

# Introduction

MARK DAVIDSON AND KEVIN WARD

The European debt crisis, and the ensuing austerity-fuelled chaos, can seem to Americans like a distant battle that portends a dark future. Yet a closer look reveals that the future is already here. American austerity has largely taken the form of municipal budget crises precipitated by predatory Wall Street lending practices. The debt financing of U.S. cities and towns, a neoliberal economic model that long precedes the current recession, has inflicted deep and growing suffering on communities across the country.

—Ann Larson, *Cities in the Red: Austerity Hits America*

Cities have played an important role in the crisis. They have embodied what the crisis and its aftermath meant in the spatially condensed form.

—K. Fujita, *Cities and Crisis: New Critical Urban Theory*

The spectral marauding of urban austerity draws the lifeblood from communities.

—W. K. Tabb, “The Wider Context of Austerity Urbanism”

## Introduction

Rewind just over five years. It is the summer of 2011. Jefferson County, Alabama, was hitting the national headlines. This unlikely candidate for national media attention had become the latest victim of municipal fiscal crisis. The county suddenly faced a massive budget shortfall due to a Supreme Court decision that rendered Jefferson's \$70 million occupational tax unconstitutional. In addition, the county was facing burgeoning repayments on a \$3.14 billion sewer works project. This infrastructure program had been financed by Wall Street firm JP Morgan, one of a number of investment banks that had been eager to sell complex debt vehicles to cash-hungry municipalities. Unfortunately, the financial "solutions" sold by the investment bankers turned out to carry huge risks. And this was not an isolated incident. Across urban America city and county governments were going to be left counting the cost both figuratively and literally of experimenting with a range of financial vehicles (Davidson & Ward, 2014).

As Jefferson's recessionary budget crunch, which had begun in 2008, came to a climax in Summer 2011, so the county started to implement the types of cutbacks that have become a defining feature of U.S. austerity, characterized by "fiscal-discipline, local-government downsizing and privatization" (Peck, 2014, p. 18). In June 2011, the county started a process of cutting its workforce, sacking seven hundred employees, approximately one-third of those who had worked for it. By November 2011, the city government's efforts to balance its budget had failed to such an extent that it filed for Chapter 9 bankruptcy. It was not the first city government to make this move, of course. Thirteen municipalities filed between 2008 and early 2013, of which five were dismissed. That is, though, less than 1% of all those eligible according to their particular state's legislation (<http://www.governing.com/blogs/by-the-numbers/municipal-bankruptcy-rate-and-state-law-limitations.html>).

In the case of Jefferson County, the bankruptcy filing totaled \$4.2 billion for the county of 658,000 residents. That is nearly \$6,400 per person! This was the biggest bankruptcy by a U.S. city or country until two years later—June 2013—in Detroit's \$18 billion case. In the course of bankruptcy proceedings, the apparent predatory and opaque lending

practices of JP Morgan resulted in the Securities and Exchanges Commission fining the firm \$75 million and denying it \$647 million in future fees. The bankruptcy court also approved a settlement that included writing off \$1.4 billion in debt associated with the sewer financing deal.

In the midst of Jefferson County's attempt to resolve its fiscal crisis, County Commissioner Jimmie Stephens commented that "[t]hese steps are the beginning of a new era . . . a reduced level of services for the citizens of Jefferson County" (Wylar, 2011, np). Cutbacks within the county have slashed the city's payroll. Further rollbacks continue as the state government continues on its own austerity drive. In addition to losing public services such as fire, libraries, and police, Jefferson's residents also now face possible school closures. Since 2008, the county has run a \$10 million deficit within its school budget. As Alabama withdraws educational funding, there is no capacity within the county's budget to address the financing shortfall. What is emerging is a much-reduced state, with few in the county immune to the consequences of austerity. When Jefferson emerged from bankruptcy just before the end of 2013, the county was a financial and political mess. The repercussions of this economic and political meltdown were felt immediately in the form of rises in the sewage rates paid by residents. The county is also faced with a hugely uncertain financial future ([http://www.al.com/news/birmingham/index.ssf/2014/12/one\\_year\\_later\\_jefferson\\_count.html](http://www.al.com/news/birmingham/index.ssf/2014/12/one_year_later_jefferson_count.html)). And it was not alone.

Jefferson County's story of fiscal collapse places it at the forefront of the most recent wave of U.S. urban restructuring. Precarious infrastructure financing, inadequate local fiscal tools, bankruptcy, unprecedented cutbacks: the county contained a nightmarish combination of factors that have, in varying degrees, played out across the whole country. With hindsight, it is almost as if those in charge had a death wish, or perhaps more aptly, a debt wish (Sbragia, 1996). While exceptional with regard to its levels of debt and leveraged financing—the only comparative civic entity being Detroit—Jefferson County's budgetary collapse represents a fate that many U.S. cities are still actively trying to avoid.

Since 2007, U.S. cities have been implementing austerity policies. The most extreme forms of austerity have been witnessed in cities such as Detroit, Michigan, and Vallejo, California, where employees and retirees have seen their incomes slashed and health care cut. However,

a less dramatic and more insidious process of austerity reform has been undertaken across most U.S. cities. At the height of the fiscal crisis, the National League of Cities described the fiscal situation across the United States in the following way:

The nation's city finance officers report that the fiscal condition of the nation's cities continues to weaken in 2010 as cities confront the effects of the economic downturn. Local and regional economies characterized by struggling housing markets, slow consumer spending, and high levels of unemployment are driving declines in city revenues. In response, cities are cutting personnel, infrastructure investments and key services. (NLOC, 2010, p. 1)

In 2010, 90 percent of U.S. municipal finance officers reported the implementation of spending cuts to counter falling revenues (*ibid.*). U.S. urban austerity has therefore involved budget balancing processes whereby many “nonessential” items have been taken out of city budgets. However, in already lean neoliberal governments, this has often involved the redefinition of what is “essential.” The most common austerity reforms have been personnel cuts that have stripped staffing levels down to a minimum and the cancellation or delay of infrastructure projects (*ibid.*). Alongside these reforms, many cities have instituted hiring freezes and/or wage reductions. The last eight years of austerity have therefore reshaped the composition of most city governments and redefined what types of projects a city may undertake.

Only now—in 2016—are some cities seeing their reconfigured budgets return their fiscal status to prerecession levels, and even then for most cities the recovery remains weak and inconsistent (NLOC, 2014). A similar trend has occurred at the state level, with fiscal rebuilding slow and painful for many (NASBO, 2014). At the federal level, the policies and the discourse are different. President Obama has persistently urged European leaders to follow the United States's example by increasing public expenditure to support slumping private sector growth (Bull & Bohan, 2012). However powerful this rhetoric is, it disguises the fact

that the United States has been undergoing a major austerity drive of its own (Dolan, 2015). For example:

[U.S. federal] Government spending at all levels is far below the level of any other recent recovery. Sixteen quarters after the end of the recession, spending during past recoveries has been 7–15% *higher* than it was at the start. This time it's 7% *lower*, despite the fact that the 2008–09 recession was the deepest of the bunch. Reagan, Clinton, and Bush all benefited from rising spending during the economic recoveries on their watches. Only Obama has been forced to manage a recovery while government spending has plummeted. (<http://www.motherjones.com/kevin-drum/2013/09/obama-austerity-wrecked-american-economy>)

The logic underpinning this approach is that “strategies of fiscal constraint can, counter-intuitively, produce expansionary effects in national economies” (Clarke & J. Newman, 2012, p. 301; see also Krugman, 2011). Yet, due in large part to the nature of its fiscal system (Oates, 1999; Peck, 2014), the federal government has been able to leave the dirty work and the heavy lifting of the “doing” of austerity to state and local governments. In the United States, then, austerity has been very much concerned “with social, spatial and scalar strategies of *redistribution*; it is about making ‘others’ pay” (Peck, 2014, p. 20). In many senses this has not marked much of a departure from past practices and strategies of the federal government. Recent years have seen nation-states restructuring themselves from within regardless of their organizational point of departure. This has involved functions and responsibilities being taken on by others, such as community organizations and private sector firms. It has also seen the emergence of what Brenner (2004) termed “new state spaces,” whereby subnational branches of the state have been conscripted to do the work required of them under neoliberalization (Brenner et al., 2010). Under the U.S. variant of austerity urbanism this pattern has continued with the fiscal disciplining of municipalities and state authorities.

Of course, austerity was not always *the* response to the latest structural economic crisis. As the global economy threatened to unravel between 2007 and 2009, many policymakers and commentators (re)embraced Keynesianism (Krugman, 2014; Rudd, 2009). For some this was an opportunity to (re)assert the analytical superiority of an alternative economic doctrine (Galbraith, 2008). Yet in the context of what has been labeled “the Great Recession,” the embrace of anti-austerity policies was also supported by others. As national governments found themselves the necessary saviors of corrupted and broken banking systems, state investment in the economy was championed, albeit momentarily (see Greenspan, 2013), by some of the most ardent supporters of neoliberal capitalism. Some of the key conductors of global capitalism, such as former Goldman Sachs CEO and then secretary of the treasury Hank Paulson, found themselves instigating unprecedented state interventions into the national economy. No straight route from structural economic crisis to austerity therefore existed. Initial responses varied across national contexts, and in places such as the United States, expansionary fiscal policies—such as the *Emergency Economic Stabilization Act of 2008*—were implemented.

There are many ways to interpret the subsequent transition toward austerity. For some, it should be explained as the reassertion of political and economic power by elites (Callinicos, 2012). Others have claimed that it resulted from a change in political strategies on the political Right (Williamson, 2013). The analysis of global institutions such as the International Monetary Fund argue that austerity emerged—where properly rolled out—as the correct response to economic restructuring (Batini et al., 2012). For Peck (2014, p. 20; original emphasis), what has been witnessed is “a concerted *renarration* of the financial crisis in the form of new homilies of (local) state failure.” Whatever the best explanation, there is little doubt that a concerted process of state and social restructuring has been underway across many countries of the Global North. After a brief period of state intervention in the economy, we have therefore witnessed efforts to get the state out of the way of processes of capital restructuring. Ironically, in order for that to happen *more not less* state activity has been required. Furthermore, we have seen the state actively pursuing reforms to create greater opportunities for

economic restructuring, for the business of austerity has the potential to be a profitable one (Davidson & Kutz, 2015).

Within this context, the American version of austerity deserves particular attention. In the immediate post-crisis period, the Obama administration injected billions of dollars into the U.S. economy. This stimulus package became very much the counterpoint to the European context, where many governments resisted similar deficit spending. This period was to end with the curtailment of federal stimulus funds. What has followed has returned federal fiscal structures to what has been the norm since the 1980s (Harvey, 1989; Peck, 2012). Municipal and state governments have therefore again found it necessary to provide public services without federal support. However, they must now do this in an even more uncertain economic situation and in the wake of decades of neoliberalization which has left them much “leaner” than they were in the 1980s. With fewer levers to pull and with many of its traditional functions and services no longer under their control, branches of the state have found themselves with relatively few budgets over which they can make the cuts demanded of them. It is perhaps not a surprise, then, that many U.S. cities have adopted relatively similar strategies (Ross et al., 2014); they are, after all, being forced to choose from a relatively limited menu. “What is striking about local strategies is just how un-local they are” wrote Peck and Tickell (1994, p. 281) more than two decades ago. This continues to characterize much of the “local” policy landscape in austerity urban America.

## Austerity Defined

It is important to acknowledge the complicated, contested, and long history to austerity. In many ways, there are a variety of national-specific types of austerity, each with its own histories and meanings, reflecting the work that has been done by the term over the years. So, it is a notion that has a sense of geography embodied in its very DNA. That makes statements about a general type of austerity only partially useful. Nevertheless, there are some shared characteristics and features that are worth noting, not least because what in recent years has emerged

in geographically discrete nations around the world is a variegated and relationally constituted austerity, one that is in part made through connections between nations and cities.

So, in general terms, austerity can be characterized as an economic and social reform agenda premised upon fiscal constraint and deficit reduction, reduced state expenditure, shrinking government achieved via privatization, and significant cuts to social welfare. All of these reforms are intended to restore an economy to a competitive position. As Mark Blyth (2012, p. 2) explains:

Austerity is a form of voluntary deflation in which the economy adjusts through the reduction of wages, prices and public spending to restore competitiveness which is (supposedly) best achieved by cutting the state's budget, debts, and deficits. Doing so, its advocates believe, will inspire "business confidence" since the government will neither be "crowding-out" the market for investment by sucking up all the available capital through the issuance of debt, nor adding to the nation's already "too big" debt.

If a state amasses fiscally burdensome debt or social welfare functions, austerity therefore becomes a perceived route within which relative competitiveness can be restored. Indeed, proponents of austerity reforms often point toward the largesse of the state (e.g., excessive social welfare and public employee spending) as the cause of economic stagnation and the consequent need for state restructuring (Edsall, 2012).

Economic austerity has its origins in liberal economic theory, in the works of people such as John Locke, David Hume, and Adam Smith. Liberal theorists, Blyth (2012) argues, were consistently concerned with the state, with some arguing against its necessity (i.e., Hume and Locke) and others arguing about who should pay for the state (i.e., Smith). In liberal formulations of state theory, the market becomes a mechanism to achieve social order, and the state introduces problems into the market-based social system. When an economic crisis occurs, the solution is often a reassertion of market forces (i.e., deregulation) and a withdrawal of the state as a significant market actor (i.e., public



spending cuts). As liberal theory has waxed and waned in popularity in different nations, so has an embrace of antistate (including austerity) reform. In the 1920s, austerity became a widely adopted reform model. In the United States, Herbert Hoover's treasury secretary, Andrew Mellon, argued the response to the crisis of the late 1920s and early 1930s should be to "liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate," so that the "rottenness [will be purged] out of the system. . . . People will . . . live a more moral life . . . and enterprising people will pick up the wrecks from less competent people" (cited in Blyth, 2013, p. 84). As the implications of such thought and associated reform became evident in 1930s Europe, the legitimacy of austerity—and the liberal thought that inspired it—receded. Blyth (2013) argues the only places you could actually find austerity proponents through the mid-twentieth century were in Germany and within the small cabal of Austrian School economists. Austerity only reemerged as a legitimate reform option as part of the resurgence of (neo)liberal doctrine in the 1980s (Harvey, 2005; Peck, 2010).

New York City's fiscal crisis of 1975 is often identified as a trigger point in the rise of U.S. neoliberal governance (Harvey, 2005; Tabb, 1982). From the 1960s onward, New York City had run significant deficits as it relied on federal aid to counter recessionary decline. In 1975, the city finally ran out of cash, as financiers refused to renew loans. Estimates of the city's total deficit run from \$600 million to \$2.2 billion. The "remedy" imposed on New York City involved deferring fiscal revenues to bondholders, curbing union power, implementing wage freezes, cutting back public employment, slashing public services, and imposing user fees (Lichten, 1986; Tabb, 1982). This combination of fiscal disciplining techniques subsequently became a blueprint for the 1980s neoliberal reinvention of a restructured government:

This amounted to a coup by the financial institutions against the democratically elected government of New York City. . . . The New York crisis was, Zevin argues, symptomatic of "an emerging strategy of disinflation coupled with a regressive redistribution of income, wealth and power" . . . the purpose of which was "to show others that what is happening

to New York could and in some cases will happen to them.”  
(Harvey, 2005, pp. 45–46)

In the years that followed, cities across the U.S. and in many other nations were to undergo a similar disciplining process (Brenner & Theodore, 2002; Peck & Tickell, 2002). In the United States, gone were the political culture and institutions of “New Deal Democrats” and in its place was generated a new regime of fiscal retrenchment, competition, and discipline. As Clark and Ferguson (1983, p. 5) found: “The New Deal coalitions have broken down and New Fiscal Populist leaders have devised new modes of governance and specific policies consistent with more limited resources and current citizen preferences.” This resource-scarce environment appeared to demand austerity, and in retrospect the neoliberalized rounds of restructuring over the course of the 1980s and 1990s in urban America were simply the warmup for the main event, as advocates of free-market restructuring have made hay in the political slipstream of the Great Recession.

U.S. austerity initially came in the form of the federal government withdrawing redistributive funding and the emergence of an entrepreneurial urban system that demanded cities take more fiscal responsibility and, consequentially, operate services with fewer resources (Harvey, 1989). This occurred at the same time as the federal government was divesting itself of social welfare responsibilities and, thus, placing greater burdens on state and local governments (Peck, 2012). The transformation of urban governance in North America and much of Europe over the past four decades has therefore involved a certain type of austerity, one premised on ideological commitments to state downsizing, the insertion of market forces into many aspects of government leading to the production of a particular neoliberalized form of statecraft (Peck, 2001; Peck & Tickell, 2002).

In the United States, the decades preceding the 2007–08 financial crisis and Great Recession were dominated by this neoliberal reform agenda. From the 1980s onward, the hegemonic political ideology had demanded that state spending (with the possible exception of military spending) be reduced (Harvey, 2005). Across both North America and Western Europe, entire social systems became privatized. The current

bout of austerity reform has therefore been implemented on an already austere governmental landscape:

One way or another, fiscal conservatism is established as a bipartisan condition. This is reflected, in turn, in a pattern of fiscal revanchism that is quite unprecedented in its reach and intensity, even in comparison with the Reagan and Gingrich revolutions of the 1980s and 1990s. (Peck, 2012, p. 639)

Today's U.S. austerity reforms must therefore go farther, reach great depths, in order to find in the state retrenchment a commitment to austerity demands. It is in this extreme or severe context that health care, pensions, and social services have been cut and withdrawn across many cities (Davidson & Kutz, 2015; Davidson & Ward, 2014; Peck, 2012).

The 2008 financial crisis, which was subsequently engineered into a sovereign debt crisis (Blyth, 2013), and the austerity that has been implemented to remedy it, therefore involves a strange paradox. In the immediate fallout of the financial crisis, it appeared evident that the self-regulating and wealth-generating promises of neoliberal doctrine had been false. Indeed, this doctrine was identified as the cause of the economic calamity. In a now infamous piece written by then Australian prime minister Kevin Rudd (2009, np), it was claimed that neoliberalism was finished:

The global financial crisis has demonstrated already that it is no respecter of persons, nor of particular industries, nor of national boundaries. It is a crisis which is simultaneously individual, national and global. It is a crisis of both the developed and the developing world. It is a crisis which is at once institutional, intellectual and ideological. It has called into question the prevailing neo-liberal economic orthodoxy of the past 30 years—the orthodoxy that has underpinned the national and global regulatory frameworks that have so spectacularly failed to prevent the economic mayhem which has now been visited upon us.

Given that these criticisms were coming from political elites, it is not immediately apparent how more austerity became the fix for already austere neoliberal nations and cities.

Part of the answer is ideological. Blyth (2013), for example, has claimed that part of the appeal of austerity is moral. In many European countries austerity has connotations to postwar reconstruction efforts and the collective project of national rebuilding. For example, in the UK, the notion of austerity draws partially and selectively on “a collective memory of rationing, making do and mending, and a culture of constraint” (Clarke & J. Newman, 2012, p. 307; see Kynaston, 2007, 2010). It is not a signifier of wholly negative resonance. Despite being an undeniably painful experience, austerity can therefore be regarded as virtuous and self-sacrificing.

In the United States the ideological landscape is dramatically different. The war-tinted appeal of austerity does not resonate to the same extent. In addition, the idea of deficit spending has become a difficult political sell:

Pitched battles between haves and have-nots over health care, taxes, union rights and unemployment benefits—as well as, at the local level, cuts in police protection, garbage collection, and the numbers of teachers—have dominated public debate. A stagnant economy, ballooning deficits, and the mushrooming strength of antigovernment forces are producing a set of wedge issues centered on fiscal conflict and budget shortages to create a new politics of scarcity. (Edsall, 2012, p. 13)

While American austerity is being shaped by the particularities of its ideological and governmental structure (Peck, 2014), austerity itself has become a global creed. As Fontana and Sawyer (2011, pp. 57–58) note: “No policymaker around the world seems immune.” From global institutions such as the International Monetary Fund down to thousands of local governments, reforms have been undertaken that have the effect of making government more austere. After decades of neoliberal reforms, governments across the Global North faced the 2008 Great Recession with very few resources to withstand a generational economic crash

(Peck, 2010, 2012). Many national governments had already reduced social welfare spending, run down surpluses, sold off state assets, and divested themselves of economic decision making (Plant, 2012). All of which meant that when the financial sector found itself bankrupt in 2007–08, many national governments struggled to find easy solutions to the fiscal crisis.

The poster child of austerity is, of course, Greece. Following the dramatic, but relatively swift, economic restructurings that took place in Iceland (Boyes, 2009) and Ireland (Kinsella, 2012), Greece has found itself in a protracted and politically charged bankruptcy (Varoufakis, 2014). The battle that has taken place over Greece's debt repayments is indicative of broader struggles over austerity reform. Burdened with unpayable debts—Greek debt is 175 percent of GDP—the Greek electorate put the left-wing party Syriza in government early in 2015. Following their election success, Syriza has pursued an anti-austerity program and, in doing so, has found itself pitched against the “troika” of creditors: the International Monetary Fund, European Central Bank, and European Union. The troika has only been willing to fund otherwise bankrupt Greece with the condition that further austerity reforms are implemented. These include privatization of state assets, reductions in state payments and benefits, reduced social services, and the production of budget surpluses. While its immediate place in the European Union seems secure for now, its longer-term future (and, *inter alia*, that of the EU) remains unclear. There certainly remains no appetite among national and international public and private sector elites for any changes in the current governmental system (Callinicos, 2012; Crotty, 2012).

### Austerity Urbanism Produced, U.S.-Style

In recent years, several cities . . . have recognized that their fiscal position is no longer tenable and have filed for bankruptcy. Bankruptcy is a painful measure of last resort and one that they understandably seek to avoid. Unfortunately, the radical cuts in services that troubled cities have made to avoid bankruptcy are counterproductive. Such measures may

or may not stave off a formal declaration of bankruptcy, but they cause more damage to the financial health of the city, and bring about more hardship for its residents, than bankruptcy itself. (Kiewiet & McCubbins, 2014, p. 106)

While austerity has been pursued in much of the Global North, it has taken a different form across national contexts. In the United States, it is often necessary to describe austerity reforms as efficiency programs: removing government waste, stopping overpaying unionized labor, privatizing in order to develop more productive modes of management, and so on (Peck, 2014). The U.S. version of austerity, therefore, tends to be surrounded by a different discourse than that witnessed elsewhere, albeit echoing the technocratic, nonpolitical, and “commonsense” emphasis that characterizes the parallel reforms.

What is clear, particularly in the U.S. context, is that austerity involves a continuation and extension of preceding neoliberal reforms (Tabb, 2014). Given that these neoliberal reforms were themselves, in part at least, responsible for the Great Recession, some have described this context as “zombie neoliberalism” (Peck, 2010). Peck (2010) argues that this involves neoliberalism recreating itself through more authoritarian statecraft, implementing defensive and socially corrosive measures to recreate a failed ideological program. Colin Crouch (2011) has made a similar argument, but Crouch emphasizes how actually existing neoliberalism is recreated not by ideological commitments, but rather by economic (i.e., corporate) interests. A dead but reassertive neoliberalism is therefore not about market solutions, but the defense of economic power.

It is therefore important to place the current U.S. austerity moment in its longer historical context. Understanding this process will clarify how previous rounds of neoliberalization were achieved, and where potential areas for even further austerity reform might reside.

The variegated U.S. municipal financial landscape is a consequence of more than thirty years of neoliberal restructuring (Davidson & Ward, 2014; Tabb, 2015). Current austerity programs are being overlaid upon a governmental landscape that differs radically from that which was subject to reform in the 1970s. The neoliberalization of U.S. cities has been

a highly uneven and diverse process (Brenner et al., 2010). Although general ideological tenets are present across the political landscapes where neoliberalism has become creed, the ways in which city governance was transformed from the 1980s onward varies according to location. This stated, it is possible to identify general tendencies of governmental change across difference. The DNA-like characteristics of the neoliberal urban governance landscape are as follows (Davidson & Ward, 2014):

1. *Restructuring of intergovernmental relations:* This has involved the federal government downloading responsibilities to lower levels (i.e., state and municipal) of government. While it downloads responsibility it does not increase levels of funding. Indeed, oftentimes the opposite is true. The federal government does, however, maintain considerable political control through the establishment of various indicators and metrics, reporting procedures, and competitive funding arrangements that incentivize cooperation/partnership with private sector actors (Leitner et al., 2007).
2. *Restructuring of the logics of governmental decision making:* The reduction in guaranteed redistributive allocations from the federal (and state) government has necessitated the growth of speculative financing with municipal governments. Current governmental expenditures are therefore calculated in relation to predicted (i.e., speculative) future incomes. The operation of the municipal government must therefore prioritize its speculative activities in order to ensure the continued operation of its discretionary and required services (Weber, 2010).
3. *Restructuring of public finance:* As federal support for local services has been dismantled as a critical part of wider state restructuring, localities have transformed the structure of their financial and fiscal system. New funding sources have had to be developed, usually through the interaction of the city with various financial and development intermediaries

(see Byrne, 2005). As a consequence, the income streams identified in city budget documents look totally different to those you might have seen in the late 1970s.

4. *Restructuring of risk allocation*: As a consequence of restructuring and the city's need to develop its own income streams, the exposure of the city to financial risk has increased greatly. Federal and state government neither provides guaranteed redistributed funds nor allocations to buffer the municipality against economic change. The municipal government must therefore manage and respond to local and global economic changes (see Epple & Spatt, 1986; Liu, 2012).

These general tendencies meant most U.S. cities were in fiscal distress by 2010. For cities in a weak fiscal state, the recession and end of federal aid proved catastrophic (Davidson & Ward, 2014; Hall & Jonas, 2014; Peck, 2014; Ross et al., 2014; Skidmore & Scorsone, 2011). The uneven fiscal capacity of the United States was therefore laid bare by the financial crisis.

As cities such as Detroit, Michigan, and San Bernardino, California, filed for Chapter 9 bankruptcy protections, the disciplinary structure of neoliberal urbanism became conspicuous. Due to the changes already outlined, cities have become financial entities; they have been given the responsibility to manage their own financial fate. In the absence of higher levels of government controlling city budgets and funding, cities have come to look like businesses themselves. As such, they are responsible for balancing their budgets and, consequently, acting in fiscally conservative ways. A significance consequence of this financialization (Krippner, 2005; Tabb, 2105) process has been the necessity for cities to fund their activities through financial instruments such as loans and bonds (Davidson & Ward, 2014; Weber, 2002, 2010). When cities need funding for new services, infrastructure, or development projects they must engage with financial markets (Hackworth, 2006). Commonly, this has involved cities borrowing in the capital markets. Since the 1980s, cities across the United States have therefore sourced funding in the form of



municipal bonds. It speaks volumes that in 1980 the municipal bond market was worth approximately \$400 billion and by 2014 it was worth approximately \$3.5 trillion, an almost eightfold increase in the amount of market-sourced debt held by municipalities.

The operation and development of cities has therefore become tied to financial markets. Municipal bonds have become a popular investment, offering modest returns with little or no (presumed) risk. Cities must therefore balance their books and repay their debts on time in order to maintain favorable credit ratings, in just the same way that individuals have been regulated by their credit scores. It has also meant that municipal services and infrastructures have been reworked into fee-generating mechanisms. For example, in order for a city to finance a sewer upgrade, it will institute a user fee (O'Neill, 2013). This creates a monthly income stream, which can be used as a financial tool in the same way that a mortgage payment is securitized.

The neoliberal rollback and transformation of the state therefore necessitated a change in the ways that cities pay for their activities. Alongside basic taxation (e.g., property taxes and sales taxes) now stand a host of financial arrangements that are, and can be made, subject to many kinds of volatility: bond repayments subject to both interest rate fluctuations and credit rating-related adjustments; debt instruments leveraged against interest rates; user fees subject to market and political changes. In addition, cities can simply be sold the wrong or poorly constructed financial instruments, usually by banks eager to collect origination fees and sell on a city's debt.

Neoliberalization and financialization are therefore intricately intertwined. However, it is a relationship not free from contradiction. The growth of the municipal debt market is an indicator of the growing debt burden of cities, and the citizens who fund cities (Sbragia, 1996). In order to keep up with debt payments, alongside other growing expenditures (e.g., public sector employee salaries and benefits), cities must maintain and/or grow their revenues. Usually, the latter is assumed in any organization of debt: the presumption is that a city's economy and related tax base will grow, and therefore more debt can be taken on over the long term. Indeed, because of the speculative basis of the competitive urban system (Davidson & Ward, 2014; Kirkpatrick & Smith, 2011),

this has to be the assumption: one must spend (someone's) money, in order to accumulate it.

This arrangement becomes contradictory when entrepreneurial promises fail to materialize. As we see at the macro level, when compound economic growth does not materialize, the repayment of debts and liabilities becomes very difficult. It was within this context that the 2008 financial crisis hit. Cities had already been neoliberalized: they had become lean in terms of service delivery and highly integrated into the financial economy. Recession meant that neoliberalism required supplementing with austerity in the absence of much greater political and economic reform. Most U.S. cities therefore did not have a set of funding arrangements that were insulated from cyclical trends in the economy. Rather, they had to negotiate economic turbulence through a combination of protecting revenues, drawing down reserves, and adjusting service provisions.

The major revenue sources generated in U.S. cities are tied to the cyclical economy. As recession hit, the housing bubble burst. Declining house values meant declining property taxes. As house prices slumped, so cities found a primary source of their revenues in decline. In addition, local sales taxes fell as people started to cut back on spending. Capital markets also began to freeze up, since banks were reluctant to lend given they were unsure of counterparty risk. In short, the fiscal basis of most cities in the United States was plunged into crisis. This was made more severe since the main expenditures of cities—public sector salaries and benefits—did not adjust according to economic conditions. Falling revenues and static and/or growing expenditure demands create an almost unprecedented fiscal squeeze, to which cities have very few ways of responding.

In this context, it is unsurprising that the cities who were the first to experience financial trouble were those in previously buoyant property markets. The first city to declare bankruptcy was Vallejo, California. Situated just north of San Francisco, the city had experienced significant suburban development in the pre-crisis period. This had generated substantial revenue growth that was channeled into fire and police employee salaries. When the crisis hit, property values fell by 40 percent in Vallejo, and the city's entire revenues could then not cover

the police and fire collective bargaining commitments (see Davidson & Kutz, 2015). Similar stories of fiscal calamity quickly emerged as the Great Recession revealed the precarious fiscal condition of many U.S. cities. While some have lauded Vallejo's rightsizing of its government, making the more general point that "California [is] a laboratory for how to run cities in an age of austerity" (Cha, 2012, p. A1), the evidence is a little less clear cut. What is more certain is that the residents of Vallejo have been conscripted into the restructuring of their government in a form of what Peck (2014, p. 37) rather cutely refers to as "a post-crisis variant of participatory budgeting."

A number of commentators have argued that the United States has not pursued austerity to the same extent that it has been pursued across Europe. The United States may therefore appear to be an example of a country that has rejected austerity in favor of deficit spending to stimulate economic recovery. At the federal level, this may have been true up until 2010 (Williamson, 2012). However, when recent elections and the fiscal federal system of the United States is factored into our analysis, the picture is quite different. As Peck (2014, p. 18) put it: "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."

When President Obama signed the American Recovery and Reinvestment Act, it was described as an economic stimulus that would "create or save three and a half million jobs over the next two years" (White House 2009, np). Such an intervention created a significant countermovement in Washington. Central to this was the economically and culturally conservative Tea Party. Williamson (2012) has claimed that what mobilized this suddenly powerful movement was austerity. Austerity, a form of "free market extremism," brought together an economic elite and a grassroots movement that wanted to reshape the U.S. government along radical libertarian lines. Although this coalition lacked the power to implement this agenda, Williamson (2012, p. 16) claims the strategic political gridlock they constructed has enabled this movement to implement austerity in the absence of lawmaking: "Despite a limited appeal among the general public, this energetic minority's policy of obstructionism has reversed the policy response to economic downturn, turning the agenda from stimulating government spending to deficit-cutting."

The right-wing political strategies carried out in Washington have been paired with austerity implemented at the lower rungs of the American federal system. In the 2008 fiscal year, General Fund spending across state governments was \$687 billion. This dropped to \$623 billion in 2010, before rising to pre-2008 levels in 2013 (NASBO, 2014). After sharp declines between 2007 and 2010, state governments have seen small year on year increases in spending from 2010 onward. However, these budget increases are smaller than prerecession levels and are not large enough to match rising health care (Medicaid) and (higher) education costs (*ibid.*). The National Association of State Budget Offices (*ibid.*, p. 5) summarizes the current situation in the following way: “Since the end of the recession, states have successfully transitioned to a sustained period of fiscal rebuilding, but progress remains slow.”

The fiscal situation has been more strained at the local level. In 2012, the National League of Cities (2012) reported that U.S. cities had experienced their sixth year of declining revenues. As a corollary, they had implemented six years of personnel cuts, service withdrawals, and infrastructure delays. These fiscal pressures came from “declining local tax bases, infrastructure costs, employee-related costs for health care, pensions, and wages and cuts in state and federal aid” (*ibid.*, p. 1). Thanks in large part to federal stimulus funds, city revenues have only significantly declined since 2010, falling on average 3.6 percent; the largest yearly decline in decades. In 2011, revenues again shrunk, this time by 2.3 percent. Expenditures were being cut from by 4.2 percent in 2010 and 4 percent in 2011. The National League of Cities (*ibid.*, p. 9) concluded their fiscal report with the following forecast: “Facing revenue and spending pressures, cities are likely to continue to operate with reduced workforces, cut services and infrastructure investment, and draw down ending balances in order to balance budgets.”

American austerity has therefore been constructed at the federal level, through inaction and gridlock, and at the state and local level through enforced budget balancing and an absence of federal support. Due to this particular combination of political responses to the Great Recession, austerity in the United States has been highly variegated and somewhat uncoordinated (Ross et al., 2014). This should not come as a surprise. Nor should it raise an eyebrow that there has been no single, top-down