, DC, exacerbated by federal government deficit-reduction measures, which still account for around one-third of state revenues (ranging from 21% in Alaska to 47% in Mississippi); and the narrow, eroding and volatile tax-revenue base of many states, coupled with a growing reliance on cyclically sensitive taxes (from sales, income and property).

These specific threats reflected a more general climate of devolved fiscal discipline, following the historic departure from the (Keynesian) convention of state spending as a countercyclical bulwark, in favour of a post-1970s pattern of increased vulnerability to market conditions in general and business cycles in particular. On the receiving end of a neoliberalized forms of fiscal federalism, the local-government system has been pushed to the brink of structural crisis: even as municipalities are 'creatures of the states', legally, institutionally and financially speaking, they have more often than not been targeted for end-of-the-line budget cuts (Peck, 2012). "Fiscal stress rolls down hill," the Ravitch-Volcker task force concluded, "States have passed and will continue to pass their own problems down to local governments" (SBCTF, 2012, 17). This is a clear manifestation of the 'push politics' characteristic of the austerity era.

Confronted by expenditure drivers often beyond their effective control and long-term downward pressure on both tax revenues and federal transfers, the states are confronted by a deeply entrenched fiscal crisis, from which periods of economic growth provide only temporary respite. The Ravitch-Volcker task force seemed to have little faith however, in political leadership on these issues, at any level of government, instead rather forlornly appealing to public pressure.

> Our essential goal is to inform the public of the gravity of the issues and the consequences of continuing to postpone actions to achieve structural balance … The threats and risks vary considerably from state to state, but the storm warnings are very serious. Only an informed public can demand that the political systems, federal, state and local, recognize these problems and take effective action. The costs, whether in service reductions or higher revenues, will be large. Deferring action can only make the ultimate costs even greater.
>
> The conclusion of the Task Force is unambiguous. The existing trajectory of state spending, taxation, and administrative practices cannot be sustained. The basic problem is not cyclical. It is structural (SBCTF, 2012, 2–3).

Structural change, by the same token, represents the only adequate response. In this case, structural change would have to extend to the nature of the federal settlement itself: "The apparent gap between states' spending obligations and their available financial resources points toward a need to reexamine the relationship between the federal government and the states," the task-force report concluded, with some risk of understatement (SBCTF, 2012, 3).

Washington responds …

The large-scale and mostly indiscriminate cuts enacted in the wake of the federal sequestration process enacted in March 2013—which slashed $6 billion from in-transfers to the states as part of a massive federal expenditure rollback—were widely interpreted as a threat to national economic recovery. If anything, then, the fraught fiscal relationship between Washington, DC and the states has been deteriorating. The sequestration cuts, highly uneven in scale and effect, are impacting a range of services (like education and temporary aid for needy families) that states are being pressured to backfill from other sources, further stressing their bottomed-out budgets. The fiscal year 2012, in fact, had been "the worst year since the downturn began for cuts in funding to [state] services" (McNichol, 2012, 1), the $135–140 billion of federal stimulus funding that had been injected into state budgets under the provisions of the American Recovery and Reinvestment Act of 2009 (ARRA) having expired by June 2011. The ARRA had "toss[ed] a Keynesian bone to the states," but this had done nothing to alleviate the structural problems of fiscal federalism (Levitin, 2012, 1418). As Figure 1 reveals, the resulting budget pressures are generalized but also unevenly distributed, with the most severe budget shortfalls for FY2012 occurring in New Jersey, Nevada, California, Louisiana, Oregon, Minnesota and Texas—all states where the shortfall exceeds 20% of the annual budget. Sequestration cuts, applied to this deteriorating base, threaten to exacerbate what has become a pattern of systemic budgetary crises. In a situation in which federal funds account, on average, for around one-third of state revenues, while direct federal spending also has a marked (if uneven) effect on economic conditions at the state level, deficit struggles and budgetary brinkmanship in Washington, DC are certain to have seriously deleterious consequences for the

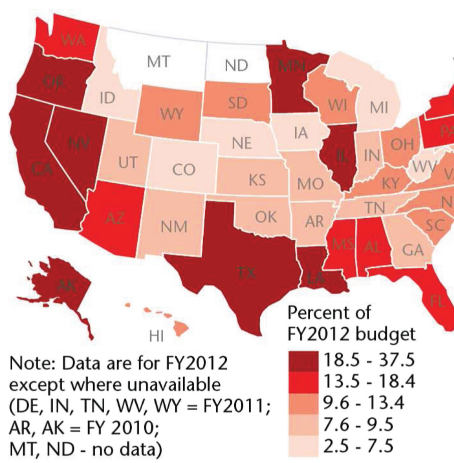

Figure 1. *State budget gaps: annual shortfall as a share of total state budget.*
Source: Center on Budget and Policy Priorities; Oliff *et al* (2012).

states (see Figures 2 and 3). Almost one in every five federal grant dollars flowing to the states, including funding for education, public housing and nutritional support for low-income families, is vulnerable to cuts in FY2013, following fiscal-cliff and sequestration negotiations (Pew Center on the States, 2012). As Figures 2 and 3 reveal, the pain of federal funding rollbacks will extend far beyond the suburban commuting-cum-outsourcing belts around Washington, DC itself, reaching out to Arizona, Texas, Illinois, Georgia, Tennessee and beyond.

State tax revenues slumped by 13% during the Great Recession, almost twice the rate of decline registered in the dot-com recession of 2001, and more than six times the total fall in tax revenues experienced during the protracted Reagan recession of 1981–1982 (Pollin and Thompson, 2011). Having spent down \$57 billion in rainy-day funds since 2008, most states have since been obliged to close budget gaps by massive spending cuts. In total, state spending reductions amounted to \$291 billion over the period 2008–2012, accounting for fully 45% of the budget-closing effort, while revenues from increased taxes and fees totalled \$101 billion (or 15%)—enshrining a coast-to-coast shrinking-government standard on a scale of \$3 in spending cuts for every \$1 raised in new revenues (McNichol, 2012). These measures have enabled states to maintain at least the appearance of balanced budgets, which in nearly every case is a constitutional or statutory requirement, though the crafty deployment of "borrowed funds, off-budget agencies, and the proceeds of asset sales" has also been widespread—these rescheduling and displacement efforts "often making balanced budgets illusory" (SBCTF, 2012, 2; Bifulco et al, 2012). The issues at stake here, however, far exceed those of propver bookkeeping.

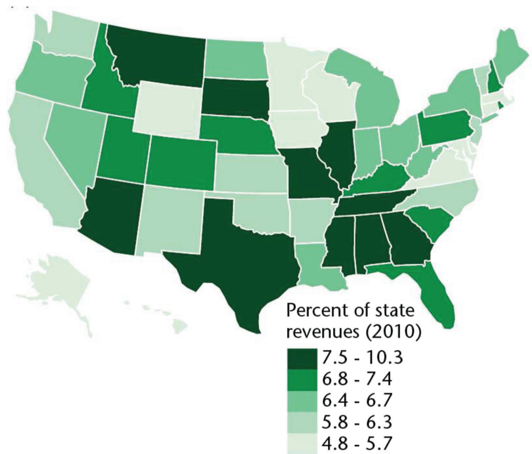

Figure 2. *State vulnerability to sequestration: federal grants subject to sequester as a share of state revenues.*
Source: Pew Center on the States (2012).

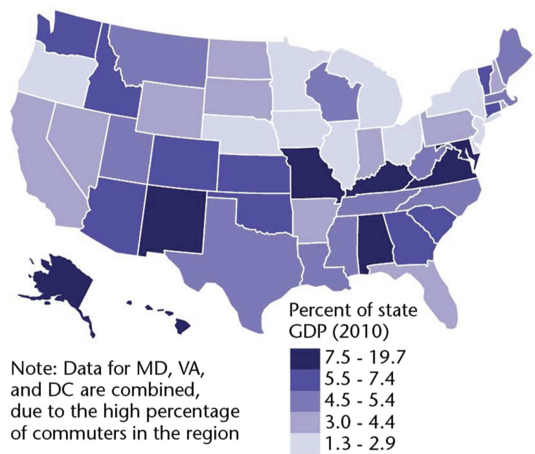

Figure 3. *Washington spending in the states: direct federal spending on procurement and wages as a share of state GDP.*
Source: Pew Center on the States (2012).

Devolving fiscal entrepreneurialism

In the wake of New York City's fiscal crisis of the mid-1970s and the 'new federalism' movement of the Reagan years, a sustained, structural rollback in fiscal-transfer regimes and automatic budgetary stabilizers has left state and local governments with few but 'entrepreneurial' options for financial self-sufficiency. This generalized state of fiscal exposure, of course, has coincided with a concerted ideological offensive favouring an experimental repertoire of neoliberal, small-state strategies (see Brenner and Theodore, 2002; Hackworth, 2007; Peck, 2010). For example, the number of states enacting formal tax and expenditure limitations of different kinds went from practically none in the mid-1970s to more than 25 by the early 1990s, climbing steadily ever since. Notably, while these initiatives may have been successful in restraining state and local government spending, they have not been associated with improvements in economic performance, as neoliberal doctrine would have indicated; in fact, they have been shown to stunt economic growth while undermining job creation (Bae et al, 2012). Restrictions on state expenditures, however, do tend to be rewarded by credit-rating agencies (Stallmann et al, 2012), the assessments of which have assumed increasing significance as states and cities have come to rely on debt-based financing models, while competing as "hostile brothers" for mobile forms of public and private investment (see Gottdiener, 1986; Peck and Tickell, 1994; Sbragia, 1996; Hackworth, 2007). As a result, municipalities have been driven into increasingly risky experiments in fiscal entrepreneurialism.

Making a market out of municipal debt

Reflecting the structural shift from tendentially redistributive federalism to fiscal devolution, debt-financing and privatized credit, the municipal bond market—a financial backwater during the Keynesian era—has been growing at an explosive rate since the early 1980s (see Figure 4), to the point that it is now valued at $3.7 trillion (SEC, 2012). As Kirkpatrick and Smith (2011) have explained, the exponential growth of the muni-bonds market must be understood as one facet of a wider and deeper financialization of urban development and governance in

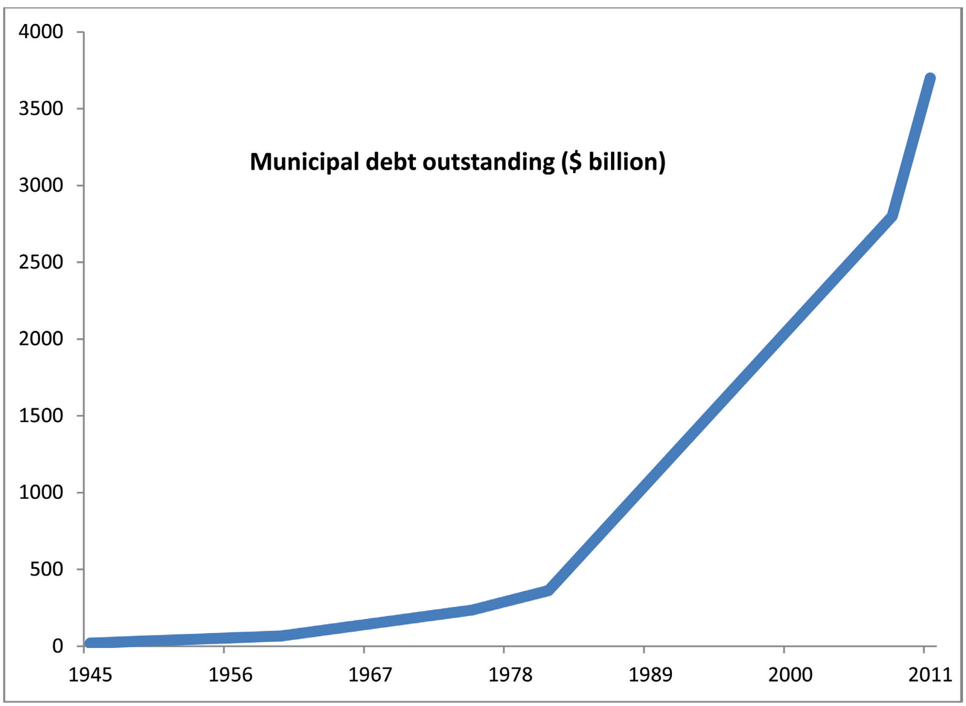

Figure 4. *The US municipal bond market, 1945–2011.*
Source: Securities and Exchange Commission.

the USA, in which an early phase of free-riding on the inherited infrastructures of the Keynesian period has given way to an increasingly speculative, debt-leveraged and risk-prone model in the course of the past two decades. States and localities have become ensnared in an escalating bidding war for mobile investment—pouring billions of dollars into business attraction and retention, with ever-diminishing returns (see Story, 2012)—while being forced into the bond market (and all manner of accounting tricks) as means of financing not only infrastructure investment but also operating costs. In the process, local-government agencies have become increasingly subject to bond-market disciplines in general and to the judgments of financial gatekeepers, like the ratings agencies, in particular (Hackworth, 2007; Sinclair, 2008; Torrance, 2008). In the process, they have been probing the uncharted limits of fiscal entrepreneurialism.

For a time, it appeared to some that this entrepreneurial-urbanist fix might just work, but the Wall Street crisis rapidly exposed the structural limitations of the underlying model of debt-driven, speculative development:

> Initially, urban growth coalitions appeared well served by neoliberal growth strategies. Officials flocked to bond markets to access the capital needed for infrastructure development, while investors liked the relative safety, steady returns and tax-exempt status of municipal investments. As long as credit remained cheap and the economy was growing, it seemed like a fine match. However, the bubble-induced euphoria of 2002 to 2005 merely masked the fact that growth during this period was based on unsustainable levels of speculation and risk. When these risks go bad, the damage sustained by the growth machine can be catastrophic … Ultimately, … the financing of infrastructure "by stealth" reached its own structural limitations as private-finance capital—the lifeblood of contemporary growth politics—was choked off by the global economic crisis (Kirkpatrick and Smith, 2011, 483, 484–485).

The muni-bond market stalled badly in the crash of 2008, to be temporarily revived by the introduction of tax-incentivized Build America Bonds in the ARRA stimulus package, before faltering once again, ostensibly due "to budget pressures and the rise of fiscal austerity [coupled with the election of] new governors in more than half of the states" (SEC, 2012, 6).

Belying its reputation for dependable security, characterized by steady returns for investors and low risks of default, the muni-bond market is currently displaying signs of structural stress. A review of the market for *Governing* magazine, for example, concluded that the "headline risks" stood at an historic high, even if there might be pent-up demand in this "environment of austerity;" while some observers have been talking of the possibility of a muni-bond bubble, or even of a "train wreck waiting to happen" (Sloan and Burke, 2012, 41; Lemov, 2013, 1). Alarming evidence of systemic corruption and market-fixing has also been exposed, going back for more than a decade and involving tens of billions of dollars (Taibbi, 2012). Partly as a result, the Government Accounting Standards Board has been (belatedly) prompted to insist on more scrupulous financial-reporting standards, which is expected to lead to a further downgrading of municipal credit ratings (and therefore higher borrowing costs), along with increased visibility of systemic risks in underfunded public pension schemes. This calls attention to some of the ways in which a distinctively American modality of austerity politics, expressed in the "form of municipal budget crises," has itself been entangled with "predatory Wall Street lending practices" (Larson, 2012, 1).

These conditions, it is now widely recognized, are pushing many municipalities, inexorably, to the brink of bankruptcy—for all the practical and political deterrents against this drastic course of action. There are compelling reasons for cities at the cusp of bankruptcy to explore each and every other option before taking the painful path of chapter 9 restructuring. As a result, municipal bankruptcies remain statistically rare. Since these legal provisions were made available, in 1937, there have been on average fewer than nine municipal bankruptcies per year, but both the scale and the frequency of these atypical financial events have increased markedly since the early 1990s (see CBO, 2010). The Orange County, California bankruptcy of 1994 had been largest on record until it was surpassed by the Jefferson County, Alabama's filing in 2011, courtesy of misadventures in the swaps market and predatory actions on the part of JP Morgan Chase, while in the following year Stockton, California became the largest US city to seek bankruptcy protection. *Governing* magazine reports that there have been 33 municipal bankruptcy filings since January 2010, though some were dismissed.[11] Figure 5 not only displays this pattern of increasing intensity in chapter 9 filings, but also reveals the extent to which municipal bankruptcies have become acutely cyclical.

The logic of municipal bankruptcy, which favours the 'creditors' bargain', not only represents the antithesis of Keynesian redistribution, it also threatens to substitute fiscal technopolitics for actual politics. The Keynesian pattern of automatic stabilization and anti-cyclical investment has been superseded by a neoliberal pattern of automatic destabilization and pro-cyclical deficits. Given that the "choice over whether to raise taxes or cut spending … is the quintessential question about what sort of society we want to live in," Levitin (2012, 1453) writes, "This is

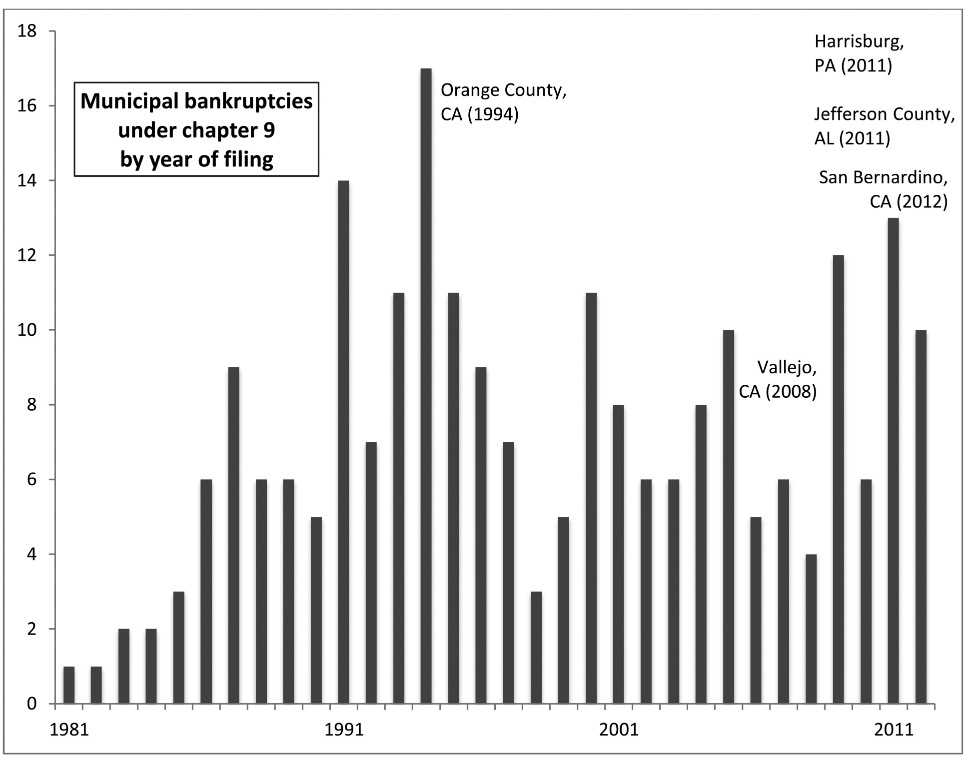

Figure 5. *The municipal bankruptcy rollercoaster, 1981–2012.*
Sources: Author's calculations from data provided by Alex Wathen and Governing.com.

exactly the kind of question that should go before voters rather than creditors." Conditions of fiscal federalism, together with cyclically amplified (but nonetheless structural) budget crises at the local scale, seem however to be driving in the opposite direction, as fiscally constrained municipal politics have become framed by *and subjugated to* the hegemonic model of long-run tax restraint and rolling expenditure cuts. This is ALEC's world.

New model cities

The financial crisis of 2008 and the wave of municipal insolvencies that have occurred in its wake have thrust a new generation of 'model cities' into the spotlight.[12] One of the first municipal victims of the Great Recession, Vallejo, California entered bankruptcy protection in 2008. Perhaps this was not exactly the harbinger of a 'tsunami' of local-government bankruptcies, as some were predicting (see Moore, 2008; Anderson, 2012; Greenhut, 2012), though with around one-third of California's cities now estimated to be on the brink of default (Gelinas, 2010; Dreier, 2012), this arguably has more to do with the constraints of the federal bankruptcy code than with actually existing fiscal conditions. The Vallejo bankruptcy, however, has certainly proved to be propitious in other significant respects. Most clearly, it provided a(nother) politically conspicuous opportunity to act for that well-financed and well-connected band of small-state advocates which since the late 1970s have been narrating America's urban crisis in the service of neoliberal objectives (see Peck, 2006; O'Connor, 2008). Once again, these ideological first-responders were quick to act, with their ready-made formulations and prefabricated remedies. Establishing a now-familiar pattern, Stephen Moore, editorialist for the *Wall Street Journal*, reacted to first reports of Vellajo's imminent bankruptcy by explaining that the city was being forced to consider "this radical step because it can no longer afford to pay the extravagant salary and retirement benefits of its public employees" (Moore, 2008, 11). "Blame Vallejo's politics, dominated by public-sector unions, for the city's sorry fiscal situation," was the theme dutifully echoed by Steven Greenhut in *City Journal*.[13] The libertarian Cato Institute published a report positioning Vallejo as a beachhead location in the coming campaign for public-sector deunionization (Bellante et al, 2009). Heritage Foundation blogger, Conn Carroll (2008, 1), likewise chose to read this as a neoliberal morality tale, of "How organized labor bankrupted an entire city," ridiculing the notion that the city's fiscal unravelling might have a deeper cause in events like the closure of the Mare Island Naval Shipyard in 1996, when surely "the true culprit is organized labor."

Vallejo's property and sales tax revenues collapsed by 30 and 20% respectively when the housing bubble burst, on the eve of the Great Recession, finally pushing the city over a financial cliff that it had been skirting for some time. In the court-assisted downsizing that followed, the rosters of police officers and firefighters were almost halved, road maintenance was cut by 90%, arts and recreation programmes were terminated, health care benefits for city workers were slashed, and several union contracts were voided or restructured (Gelinas, 2010; Dreier, 2012). Concessions on Vallejo's outstanding pension-fund obligations, however, were not nearly sufficient to satisfy the conservative commentariat, who chose to read it instead as a marker of the *limitations* of extant bankruptcy law as a driver of local-government reform. The Manhattan Institute's Steven Malanga, for example, had hoped to see a pension-rights rollback for existing as well as new employees, but he was nevertheless encouraged that the pain and cost of the settlement might at least have a demonstration effect: "what Chapter 9 seems to have accomplished in Vallejo was to persuade other nearby municipal governments and their unions to work out their fiscal problems outside of court" (Malanga, 2011, 1).[14] Meanwhile, the fact that the city's bondholders also had to take a haircut in the settlement, while other payments to muni-market creditors were to be rescheduled pending urgent infrastructure work, was also a source of concern at the Manhattan Institute. *City Journal* editor Nicole Gelinas sounded the alarm to the Institute's friends in the bondholder class on the pages of the *Investor's Business Daily*: "It's easy to imagine some future mayor convincing a bankruptcy judge that it's only fair for bondholders, along with union members, to take big cuts in a restructuring" (Gelinas, 2010, 1).

Vallejo's bond rating was reduced to junk status during the crisis, but the city has since begun to claw its way back to a new kind of future. Released from bankruptcy after 3 years, Vallejo is now being celebrated in some quarters as a paragon of fiscal discipline and municipal self-provisioning. Local citizens have been enlisted through social-media sites to act as eyes on the street in place of the increasingly skeletal police force, while the number of neighbourhood-watch organizations has ballooned from just a handful to around 350. In exchange for a modest sales-tax increase, local residents now have an opportunity to shape municipal investment decisions in a post-crisis variant of participatory budgeting, providing an opportunity for the public to engage in the self-management of austerity. Writing in the business section of the *Washington Post*, Ariana Eunjung Cha, was moved to present this as a case of fiscal redemption:

> The nation's cities are weak links in the U.S. economy and, if they collapse in large numbers, it could knock the country's recovery off course. Cuts at the federal level are being pushed down to the states, which in turn are passing the problems to their cities. The strains are especially great in California, which was at the epicenter of the housing market meltdown and the deep recession that followed. Even before revenue slowed, the state was facing unique constraints on public finances because its laws make it difficult to raise taxes. The dire conditions, however, have made California a laboratory for how to run cities in an age of austerity (Cha, 2012, A1).

It may be some time, however, before the full results are in. Three-quarters of Vallejo's city budget, post-bankruptcy, is absorbed with public-safety costs, while the police and fire service are operating at 38 and 30%, respectively, of their peak capacities (White, 2012). The situation is manifestly unstable, even as some prefer to see the crisis-induced birth of lean local government in evolutionary terms: "Bankruptcy brings a brutal recognition of the new normal," local Councillor Stephanie Gomes has observed, "It's Darwinism. The cities that are going to stay solvent are the ones that can evolve" (quoted in Dreier, 2012, 1).

Tim Cavanaugh (2013, 70–71), writing for the libertarian *Reason* magazine, observes that Vallejo is "doing comparatively well these days," while grumbling that the "slow-moving apocalypse" that is the municipal budget crisis has yet to bring about more far-reaching transformations elsewhere in the country. The Reason Foundation does see some beacons of hope, however. The organization has identified, in the context of the state and local budget crisis, new opportunities to push privatization initiatives, convening conferences with sessions on "privatization 101" and panels premised on the notion that, "Ongoing budget crises, debt and pension liabilities, and other fiscal challenges are prompting state policymakers to take increasingly bold steps in privatization," while "Municipalities in fiscal distress represent an opportunity for privatization reform, regardless of which political party is in power."[15] Featured on one of these panels was a contribution from a Reason Foundation favourite, Oliver Porter, the architect of a model for the 'contract city', based on the principles of 'total outsourcing', and the author of two self-published books on the subject (Porter, 2006, 2008). Pioneered in the affluent Atlanta suburb of Sandy Springs, Georgia, this case study of almost-complete municipal privatization is the subject of a Reason TV short film, *The City that Outsourced Everything*. Tired of being taxed for services redirected to less affluent communities, the unincorporated city of Sandy Springs decided to opt out of the governmental system altogether. It is here that the neoliberal redemption tale finds its happy ending:

> Local governments across the country are failing their citizens. Mired in debt and unfunded pension obligations, more and more cities are cutting services and raising taxes … In Sandy Springs … something extraordinary is happening … A few years ago [Mayor Eva] Galambos and the Committee for Sandy Springs set out to provide a new kind of city, a fiscally accountable city whose goal is to provide quality services at a reasonable price …
>
> Virtually the only thing that Sandy Springs doesn't outsource are police and fire services … Unlike so many other cities, Sandy Springs hasn't fallen into the pension trap … Can existing cities realize the same kind of efficiencies by outsourcing city services? [According to Mayor Galambos], "I can see why the public employees are reticent. Nobody likes change … But if your city is fixing to go bankrupt, there may *have* to be some change!"[16]

The opt-out of affluent suburbs like Sandy Springs reflects the logic of the gated community writ large, a fiscal 'privatopia' (see Davis, 1990; McKenzie, 1994; Peck, 2011). The corresponding rationale of municipal austerity dictates that all communities—rich and poor—must likewise learn to live within their means. If Sandy Springs stands in for the neoliberal ideal of locally financed self-government, detached from redistributive circuits, then its crisis-managed other can be found in Vallejo's downsized form of minimalist local government. The neoliberal morality tale, however, has yet to reach its ultimate conclusion.

Conclusion: what alternatives?

This paper has explored the distinctive political framing of 'austerity' in the USA, which has taken the form of a self-fulfilling narrative of state crisis, displaced in material and institutional terms to the subnational scale. The free-market think tanks, along with corporate-funded networks like the American Legislative Exchange Council have played especially active roles in articulating this crisis narrative, in shaping the new fiscal matrix that is austerity urbanism, and in propagating and promoting preferred models of lean local government. This process of state 'destructuring' was stalled at the federal level by the swing to the Democrats in 2008, and by the partial reprieve that was the ARRA stimulus package. Now spent in both financial and political terms, the stimulus programme only ameliorated what was an unprecedented collapse in state and local level budgets, which in turn has been accompanied by a sustained attack on public-sector services and workers. Meanwhile, the Republican Party's evident disarray at the federal level stands in marked contrast to its consolidated position across the nation's statehouses, where a range of fiscally conservative platforms have met with electoral success (Malanga, 2013). Fiscal undercutting is breeding a politics of its own at the state and local levels.

Deficit conditions systematically favour anti-state forces (Edsall, 2012; Peck, 2012). Under these perversely favourable circumstances, the pushers of austerity cures have been predictably busy, translating the banking crisis into a state crisis, and this state crisis into a public-sector pay, benefits and unionization crisis—with cities positioned at the sharp end. Yet, significant though these efforts (and their consequences) have already been, it must be remembered that the course of decentralized austerity does not lead to small-state equilibrium at the urban scale, but to metastasizing state failure. So the inevitable question about (progressive) 'alternatives' should really be turned on its head, since hegemonic austerity has no viable future—politically, fiscally, or socially—for all its almost vice-like ideological hold on the present. Fiscal gating, in the manner of affluent exurban locations like Sandy Springs, Georgia, is part of the problem, not the solution. Municipal bankruptcies, of course, represent the other side of this very same coin: one opts out, the other is pushed out. Truly sustainable models of local governance, in contrast, can surely only be constructed on the basis of principles like progressive redistribution and countercyclical stabilization, essentially an inversion of the every-city-for-itself logic of austerity urbanism. A corresponding ideological inversion will be required to reimagine government, not as a target for fiscal triage, but as a site for social innovation and investment. After all, "Is the goal to manage the budget crises for state and local governments in ways that maintain the integrity of educational, health care and public safety systems, as well as a decent social safety net; and to perhaps even create conditions under which such programs can expand and improve once the economy has moved into a sustainable recovery?" Robert Pollin and Jeff Thompson (2011, 28) have pointedly asked, "Or is the crisis merely a pretext for dismantling state and local governments as viable institutions supporting their communities?"

While the selective 'dismantling' of state and local government is certainly proving to be politically controversial, it would be premature to jump to the conclusion that devolved austerity will somehow automatically call forth its own gravediggers, in the singular service of progressive renewal. Conditions of fiscal austerity certainly seem to be chronically unsustainable in their own terms, and perhaps they could even presage a neoliberal equivalent, structurally speaking, of Keynesianism's stagflation moment (Peck, 2013), but these conditions do not *necessarily* lend themselves to the cause of some kind of leftist reconstruction. In fact, they threaten to extend, at least for the time being, the grip of small-state hegemony—although clearly not on the basis of their own inherent rationality, more by virtue of neoliberalism's demonstrated facility to *incapacitate* both sources of opposition-with-traction, together with the supply of (scalable and fundable) 'alternatives'. If the long-run outcome of neoliberalism's monetarist episode, a generation ago, was the fatal erosion of both the manufacturing base and the organizational foundations of the industrial labour movement, there are equally ominous indications in the current phase of austerity politics, which has been marked by the relentless strategic targeting what remains of a weakened governmental infrastructure, along with organized labour's last redoubt in the USA, the public-sector unions.[17] There will likely also be collateral damage, in this period of social-state retrenchment, across the network of community-based organizations and 'shadow social state' agencies that has long been a fertile local source of alternative ideas and projects, from the reformist to the radical. Gar Alperovitz's (2011: 226–27) intuition may well be correct, that "[s]omething appears like to 'give' [in this] era in which systemic problems are coming ever more forcefully into play," but his relatively sober assessment of current political conditions at the state and local level in the USA seems also to be apt:

> So far the new state political energies have been focused on defending against further losses in what is best characterized as a resistance posture aimed at slowing down budgetary cuts and attacks on the wages, pensions and bargaining power of public sector unions. Few have hoped positively and progressively to significantly *increase* taxation or public expenditures on social programs. On the other hand, younger activists have begun to demand something more far-reaching (Alprovitz, 2011, xxiv).

In this vein, one can anticipate the continuation of localized protests of various kinds, but only when these begin to multiply beyond to the sum of their parts will they be a match for the systematic forces that have been animating the metapolitics of austerity. For this malign political environment eats away not only at the bases of *effectively* defensive counter-politics (those that would block, stall or dilute austerity programmes), but also, more consequentially, at the social and institutional foundations necessary for the development and dissemination of *politically sustainable* progressive alternatives. To be sure, there is no shortage of alternative ideas and innovative projects at the local level (see Pastor et al, 2009; Alperovitz, 2011), but the fact that they are most often found at, if not confined to, the local scale is no mere coincidence. The pernicious effects of fiscal federalism include the choking off of budgetary supply lines to those local experiments that break most decisively with the prevailing neoliberal pattern of market-based amelioration, dramatically curtailing the scope for redistributive interregional transfers, and eroding the potential for scaling up or networking out. None of this, of course, means that the neoliberal austerity programme, in its own terms, is any more sustainable. But perhaps it does help to explain the kinds of nihilistic, stalemate politics that have accompanied its rude return, and the limited extra-local traction of more progressive alternatives. Breaking with this pattern will require that networking across local alternatives becomes much more effectively articulated with a strategic fight for new rules of the extra-local game—not least concerning fiscal relations, the current configuration of which decisively favours the downdrafts of austerity.

For now, the fiscal change-managers still have the wind at their backs, and this is continuing to drive new rounds of public dispossession and political incapacitation. The grip of fiscal technopolitics appears to be tightening. This is leading to the further 'automation' of restrictive fiscal regimes of governance, insulating local financial decision-making not only from protest politics but from the formal political arena itself. Nowhere is this more vividly exposed than Detroit, which in March 2013 finally fell victim to a long-threatened fiscal takeover, courtesy of expanded 'emergency management' powers assumed by the State of Michigan—usurping local political control over finances, voiding municipal contracts and paving the way for further downsizing and privatization (see Yaccino, 2013; cf. Schneider, 2013). The bankruptcy lawyer appointed by Republican Governor Rick Snyder to oversee this process, a veteran of the Chrysler turnaround, Kevyn Orr, gamely described the opportunity as "the Olympics of restructuring," although Mayor Dave Bing pointedly drew attention to the political implications of what has been widely interpreted as the imposition of fiscal martial law: "I don't think that they care at this point who the mayor is or who the City Council is," he said, "They want things fixed" (quoted in Davey, 2013: A13). Getting things fixed has now become Mr Orr's singular responsibility. Anticipating resistance but promising "the rule of reason," Orr continues to appeal to an ostensibly higher rationality of finance, while maintaining that, "I'm not a political animal" (quoted in Vlasic and Yaccino, 2013, A17); "I'm a restructuring professional, and I'm going to function in that capacity."

Endnotes

[1] "Republicans ... have a strong interest in cutting compensation to unionized public employees because public employee unions tend to support Democrats" (Levitin, 2012, 1400).

[2] Jeb Bush is the former Governor of Florida (1999–2007); Newt Gingrich was Speaker of the House (1995–1999) and a 2012 presidential candidate; Jim DeMint is a former US senator (2005–2013) and now the president of the Heritage Foundation; John Cornyn has been a US Senate representative for Texas since 2002; Paul Ryan, a US Congressional representative from Wisconsin since 1999, is chair of the House Budget Committee and a former vice-presidential candidate.

[3] States are currently barred from federal bankruptcy protections, by virtue of their sovereign status.

[4] Not surprisingly, the vast majority of corporations that have severed their connections with ALEC (along with underwriting support) have given no public reasons for doing so (no doubt wishing to draw a silent line under what for many had become a politically embarrassing association). Most

would only confirm, curtly and after the fact, that their membership had lapsed, when pressured for responses by advocacy groups like Color of Change and the Center for Media and Democracy, by labour unions like the American Federation of State, County and Municipal Employees (AFSCME), by socially responsible investment groups like Walden Asset Management, or by media organizations. In doing so, just a few—like Reed Elsevier—referred obliquely to the "broad range of criticism" levelled at ALEC; most adopted the PR policy of saying as little as possible. See http://www.sourcewatch.org/index.php/Corporations_Who_Have_Cut_Ties_to_ALEC accessed June 23, 2012.

[5] ALEC's current list of task forces, sans full membership details, can be found at http://www.alec.org/task-forces/ accessed June 4, 2012.

[6] Normally, these model bills are only available to ALEC members, though many have been brought to public light, courtesy of *The Nation* magazine and the Center for Media and Democracy, through the ALEC Exposed web site, at http://www.alecexposed.org/wiki/File:Full_list.png accessed June 3, 2012.

[7] "In the most fundamental sense, government spending *is* taxation. The bottom line is governments don't create resources; they redistribute resources. Whenever the government bails someone out of trouble they put someone else in trouble. Every resource given to someone by the government represents a resource being taken away from someone else by the government" (ALEC, 2012, 16).

[8] DeMaio, C. (2013) Carl DeMaio to chair reform groups focusing on California and San Diego. *San Diego Rostra*, 10 January. Available online at: http://sdrostra.com/?p=32521. For details of the Reason Foundation project, see http://reason.org/news/show/1013196.html and for Reform San Diego, see http://www.reformsandiego.org/ accessed February 24, 2013.

[9] It is no coincidence that the Great Recession should witness the return to the public stage of David Stockman, iconoclastic architect of Reagan's starve-the-beast strategy, with a bestselling book, *The Great Deformation* (Stockman, 2013).

[10] As ALEC recounts the immaculate neoclassical logic, "If A and B are two locations, and if taxes are raised in B and lowered in A, producers and manufacturers will have a greater incentive to move from B to A (2012, xii).

[11] Moreover, fewer than half the states explicitly allow municipalities to file for bankruptcy, preventing or deterring many cities from taking this legal step. See http://www.governing.com/gov-data/municipal-cities-counties-bankruptcies-and-defaults.html accessed February 20, 2013.

[12] The term new model cities is used here ironically; on its lineage see Weber and Wallace (2012).

[13] Greenhut (2010, 1), the director of the Pacific Research Institute's Journalism Center. A regular *City Journal* contributor, he is a fellow of the Goldwater Institute and the author of *Plunder! How public employee unions are raiding treasuries, controlling our lives and bankrupting the nation* (Greenhut, 2009) accessed January 4, 2013.

[14] Vallejo councilwoman Stephanie Gomes has confirmed this in her observation that, "Cities like San Jose and Stockton and Oakland are using Vallejo's bankruptcy experience as a bargaining chip and extracting huge givebacks from their employees that were unthinkable three years ago" (Speech before the Contra Costa Taxpayers Association, 24 June 2011. Available online at: http://www.stephaniegomes.com/ accessed February 20, 2013.)

[15] Program for Reason Foundation conference, "Privatization strategy workshop: advancing state and local privatization policy in your state," 13 November 2012, Amelia Island, FL. Available online at: http://reason.org/events/show/36.html accessed June 4, 2012. At least 10 states have launched major new privatization initiatives in the wake of the Great Recession (Peck, 2012).

[16] Transcription from Reason TV, "Sandy Springs, Georgia: the city that outsourced everything," 12April 2011. Available online at: http://www.youtube.com/watch?v=f8qFvo2qJOU accessed June 4, 2012.

[17] Of 14 million union members in the USA, in 2012, 52% were in the public sector, with the highest rate of unionization being in local government, where it is more than six times higher than in the (now largely deunionized) private sector (BLS, 2013).

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