

# Pragmatic Municipalism: U.S. Local Government Responses to Fiscal Stress

by

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## Abstract

This article updates cutback management theory and challenges austerity urbanism theory by showing that local governments practice pragmatic municipalism—protecting services with a balanced response to fiscal stress. Using a 2017 national survey of 2,341 U.S. municipalities and counties, the authors identify four responses—no specific action, cuts, revenue supplements, and deferrals. Structural equation models show that cuts are higher in places with older infrastructure and more unemployment but not in places with more poverty. Supplemental responses are higher in places with professional management and higher education. Deferrals are higher in places with more debt but lower in places with older infrastructure. Localities with less fiscal stress take no specific action. Most governments combine cuts, supplements, and deferrals; this balanced response is associated with more fiscal stress, more citizen engagement, and higher levels of unionization. These results show that local governments practice pragmatic municipalism, not austerity urbanism, when responding to fiscal stress.

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## **Pragmatic Municipalism: U.S. Local Government Responses to Fiscal Stress**

### **Evidence for Practice**

- Local government managers practice “pragmatic municipalism” by employing balanced responses to fiscal stress—cuts, deferrals, and revenue supplements.
- Local governments that engage both citizens and unions are more likely to practice balanced responses to fiscal stress.
- Council-manager governments focus on cuts and revenue supplements but not maintenance deferrals.
- Cuts are not greater where poverty is higher, as austerity urbanism claims.
- Responses to fiscal stress follow a continuum: no action from governments with no stress; a balanced, pragmatic municipalism approach from the majority; and predatory action only in extreme cases.

How do local governments respond to fiscal stress? Changes in economy, demography, and state policy have created new challenges for local governments (Aldag, Kim, and Warner 2019; Kim and Warner 2018a; Martin, Levey, and Cawley 2012; Nalbandian et al. 2013; Pagano and Hoene 2010; Rubin 2015; Wolf and Amirkhanyan 2010) and highlight the need to renew studies of cutback management (Bozeman 2010; Pandey 2010; Rubin 2015). Cutback management theory recognized the importance of strategic management (Jick and Murray 1982; Levine 1978) and environmental constraints (Downs and Roche 1984), but it stopped short of developing a robust theory about the environmental constraints on public organizations (Pandey 2010) and their potential for public engaging responses (Denhardt and Denhardt 2000; Nalbandian et al. 2013).

Since the Great Recession, some geographers have proposed an austerity urbanism theory that argues that public managers are vulnerable to political pressures from for-profit businesses and state-level actors favoring austerity (Donald et al. 2014; Lafer 2017; Peck 2014). Older public administration theories described managers as implementing incremental change or “muddling through” (Lindblom 1959) to solve problems, but recent scholars see a dramatic shift in local government behavior toward austerity by cutting services and personnel and/or increasing user fees (Martin, Levey, and Cawley 2012; Scorsone and Plerhoples 2010). Others see a more complex and pragmatic response of expenditure and revenue strategies that varies across places (Aldag, Kim, and Warner 2019; Davidson 2019; Jimenez 2013; Kim and Warner 2016, 2020; Lobao and

Adua 2011; Nelson and Balu 2014; Xu and Warner 2016). For example, Warner and Clifton (2014) identified a range of responses from “hollowing out” to “pushing back.” What explains these different responses?

Empirically, research on local government responses to the Great Recession has focused on large urban cities (e.g., Detroit) with narrow measures of responses (e.g., changes in revenues, expenditures, and debt) (Langley 2016; McFarland and Pagano 2015; Skidmore and Scorsone 2011). While local governments have been recognized for their role in protecting the public interest (Aldag, Kim, and Warner 2019; Denhardt and Denhardt 2000; Nalbandian et al. 2013; Warner 2008), some post–Great Recession research finds this role disappearing as they are overpowered by state and business actors that push for cuts to services and employee benefits (“austerity urbanism”) (Donald et al. 2014; Lafer 2017; Peck 2014). Citizen engagement and unions are important forces that can push back on austerity measures (Aldag, Warner, and Kim 2018; Kim, Aldag, and Warner, 2020b; Warner and Hefetz 2020), but there are limited data to include these variables in national analyses.

We give attention to public engagement as well as the effects of environmental pressures, including state policy, economic restructuring, and demographic change, on local government responses to fiscal stress. Using a 2017 national survey of 2,341 U.S. local governments, we explore a wide range of local government responses (no specific action, cuts, supplements, and deferrals). Our national survey includes a variety of local governments by size, urbanity, and type and provides an excellent opportunity to explore the range of local responses to fiscal stress. We renew cutback management theories by highlighting the importance of local agency and public engagement (citizen and union) in responding to fiscal stress. Our results lend support to pragmatic municipalism (Kim and Warner 2016) instead of austerity urbanism claims (Peck 2014).

## **Literature Review**

### ***(Old) Cutback Management Theory***

Drawing from organizational studies, early cutback management research (1970–1980s) viewed local governments as organizations that try to maintain an equilibrium with their environment through strategic responses. Lindblom (1959) argued that public administrators make incremental changes—commonly referred to as “muddling through.” Levine (1978) argued that managers use resistance tactics first (e.g., adopting user fees, changing service delivery processes) in response to fiscal stress and then turn to smoothing tactics (e.g., deferring maintenance, cutting less popular programs). Wolman (1983) argued that local governments first use low-risk strategies (e.g., using reserves) and leave high-risk strategies (e.g., service cuts) as last resorts. Analyzing 234 cities’ capital budgets in 1986, Pagano (1988) found that cities adjust to fiscal stress through revenue tools (e.g., user fees and special assessments) and expenditure tools (e.g., sharing costs with state or other local governments). In differentiating local responses, studies consistently found that the perceptions of local managers were important (Jick and Murray 1982; Kim, Aldag, and Warner, 2020a; Morgan and Pammer 1988; Pammer 1990).

Organizational studies offer useful insights for cutback management (Bozeman 2010), but the “publicness” of local governments also calls for theories specific to local governments (Pandey 2010; Warner 2008). For example, organizational theory predicts that environmental pressures push organizations to innovate (Cyert and March 1963; March and Simon 1958), but Levine (1979) and Wolman (1983) argued that public organizations require “slack” to innovate. Local governments also face a variety of constraints that inhibit certain responses. For example, one resistance tactic that Levine (1978, 321) suggests is “cutting a visible and widespread service a little to demonstrate client dependence,” but such services may be mandated by the state or federal government. Downs and Rocke (1984, 340) recognized these constraints and argued that managers try to cope with the “rising cost of operating a permanent bureaucracy and maintaining current service levels in the face of inflation and structural change (e.g., change in demographics or industrial base),” but few empirical studies have examined how these environmental constraints shape local responses.

### ***Renewing Cutback Management: Austerity Urbanism or Pragmatic Municipalism?***

We renew cutback management theories by bringing publicness back into the study of “managing organizational change towards lower levels of resource consumption and organizational activity” (Levine 1978, 180). We draw from New Public Service (NPS) theory (Denhardt and Denhardt 2000, 2015) in this process. While NPS is not specific to fiscal stress, it is useful because the theory developed as a response to the New Public Management (NPM) ideas that governments should operate like private, for-profit organizations and “steer” their operations. Cutback management theory shares NPM’s perspective, as it largely drew from organizational studies of private firms. Rather than viewing government as a business and the citizen as a consumer, NPS argued that the main role of government is to serve citizens (Denhardt and Denhardt 2000, 2015; Warner 2008; Warner and Hefetz 2008). This perspective allows room for public engagement in local government responses to fiscal stress—which we further develop under the pragmatic municipalism perspective (Kim and Warner 2016, 2020).

Network governance theories have cautioned that public-private networks can lead to the loss of public values (Rhodes 1996) and a “hollow state” (Milward and Provan 2000). According to austerity urbanism, coalitions of business elites and government conspire to cut services in a predatory and punitive process (Atuahene and Berry 2019; Donald et al. 2014; Peck 2014). Pragmatic municipalism theory, by contrast, gives more attention to agency—of professional managers, unions, and citizens—that can lead to service protecting responses (Kim and Warner 2016, 2020). We set out our hypotheses regarding fiscal stress, public engagement, and environmental constraints to explore whether pragmatic municipalism or austerity urbanism best describe local government responses to fiscal stress in the post–Great Recession period.

### ***Environmental Pressures: Economy, Demography, State Policy***

Old cutback management theory focused on environment, but we expand that from just the fiscal policy space (Pagano and Hoene 2010) to also include demographics, economics, and state policy (Aldag, Kim, and Warner 2019; Kim and Warner 2018a; Warner, Aldag, and Kim, 2020).

***Economy.*** Deindustrialization in the 1970s and 1980s shifted the U.S. economy away from manufacturing toward service industries, creating fiscal and economic development challenges for many cities and rural areas (Hobor 2013; Neumann 2016; Sherman and Doussard 2019; Xu and Warner 2015). These declining places struggle with unemployment and lower incomes, while having the additional burden of needing to maintain and/or upgrade physical infrastructure (Reese, Sands, and Skidmore 2014).

**Hypothesis 1:** Local governments with more economic pressures will perceive more stress.

***Demography.*** The demographic composition of a community has implications for the local tax base and service expenditure needs. The elderly and children in particular have greater service needs, and aging is a demographic trend that increases pressures on local governments (Warner and Zhang 2019; Wolf and Amirkhanyan 2010). Places that have populations with higher education levels tend to have more economic development (Reese 2012; Xu and Warner 2015) and are less likely to eliminate services as a response to fiscal stress (Aldag, Kim, and Warner 2019; Jimenez 2013; Simonsen and Robbins 2000). Austerity urbanism theories argue that central cities are where poor and minority populations are concentrated and that more cuts in these places exacerbate inequality (Peck 2014).

**Hypothesis 2:** Local governments with more demographic pressures will perceive more stress.

***State Policy.*** Local governments have always been “creatures of the state” (Frug and Barron 2013), but there may be some fundamental changes to state-local relationships after the Great Recession (Kim and Warner 2018b; Rubin 2015). State governments have played an equalizing role in the past (Warner 2001; Warner and Pratt 2005), but state aid to local governments actually decreased after the Great Recession, when localities needed it the most (Kim 2019).

**Hypothesis 3:** State aid will be higher in local governments with more stress.

***Local Government Context.*** Economy, demography, and state policy are environmental pressures that local governments must face, but local context also shapes the responses to these stress factors. Previous research has found that central cities and rural communities are more stressed (Lobao and Kraybill 2005; Warner and Pratt 2005; Xu and Warner 2016).

Research has also found that counties are more constrained in revenue tools (Su 2019; Wen et al. 2018), and expenditure reductions were more common responses to fiscal stress among counties than cities (Aldag, Kim, and Warner 2019; MacManus 1993). Empirical research on levels of stress and responses among county governments is scant, even though counties have different responsibilities and functions from municipalities (Benton et al. 2007; Lobao and Adua 2011).

**Hypothesis 4:** Counties will perceive more stress.

Prior research has also found differences in organizational behavior in council-manager governments as these localities are more likely to have professional managers (Carr 2015; Hefetz, Warner, and Vigoda-Gadot 2014). We hypothesize that council-manager governments will be more likely to exhibit balanced approaches in line with the pragmatic municipalism view.

**Hypothesis 5:** Council-manager governments will have more balanced responses to stress.

### ***Fiscal Stress Perception and Responses***

Responses to fiscal stress will depend on the perception of fiscal stress, as old cutback management studies have found (Jick and Murray 1982; Morgan and Pammer 1988; Pammer 1990). Some research has found little relationship between perceived fiscal stress and objective indicators (Maher and Deller 2007, 2011). One interpretation is that local officials are oblivious to the real fiscal conditions of the organization; another interpretation is that the common fiscal indicators do not reflect the broad knowledge of practitioners (Kim, Aldag, and Warner, 2020a). A “balanced” budget on paper does not take service needs into account (Rubin 2015), and professional managers must balance budgetary needs with local service needs. More recent scholarship has seen a close link between perceptual and objective indicators (Aldag, Kim, and Warner 2019; Aldag, Warner, and Kim 2018).

We present alternative hypotheses reflecting the pragmatic municipalism and austerity urbanism views. Austerity urbanism views the external environment as severely constraining local agency (Donald et al. 2014; Gray and Barford 2018). It also argues that local governments with higher poverty will engage in more cuts (Atuahene and Berry 2019; Peck 2014). Pragmatic municipalism sees more possibility for local agency, as public administrators act as good stewards and balance fiscal and service needs within the constraints of economy, demography, and state policy (Kim and Warner 2016, 2020).

**Hypothesis 6:** Local governments that perceive more stress will engage in more cuts, deferrals, and supplements. (pragmatic municipalism view)

**Hypothesis 7:** Local governments that perceive more stress will engage in more cuts, especially if poverty is higher. (austerity urbanism view)

### ***Public Engagement***

NPS argues that the main role of government is to serve citizens (Denhardt and Denhardt 2000, 2015) and that local managers must balance public interests and organizational concerns (Nalbandian et al. 2013). Public sector unions have sometimes acted as advocates for local service needs (Lobao, Adua, and Hooks 2014) and a counterforce against austerity measures (Aldag,

Warner, and Kim 2018; Kim, Aldag, and Warner, 2020b; Warner and Clifton 2014). But unions can also add rigidity to local government budgets that leads to cutting or privatizing services (Lobao and Adua 2011; Warner and Hefetz 2020). Administrators may also encounter pressure from citizens. Based on a survey in Michigan, Elling, Krawczyk, and Carr (2014) found that citizens are not “freelunchers” but “realistic revenue-raisers” who are open to increased fees and taxes when local governments are under fiscal stress. NPS values citizen participation, and local governments have tried to implement these ideas in participatory budgeting. Prior research on local government responses to fiscal stress since the Great Recession has articulated a pragmatic municipalism response (Aldag, Kim, and Warner 2019; Kim and Warner 2016, 2020).

**Hypothesis 8:** Local governments that engage the public and have higher unionization will exhibit a balanced response to stress. (pragmatic municipalism view)

**Table 1** Comparative Theoretical Perspectives on Local Government Responses to Fiscal Stress

	Cutback Management	Pragmatic Municipalism	Austerity Urbanism
Responses to fiscal stress	Smoothing and low-risk strategies first; cuts as a last resort	Balance cuts with new revenue	Focus on cutting services
Political or managerial?	Managerial	Managerial and political	Political
Public engagement	Low	Engage citizens and unions	Austerity coalition with business elites
Local government focus	Survival of organization	Service protecting	Shrinking government
Local government agency	Low	Medium	Low

Table 1 compares the three perspectives on local government responses to fiscal stress: cutback management (Levine 1978), pragmatic municipalism (Aldag, Kim, and Warner 2019; Kim and Warner 2016, 2020), and austerity urbanism (Donald et al. 2014; Gray and Barford 2018; Peck 2014).

We see pragmatic municipalism as an update of cutback management and thus, our hypotheses contrast pragmatic municipalism with austerity urbanism. While austerity urbanism expects local governments under stress to engage in more cuts (hypothesis 7), pragmatic municipalism expects a broader response: council-manager governments will have a balanced response to stress (hypothesis 5); local governments that perceive more stress will engage in more cuts, deferrals and, supplements (hypothesis 6); and local governments that engage the public and have higher unionization will exhibit a balanced response to stress (hypothesis 8).

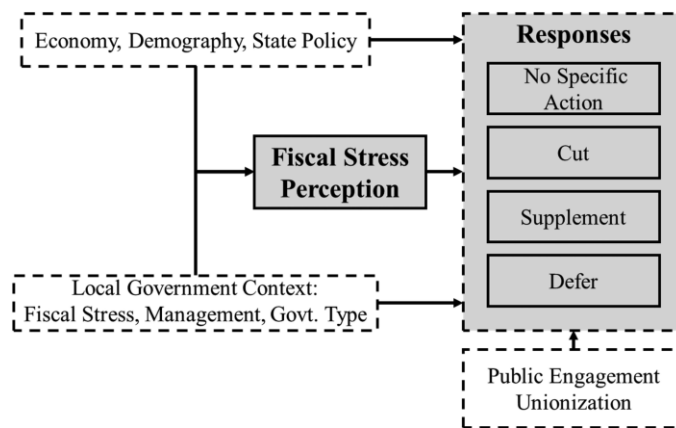
## Data and Methods

To test these hypotheses, we built a comprehensive quantitative model that includes the determinants of fiscal stress perception and local government responses as a function of economy, demography, state policy, local government context, public engagement, and unionization. Responding to fiscal stress will depend on local perceptions of fiscal stress; thus, we built a structural equation model (SEM), composed of five subequations, to allow us to model fiscal stress perception and responses to stress simultaneously. See figure 1 for our conceptual model (dependent variables are shown in gray and explanatory variables in white).

For our primary data, we conducted a survey (referred to as “our survey”) with the International City/County Management Association (ICMA) in 2017 of cities with populations above 2,500 and all county governments. The survey respondents were chief administrative officers. The survey had a 17 percent response rate and captures the urban–rural spectrum of U.S. local governments. T-tests comparing our sample with the universe show no difference by population ( $z$ -score = 0.791), geographic division ( $z = 0.124$ ), and rurality ( $z = 0.133$ ). Rural and small population places are typically underrepresented in local government studies, but not in our study. We merged our survey data with data from the 2000 U.S. census, 2010 U.S. census, 2012–16 American Community Survey (ACS, five-year estimates), and 2012 Census of Government Finance (COG). Our final data set has 2,341 responding local governments.

### *Perception and Responses to Fiscal Stress*

Our survey provides nationally representative data on local government perceptions of and responses to fiscal stress. Respondents were first asked, “What is the level of fiscal stress faced by your government?” Answers are coded on a 4-point scale, with 4 representing “high” fiscal stress and 1 representing “none.” More than half of the survey respondents reported either medium (42.3 percent of the sample) or high (13.9 percent) levels of fiscal stress; 33.6 percent of our sample reported low fiscal stress, and only 10.2 percent reported none. This is the first dependent variable in our analysis.



*Figure 1 Conceptual Model: Responses to Fiscal Stress*

The next question on our survey measured responses to fiscal stress. Respondents were asked to check all applicable choices to the question, “Which measures has your government implemented to address its fiscal needs.” The 10 response choices were “reduce staff,” “reduce personnel benefits,” “reduce services,” “eliminate services,” “increase taxes,” “increase existing user fees,” “adopt new fees,” “reduce fund balance,” “defer maintenance expenditures,” and “defer capital projects.” We first differentiated the local governments that employed none of the foregoing responses to stress (22 percent of the sample). These “no specific action” localities are coded 1 if no response was reported on our survey, otherwise 0. This is our second dependent variable.

Next, we ran a preliminary factor analysis on the responses to stress question and identified



three primary factors: cut (reduce services, eliminate services, reduce staff, and reduce personnel benefits), supplement (increase existing user fees, adopt new fees, and increase taxes), and defer (defer maintenance expenditures, defer capital projects, and reduce fund balance). See table 2 for factor loadings. We created three indices that aggregate the number of each type of response: cut (alpha = 0.68; range = 0–4), supplement (alpha = 0.59; range = 0–3), and defer (alpha = 0.67; range = 0–3). Deferrals are the most common response to fiscal stress, and cuts are the least common response.

### *Independent Variables: Environmental Pressures*

**Economy.** We use five variables to capture pressures from the economy: ln (median home value), per capita income (this variable is transformed using z-score normalization), age of infrastructure, unemployment (percent), and manufacturing employment (percent) (all derived from the ACS five-year estimates, 2012–16). The ACS includes data on the median year of structures built for all counties and municipalities. By subtracting the average age of housing from 2016, we get the number of years ago when the majority of housing in a community was built. This gives us a sense of how old key pieces of infrastructure (e.g., water and sewer) might be, since that is laid at the time of construction. While this measure is just a proxy, it has been used by other scholars (Lucy and Phillips 2000; Xu and Warner 2015; Xu and Warner 2016). We expect that local governments with more economic pressures will perceive more fiscal stress (hypothesis 1).

**Table 2** Factor Loadings of Local Government Responses to Fiscal Stress, U.S. Municipalities and Counties, 2017

	Cut	Supplement	Defer
Reduce services	<b>0.629</b>	0.137	0.216
Eliminate services	<b>0.571</b>	0.088	0.147
Reduce staff	<b>0.454</b>	0.202	0.245
Reduce personnel benefits	<b>0.401</b>	0.217	0.164
Increase existing user fees	0.154	<b>0.565</b>	0.246
Adopt new fees	0.170	<b>0.516</b>	0.174
Increase taxes	0.150	<b>0.338</b>	0.160
Defer maintenance expenditures	0.191	0.136	<b>0.676</b>
Defer capital projects	0.142	0.153	<b>0.656</b>
Reduce fund balance	0.196	0.189	<b>0.337</b>

Bold numbers represent factor loadings.

Source: Author analysis of ICMA 2017 Alternative Service Delivery Survey. Notes: N = 2,341 counties and municipalities. Orthogonal varimax rotation. KMO = 0.87. Bold items show factor loadings.

**Demography.** Our SEM also includes demographic variables that can be sources of stress as well as capacity. Population loss in “shrinking cities” has been considered a sign of decline in the literature (Hollander and Nemeth, 2011), but population growth can also exert pressure on local governments by increasing service demands. We include population (ln transformation), population change (percent) between 2000 and 2010 (U.S. census), dependent population (percent, 2012–16 ACS), poverty (percent, 2012–16 ACS), and nonwhite population (percent, 2012–16 ACS) as potential sources of stress. The dependent population captures population under 18 and above 75, as children and elderly have greater service needs. We also include the proportion of population over age 25 with a college degree (percent, 2012–16 ACS) to see how education levels shape local government responses to fiscal stress. We expect that local governments with more demographic pressures will perceive more stress (hypothesis 2).

**State Policy.** State policy has an important effect on local governments. We include two state policy variables: state aid per capita (US\$1,000) and state aid dependence (state aid/ total local expenditure). State finance variables are derived from the 2012 COG (most recent available). We expect that state aid will be higher in local governments with more stress (hypothesis 3).

**Local Government Context.** We include measures of local government type, geographic context, organizational context, and fiscal context. A county dummy variable is included to capture the difference in function and responsibilities of counties (Benton et al. 2007). We expect that counties will perceive more stress (hypothesis 4). We also include dummy variables for central city and rural to see how they compare with suburbs. We coded metropolitan places with principal cities as metro core, metropolitan places without principal cities as suburbs, and micropolitan and noncore based statistical areas as rural (U.S. Census Bureau 2013). Next, a dummy variable is included for council-manager forms of local government because they are expected to have more professional leadership (Carr 2015; Hefetz, Warner, and Vigoda-Gadot 2014). We expect that council-manager governments will have more balanced responses to stress (hypothesis 5). We also include the log of population, as larger places offer a wider number of services (Hefetz, Warner, and Vigoda-Gadot 2012; Warner 2006).

We also include local fiscal context variables. Perception of fiscal stress is our first dependent variable, but it is also included as an independent variable for the four response subequations in our SEM. As objective measures of fiscal stress we include the ratio of debt per capita to per capita income (as a proxy for debt burden), and expenditure per capita (US\$1,000). We control for population size to capture the broader scope of service responsibilities of larger governments. We also control for property tax dependence (as a percentage of total own source revenue) as other studies have found these communities to be less stressed (Kim and Warner 2018a). All fiscal measures are from 2012 COG. We test two alternative hypotheses: that local governments that perceive more stress engage in more cuts, deferrals, and supplements (hypothesis 6, pragmatic municipalism view), and that local governments that perceive more stress engage in more cuts, especially if poverty is higher (hypothesis 7, austerity urbanism view).

**Public Engagement.** To capture public engagement, the survey asked, “Does your local government involve individual citizens, groups of citizens, and/or citizens as a whole in any of the following ways?” We create a dummy variable “citizen engagement” that has a value of 1 if respondents said there was citizen involvement in “service planning (i.e., decisions on service policies and funding)” and/or “service design (i.e., decisions on how services will be arranged or organized).” About a third of respondents (32 percent) indicated there was citizen engagement in service planning and design decisions. We also controlled for the level of unionization in the local government. Unions can protect public services or push for more cuts. The survey asked respondents, “are any of your employees covered by collective bargaining agreements,” and if so, what proportion. The answers were coded as none = 0 (53 percent of the sample), less than 10 percent = 1, 10–29 percent = 2, 30–49 percent = 3, and 50 percent or more = 4. We expect that local governments that engage the public and have higher unionization will exhibit a balanced response to stress (hypothesis 8). See table 3 for descriptive statistics of all model variables.

## Empirical Results

We create an SEM model of perceptions and responses to fiscal stress as a simultaneous system. All five subequations of our SEM model measure error concurrently and control for any latent associations among our five dependent variables. This enables us to look across the models at the relative strength of different factors. We present direct effects in table 4, and provide the indirect and total effects in the appendices in the Supporting Information online (see A1 and A2, respectively). We model both municipalities and counties in our sample. We also run the same SEM on just municipalities, which is reported in the Supporting Information (see appendix A3).

**Table 3** Descriptive Statistics of Model Variables, U.S. Municipalities and Counties

	Obs.	Mean	SD	Min.
<b>Dependent variables</b>				
Fiscal stress perception <sup>a</sup>	2,204	2.6	0.85	1
No specific action <sup>a</sup>	2,341	0.22	0.41	0
Cut <sup>a</sup>	2,341	0.87	1.15	0
Supplement <sup>a</sup>	2,341	1.05	1.05	0
Defer <sup>a</sup>	2,341	1.11	1.11	0
<b>Economy</b>				
Median home value (ln) <sup>b</sup>	2,341	12	0.59	9.89
Per capita income (normalized) <sup>b</sup>	2,341	0	1	-1.86
Age of infrastructure <sup>b</sup>	2,341	41.93	13.8	10
Unemployment (%) <sup>b</sup>	2,341	6.69	3.3	0
Manufacturing employment (%) <sup>b</sup>	2,341	13.15	7.24	0
<b>Demography</b>				
Population (ln) <sup>b</sup>	2,341	9.36	1.22	6.82
Population change (2000–2010, %) <sup>c,d</sup>	2,341	16.77	93.28	-58.5
Dependent population (%) <sup>b</sup>	2,341	30.3	4.41	2.75
Poverty (%) <sup>b</sup>	2,341	13.39	7.98	0
Nonwhite population (%) <sup>b</sup>	2,341	15.01	15.54	0
College educated (%) <sup>b</sup>	2,341	28.1	15.94	2.65
<b>State policy</b>				
State aid per capita (US\$1,000) <sup>b,f</sup>	2,341	0.21	0.34	0
State aid/total expenditure <sup>f</sup>	2,341	17.8	15.07	0.02
<b>Local government context</b>				
County (dummy, 1 = yes) <sup>a</sup>	2,341	0.16	0.37	0
Central city (dummy, 1 = yes) <sup>a</sup>	2,341	0.08	0.28	0
Rural (dummy, 1 = yes) <sup>a</sup>	2,341	0.37	0.48	0
Council-manager (dummy, 1 = yes) <sup>a</sup>	2,341	0.41	0.49	0
Property tax/own source revenue <sup>f</sup>	2,341	48.42	27.01	0.04
Debt per capita/per capita income <sup>b,f</sup>	2,341	1.23	2.32	0
Local expenditure (US\$1,000) per capita <sup>b,f</sup>	2,341	1.4	1.36	0
<b>Public engagement</b>				
Citizen engagement (dummy, 1 = yes) <sup>a</sup>	2,341	0.32	0.47	0
Unionization <sup>a</sup>	2,341	1.54	1.77	0

Sources: a. ICMA Alternative Service Delivery Survey (2017); b. American Community Survey (five-year estimates, 2012–16); c. 2000 U.S. census; d. 2010 U.S. census; e. U.S. Census Bureau (2013); f. Census of Government Finance (2012).

What drives local government perceptions of fiscal stress? Our models show that economic factors are the primary drivers of fiscal stress. This supports hypothesis 1. As shown in table 4, age of infrastructure and level of unemployment are positively associated with stress perception. Old infrastructure is expensive to maintain, and upgrading or building new infrastructure is a large expenditure item for local governments. Unemployment is an economic challenge that is difficult to tackle at the local level. High levels of unemployment also indicate greater service needs while

more taxpayers may be struggling to pay their tax bills. By contrast, the percent of employment in the manufacturing sector is negatively associated with fiscal stress. Local governments that have been able to retain employment in manufacturing through the Great Recession perceive less stress.

Regarding demography, we expected high service need populations to drive higher perceptions of fiscal stress, but demography does not drive fiscal stress perceptions. This is contrary to our expectations in hypothesis 2. The only demographic variable that is significant is that places with more educated population (measured by percent of population with college degree) have lower levels of perceived fiscal stress. In addition our measure of state policy shows state aid is fulfilling its desired role as an equalizer, because state aid is higher among local governments that are under more stress. This provides empirical support for hypothesis 3.

Regarding local government context, we find county governments report more fiscal stress when compared with municipalities. This supports hypothesis 4. This could reflect greater social service responsibilities, as states use counties to deliver state-mandated services. Regarding our objective financial measures, debt is positively associated with fiscal stress perception, which shows that perceptual and objective measures of fiscal stress are aligned. A higher degree of property tax dependence is associated with less fiscal stress, as prior research has found (Kim 2019).

Our four possible responses to stress are (1) no specific action, (2) cut, (3) supplement, and (4) defer. Our results show that governments with less stress, less expenditure, and more property tax dependence are more likely to take no specific action (support for hypothesis 1). The “no specific action” governments are more likely to have less educated populations, and regarding agency, they have less citizen engagement and less unionization.

Among governments that do something in response to fiscal stress, we find that fiscal stress perception, unionization, and citizen engagement are all associated with higher levels of all three responses: cuts, supplements, and deferrals (support for hypotheses 6 and 8). We also find that council-manager forms of government, which tend to have more professional managers (Carr 2015; Hefetz, Warner, and Vigoda-Gadot 2014), are associated with more cuts and supplements but not deferrals (support for hypothesis 5). Together these results support our pragmatic municipalism theory of a balanced set of responses to fiscal stress (combining cuts, supplements, deferrals; support for hypothesis 6) that includes citizen and union engagement (hypothesis 8).

**Table 4** Structural Equation Model Direct Effects: Local Government Responses to Fiscal Stress, U.S. Municipalities and Counties

	Fiscal Stress Perception		No Specific Action		Cut		Supplement		Defer	
	Coef.	SE	Coef.	SE	Coef.	SE	Coef.	SE	Coef.	SE
<b>Economy</b>										
Median home value (ln)	0.001	0.035								
Per capita income (normalized)			0.011	0.034	0.012	0.035	-0.055	0.035	0.034	0.034
Age of infrastructure	0.077***	0.022	0.014	0.019	0.043*	0.02	0.002	0.02	-0.048*	0.02
Unemployment (%)	0.087***	0.024	-0.026	0.021	0.090***	0.022	-0.051*	0.022	0.006	0.021
Manufacturing employment (%)	-0.082***	0.022	0.013	0.02	0.039	0.02	0.001	0.02	-0.022	0.02
<b>Demography</b>										
Population (ln)	0.029	0.026								
Population change (2000–2010, %)	-0.01	0.021								
Dependent population (%)	0.024	0.021								
Poverty (%)	0.045	0.029	0.018	0.024	-0.004	0.025	0.021	0.025	0.011	0.025
Nonwhite population (%)	-0.009	0.025								
College educated (%)	-0.108**	0.035	-0.100***	0.034	0.04	0.035	0.124***	0.036	0.004	0.035
<b>State policy</b>										
State aid per capita (US\$1,000)	0.097***	0.025	0.025	0.029	0.021	0.03	0.057	0.03	-0.001	0.029
State aid/total expenditure			0.012	0.025	-0.004	0.025	-0.073**	0.026	-0.001	0.025
<b>Local government context</b>										
County (dummy, 1 = yes)	0.073**	0.024	0.024	0.02	0.03	0.02	-0.079***	0.02	0.007	0.02
Central city (dummy, 1 = yes)	0.019	0.023	0.002	0.019	0.077***	0.02	0.034	0.02	0.072**	0.019
Rural (dummy, 1 = yes)	-0.043	0.023								
Council-manager (dummy, 1 = yes)			-0.029	0.019	0.048*	0.02	0.070***	0.02	0.029	0.019
Property tax/own source revenue	-0.102***	0.023	0.086***	0.02	-0.041*	0.021	-0.087***	0.021	-0.054**	0.02
Fiscal stress perception			-0.409***	0.019	0.276***	0.019	0.248***	0.02	0.415***	0.018
Debt per capita/per capita income	0.051*	0.023	0.003	0.02	0.034	0.021	0.019	0.021	0.048*	0.021
Local expenditure (US\$1,000) per capita	0.01	0.028	-0.071**	0.027	-0.021	0.028	0.04	0.028	0.03	0.027
<b>Public engagement</b>										
Citizen engagement (dummy, 1 = yes)			-0.099***	0.018	0.050**	0.019	0.072***	0.019	0.078***	0.018
Unionization			-0.160***	0.02	0.252***	0.02	0.192***	0.02	0.128***	0.02
Constant	2.417	0.799	1.975	0.132	-0.757	0.137	0.026	0.14	-0.234	0.135
N	2,204		2,341		2,341		2,341		2,341	
Within-equation R <sup>2</sup>	0.1		0.266		0.215		0.202		0.256	
Overall R <sup>2</sup>	0.416									

Sources: Author analysis of ICMA Alternative Service Delivery Survey (2017); American Community Survey (five-year estimates: 2012–16); 2000 U.S. census; 2010 U.S. census; U.S. Census Bureau (2013); Census of Government Finance (2012).  
 Notes: Coefficients are standardized. Goodness-of-fit statistics as follows: CFI (comparative fit index)=0.704; RMSEA (root mean square error of approximation)=0.118.  
 \* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$ .

Where are cuts more prevalent? Places with older infrastructure and more unemployment have more cuts, and these economic measures also are related to more fiscal stress. This provides partial support for austerity urbanism, but places with greater perceived fiscal stress do not simply use cuts (does not support hypothesis 7), and we do not see more cuts in places with more poverty (does not support hypothesis 7). No demographic or state policy variables are significantly associated with the level of cuts. Having a council-manager form of government is positively associated with more cuts and supplements—professional managers are not just cutting in response to fiscal stress, they are balancing cuts with efforts to supplement revenues (support for hypothesis 5).

Which places seek more supplemental revenue sources as a response to fiscal stress? Places with more college-educated population do more supplements, and places with higher unemployment do fewer. Unemployment can increase service needs while making taxes and fees more burdensome for residents. Supplement responses are lower in places with more unemployment and are not associated with poverty. Council-manager forms of governments do more supplements, reflecting the fiscal savvy and willingness to innovate of professional managers. Counties are less likely to use revenue supplements than municipalities, and places with a higher dependence on state aid also have fewer supplement responses to fiscal stress.

Lastly, which local governments respond to fiscal stress through deferrals? Recall that

deferrals are the most common response to fiscal stress. Places with older infrastructure do fewer deferrals. This supports our pragmatic municipalism theory, as deferrals would exacerbate the aging infrastructure problem. Central cities and places with more debt (relative to per capita income) do more deferrals. Debt is a strategy that pushes the cost to the future, and this is in line with the deferral strategy. Council-manager governments do not do more deferrals (support for hypothesis 5).

Regarding the indirect effects for our full model (see appendices A1 and A2 in the Supporting Information), we note that economy has important indirect effects on responses to fiscal stress: both age of infrastructure and unemployment have positive indirect effects on all three responses to fiscal stress and manufacturing has negative indirect effects. While state aid had no direct effect, it has a positive indirect effect on all three responses. Similarly, debt, which has a positive effect only on deferrals, has a positive indirect effect on all three responses. Counties also show positive indirect effects on all three responses. Our SEM model enables us to see the paths, both direct and indirect, of the key stressors on local government responses to fiscal stress.

We also ran the same model with just municipalities (see appendix A3 in the Supporting Information for direct effects of the model). Key differences with the overall model are that unemployment and debt are no longer related to stress perception and rural municipalities are less likely to perceive stress. Council-manager governments are less likely to take no specific action (supports hypothesis 5) and municipalities with more state aid are more likely to pursue supplements. Citizen engagement is not related to cuts in this subset of just municipalities.

## **Discussion**

In this article, we have attempted to update cutback management theory by giving more attention to a broader set of environmental factors (demography, economy, and state policy), the possibility of pragmatic local management, and the influence of public engagement and unionization. We have measured factors driving local government perceptions of fiscal stress and the responses to stress in a structural equation model of 2,341 local governments across the United States. While 22 percent of local governments took no specific action, these governments also reported less stress.

We can think of responses to fiscal stress as falling along a continuum, from those with little stress, which take no specific action; to those with moderate levels of stress, which explore each of the primary responses—cuts, supplements, and deferrals; to those extreme cases, such as Detroit, which are characterized by the predatory behavior claimed by austerity urbanism (Atuahene and Berry 2019; Peck 2014). Warner and Clifton (2014) noted that there is a continuum under austerity from places that are “hollowing out,” to those that are “riding the wave” by seeking new revenue and limiting cuts, to those that are “pushing back” with progressive policies.

Among the responses to stress, we see the balance shifts more toward deferrals when stress is higher and more toward revenue raising when stress is less. Eliminating services is the lowest choice across all stress levels. This is not austerity urbanism—local governments are not increasing fees for citizens if they are more stressed. Austerity urbanism studies view user fees as potentially

predatory (Donald et al. 2014; Peck 2014), but Kim and Warner (2016) identified user fees and alternative service delivery as tools of pragmatic municipalism. We see hollowing out only in places with high stress; they are most likely to defer maintenance and least likely to raise user fees. For the majority of the sample (80 percent), pragmatic municipalism responses, “riding the wave,” are common.

We find that the majority of governments explore pragmatic responses—balanced across cuts, deferrals, and supplements. As an extension of “muddling through” (Lindblom 1959), we find that responses to stress are incremental, not radical. We also find that responses are more balanced in governments that engage citizens and involve unions. This supports the NPS theory of Denhardt and Denhardt (2000, 2015), which argues citizen engagement is critical for governments to protect the public interest.

This is not mere network governance, which tends to involve agency elites and can lead to loss of public engagement (Milward and Provan 2000; Rhodes 1996). Recent research has made similar warnings about austerity coalitions between public and private interests that are focused on shrinking government (Adua and Lobao 2019; Donald et al. 2014; Peck 2014). We do not find support for this austerity urbanism view. Responses to stress are not differentiated by poverty, and places with older infrastructure do fewer deferrals because they know that maintenance and capital projects are essential for the future of their communities. If austerity urbanism responses were dominant, we would have found responses that were more predatory in nature, focused on cuts, which would be opposed by both citizens and unions. Instead, we find that local governments strike a balance when responding to fiscal stress and exercise pragmatic municipalism. This is balanced pragmatic agency, neither austere nor progressive, just balanced.

Are there places that warrant caution? Counties are less likely to pursue supplements, even though they perceive more stress. This suggests counties may be most squeezed, a result also found by Wen et al. (2018). The majority of county services are related to social welfare and public safety—services on which marginalized populations rely. If counties continue to experience fiscal stress and are unable to pursue a balanced response, this signals problems for the future. Another place that warrants caution is the metro core. Core cities are doing more deferrals and more cuts, but not more supplements. These strategies lean toward the expenditure side with nothing to balance on the revenue side and thus are not long-term strategies.

## **Conclusion**

The perception of local government fiscal stress has risen since the Great Recession. This article updates cutback management and challenges austerity urbanism by showing that local governments engage in pragmatic municipalism in response to fiscal stress. Local governments are responding in pragmatic ways to the structural constraints of economy, demography, and state policy. We see a balanced response of combining cuts, supplements, and deferrals to meet growing service needs in difficult fiscal environments. This is done through public engagement with citizens and unions. While cutback management views managers as acting within constraints, and austerity urbanism sees little local agency, we find managers practice pragmatic municipalism and

engage the public to meet fiscal stress with a balanced approach. If fiscal stress deepens, this balance may be lost, but in the first decade since the Great Recession, we do not see the austerity responses that some scholars claim.

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## **Supporting Information**

Supplementary appendices may be found in the online version of this article at <http://onlinelibrary.wiley.com/doi/10.1111/puar.13196/full>.