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Fiscal Stress and Urban Regimes: Straining the Capacity to Govern

*Preston Niblack**

Traditional approaches to the question of how urban governments respond to fiscal stress have emphasized either the exogenous economic determinants of a city's fiscal environment, or the constraints imposed on elected officials by the demands of maintaining successful electoral or governing coalitions. Some writers have sought to define a space in which local governments can make their own choices, at least partially independent of economic or political constraints. Their efforts are not convincing, in part, because they ignore the additional constraint of the U.S. federalist structure. This paper asserts that the U.S. federalist structure plays a major part in the ongoing fiscal strains that cities continue to face in the 1990s.

This review essay explores the response of cities to fiscal stress. Numerous explanations have been advanced concerning the *causes* of fiscal stress, from public choice-type explanations to socioeconomic structural models. The question here concerns how city governments, confronted with rising demands for services and relatively declining resources, have responded. Most cities have adopted a "corporate-center" (Reed 1984) or economic development strategy, focusing on promoting growth of the central business area as the key to raising revenues and preserving services. In what ways does the *organization of political power* in a city affect

**M.P.M., Ph.D. Candidate, University of Maryland, School of Public Affairs; B.A., University of Southern California.*

how it has managed and responded to changes in its fiscal condition? Is there room for a different strategy, a different coalition of groups, to address the fiscal and social problems of cities?

The financial and other problems of cities have received extensive attention since the late 1960s, as a constellation of external factors began to change the demographic, social, and economic makeup of the nation's large urban centers. Federal policies accelerated these trends, and federal policies were put into place to address some of the problems they created (Barro 1978; Levine and Williams 1992). These extensive changes—both the larger socioeconomic trends and the policy responses from Washington—shaped the political environment in urban centers in new ways. The political challenge to city-governing regimes was to negotiate these transitions as smoothly as possible. Some cities were more successful than others at doing so. The failure to achieve a successful transition was sometimes manifested by civil unrest. More often, however, it took the form of a chronic state of fiscal stress, in which the municipal government consistently faced service demands that exceed its ability to provide them out of the resources available. Occasionally, the fiscal stress became so acute as to erupt into a crisis and the risk of default.

As more and more of the nation's largest cities began to experience chronic or acute fiscal problems in the late 1960s and early 1970s, numerous studies sought to identify the causes of this phenomenon. This paper will begin by reviewing some of the explanations for the *causes* of fiscal stress. Then, a brief review of the current fiscal condition of large cities will be undertaken. This review indicates that the decade of prosperity of the 1980s has not alleviated the underlying imbalance in urban fiscal conditions.

Next, the paper will examine alternative models of *response* to fiscal stress. These fall into two broad categories: organizational and administrative explanations, which focus on city governments as administrative and bureaucratic organizations, and political science explanations, which seek to explain the response to fiscal stress based on the city's political organization and sources of political power. The last section will utilize regime theory to explain how urban governments manage fiscal stress. If "government authority is inadequate for governing," as regime theory states, and the "cooperation and participation of nongovernmental [private sector] actors becomes essential," what form does this cooperation

and participation take with respect to making choices in the face of fiscal stress and the imbalance between needs and available resources? Is it possible to have a regime that includes members other than downtown business and financial interests and government? Is it possible to have a progressive regime? Or are cities condemned inevitably to reliance on a "corporate-center" strategy? This paper argues that, under the current structure of American federalism, the imperative of competing for private investment and growth is virtually unavoidable and leaves little margin for other municipal priorities.

Urban Fiscal Stress: Causes and Consequences

The local government sector grew more rapidly than either the state or federal government sectors during the 1960s and early 1970s, especially in the nation's largest cities (Ladd 1994, 203). Urban fiscal stress was nearly a constant throughout the same period. Some cities have coped better with the squeeze on urban financial resources than others, with New York's 1975 bankruptcy providing only the most dramatic example of the latter. Five types of explanations are usually offered for the growth in city spending and the fiscal strains that seemed to accompany it during this period. These are: socioeconomic—changing mix in both population and economic activity; rising public sector costs; the impact of federal assistance on city budgetary choices; the public-choice school model of bureaucratic growth; and finally the "political vulnerability" of city hall (Rubin 1982).

The socioeconomic explanation focuses on the migration of poor blacks and Hispanics to big cities in the Northeast, Midwest, and far West in search of jobs, and on the simultaneous out-migration of the middle and upper-middle classes to the suburbs, spurred by federal-highway and mortgage-insurance programs (Vaughan and Vogel 1978; Rubin 1982). The result, a changing urban population mix, put pressure on both the expenditure side and the revenue side. Demands for services rose as the population became poorer. Simultaneously, declines in property values, average incomes, and retail sales all reduced the tax base. As a consequence, available revenues to meet these demands fell. In order to raise revenues, tax rates were increased, further propelling the middle class and businesses out of the city, in a kind of negative feedback loop.

Another explanation focuses on the rising costs of delivering city services. This is principally a result of the growing power of public-employee unions and their importance in city politics. Negotiating substantial pay raises and restrictive work rules pushed costs up without necessarily increasing productivity.[1]

Generous federal aid to cities for poverty and urban renewal programs in the 1960s and 1970s also helped fuel an expansion of services, especially to the poor. This increase in demand helped raise wage levels in the public sector and created new service constituencies. The reduction of federal and state aid in the 1980s and 1990s left cities with considerable service burdens without the resources to finance them. As one observer put it, "When federal aid began to level off in the early 1970s, the claims it had generated did not follow suit" (Pecorella 1984, 307–8). In addition, the taxpayer revolt of the late 1970s, resulting in various statewide spending or tax limitations, further constrained the ability of cities to make up the lost revenues with general purpose taxes.[2]

The public-choice school of nonmarket economics has put forward its own explanations based on bureaucratic growth. Two variations of this theory emerge. First, citizens demand too high a level of services, or too many services, because they don't bear the price directly. This is especially true of services that benefit a subset of the population but are paid for by everyone. Second, self-interested bureaucrats and public officials, who have no other measure of success than the size of their own budget, seek to maximize their department's total share of the annual budget.

The political vulnerability of city hall to demands for services is another explanation for rising expenditure levels: "[T]he more vulnerable city hall is to demands the greater the likelihood of fiscal stress" (Rubin 1982, 8). One variation of this concept is that growth in spending is explained by "waxing and waning coalitions of voters." Mayors increase spending in order to obtain the votes of various groups. In the 1960s, this was exacerbated by the increased participation rates of minorities (Reed 1984). Vulnerability may also be explained as a function of the form of government. According to this explanation, "machine and strong-mayor governments are more responsive to, yet more vulnerable to, demands than reformed, city-manager governments" (Rubin 1982, 9). Finally, the relative strength of competing interest groups determines who gets what. The more organized and active groups are better at getting what they want from city hall.

Recent Trends in the Fiscal Condition of Cities

Although the first signs of fiscal stress appeared in the late 1960s and early 1970s, it was the New York City fiscal crisis of 1975 that first drew acute scholarly attention. In the twenty years since the New York City fiscal crisis and the beginning of the decline in federal aid to cities, spending growth in big cities slowed considerably. Ladd (1994, 216) notes that "the growth in big-city spending lagged behind that of total spending in a sector [state and local government] that was declining relative to the rest of the economy." As the economy performed well during the 1980s, big cities saw something of a resurgence in their spending, although at a slower rate than the combined state and local sector or the local government sector taken as a whole. The following table documents these trends.

Growth in Big City Spending Relative to State and Local Sectors, 1977–1989

	General Spending Per Capita (1989 dollars)			Growth Rate (%)	
	1977	1984	1989	1977–84	1984–89
All state and local gov'ts	2,569	2,611	3,064	1.6	17.3
All local governments	1,633	1,566	1,851	-4.1	18.2
32 big cities*	1,106	1,073	1,232	-3.0	14.9
New York City	3,413	3,165	3,850	-7.3	21.6

Source: Ladd 1994, 215. *Excluding New York.

Despite a growing economy and moderate increases in spending, Ladd's analysis of the financial condition and underlying fiscal health of big cities leads her to conclude that the financial condition of big cities was "not particularly strong" at the beginning of the 1990–91 recession. Their underlying fiscal health—their ability to raise sufficient revenues to meet expenditure needs on a standardized basis—was also poor. Indeed, the larger the city size, the worse off it appeared to be. The fiscal conditions of cities with over a million population were considerably worse than small and medium-sized cities. Drennan (1984) and Brecher, Horton, and Mead (1984) document this disparity for the city and state of New York, noting that while the economic growth of the 1980s reduced

deficits, the downturn of the early 1990s once again revealed the long-term structural imbalance between revenues and expenditures. The overall fiscal problem of cities has not been solved, and they remain quite vulnerable to cyclical downturns as well as long-term structural economic changes. This persistent imbalance between revenues and expenditures has promoted a considerable body of literature, which attempts to discover and explain the nature of cities' response to fiscal stress.

Alternative Models of Response

Not surprisingly, the least fiscally healthy cities on Ladd's fiscal health index imposed the highest tax burdens on their residents: "The data suggest that big cities apparently have responded to their declining fiscal health both by raising tax rates and reducing service levels." (Ladd 1994, 254). This general statement conceals the variety of possible measures cities can take to respond to fiscal retrenchment. Pammer (1990) details a variety of strategies that cities employ for coping with fiscal retrenchment. These fall into three broad categories: (1) revenue strategies, such as raising taxes or diversifying revenue sources (including obtaining more intergovernmental aid); (2) productivity improvements and alternative service delivery measures (e.g., privatization); and (3) expenditure cuts, i.e., cutting services, either in an across-the-board fashion, or with more targeted program cuts. These various measures can be employed in any combination—suggesting, as Pammer notes, that the choice of strategies is governed by something other than purely economic criteria. The question of why cities choose particular strategies and reject others has been the subject of considerable research.

Organization Theory Analyses

One group of analysts draws on organization theory to explain the response of city governments to fiscal strain, and to explore strategies of retrenchment. Levine et al. (1981, 16), for example, "rely heavily on the conception of a local government as a type of complex formal organization that shares properties and behavioral patterns with other organizations and can be expected to adapt to changes in resource levels in predictable ways."

Curry (1990) uses a "political or organizational anthropology" to study four California school districts in the wake of Proposition 13.

His thesis stands in contrast, he says, to the standard expectations of organization theory and of "recent examinations of organizational responses to fiscal stress," which state that organizations will try to preserve their "basic structure for substantive goal attainment." He concludes that problems of fiscal stress will divert attention away from basic organizational goals: "When confronted with fiscal stress, conflict management may be of primary concern, not subordinated to substantive achievement." The conflict arises from the disappointed expectations of members of the "organizational coalition." In times of plenty, this manifests as decentralization and diffused conflict; in times of scarcity, by contrast, decision making is centralized and conflict among the interested parties increases.

Pammer further focuses on administrative processes and explicitly adds political variables. He summarizes Stonecash and McAfee's argument that "while socioeconomic forces may contribute to fiscal problems, these factors represent conditions to which city political systems may or may not respond . . . [T]he reality is that cities respond differently to changes in their resource levels . . . variations in responses are attributable to the political decisionmaking processes characteristic of cities" (Pammer 1990, 9–10). Additional factors he hypothesizes include socioeconomic characteristics of the city (older, larger, Northeast-Midwest manufacturing cities in a more acute state of fiscal strain) and the role of interest groups (ethnic or neighborhood groups, business organizations, public-employee unions, department administrators, advocacy groups, taxpayer/homeowners groups, etc). Nonetheless, he concludes that "administrative variables exhibited a stronger effect on retrenchment actions than the environmental decline measure. To some extent this finding supports the notion that local officials play a more important role in the use of strategies than socioeconomic factors" (Ibid., 46). Moreover, "political factors do not play an important role in dictating retrenchment policies; instead the chief executive will be the dominant figure in the process, so whatever action is taken will reflect that person's perceptions of what the situation demands" (Ibid.). Levine et al. found a similar trend toward centralization of authority during the period of retrenchment and a decline in the role of interest groups, which the authors attribute to a narrowing of the scope of government and the transfer of governmental functions to other levels (Levine et al. 1981, 203).

Most authorities on the budgetary process have concluded that increased centralization of decisionmaking will result from fiscal stress: "Scarcity tends to impose more centralization in allocative decisionmaking" (Rubin 1993, 26).[3] In contrast, Caiden (1980) found that formal governmental authority can become less effective during periods of moderate fiscal stress as interest groups exert pressure on public officials. The New York City experience indicates the most extreme version of loss of political authority. The mayor was virtually stripped of budgetary power in favor of the Emergency Financial Control Board and the Municipal Assistance Corporation—structures dominated by banking and business interests and imposed on the city by Albany to approve city spending plans.

Clark and Ferguson's (1983) more complex model takes what they call a "systems analysis" approach to understanding the dynamics of fiscal strain. In their model, citizen preferences are expressed through organized group pressure on political leaders, who more or less faithfully reflect these preferences, depending on how dynamic they are in imparting their own. The fiscal decision "outputs"—tax rates, expenditure allocations, debt levels, etc.—then feed back into citizen preferences, resulting in and combining with migrations into and out of the city, and the reformulation of preferences among sectors of the population (e.g., the middle class, minorities, municipal employees). Clark and Ferguson's view of government is "a system which must adapt to its environment"; their conception of fiscal strain "is the degree to which government expenditures and debt are adapted to the city's private sector resources." This adapatation is conceptualized as a series of ratios between fiscal outputs (general expenditures, long-term debt, own-source revenues, and common functions) and private sector resources. The private and public sectors are distinct and thus their ratios change through independent processes—the former "political," the latter minimally so. The processes and interactions among the components of this system are defined by "transformation rules" characteristic of four political cultures: New Deal Democrats, Ethnic Politicians, New Deal Republicans, and New Fiscal Populists.

Political Science Approaches

The notion of transformation rules and political cultures forms a more traditional political science approach. Political science stud-

ies tend to focus on the influence on decision making of nongovernmental actors and their interactions with elected officials. How organized interests interact with elected officials in the political process to determine outcomes can be influenced by several factors. The structure of municipal government is found by some to be an important determinant of response. So-called reformed governments are supposedly less vulnerable to political pressure than unreformed machine or patronage-based governments. "Research . . . has shown that formal structures of cities advantage some interests and disadvantage others in the policy process which ultimately affects the kinds of fiscal policies cities adopt" (Pammer 1990, 48). Reformed governments are more centralized, more efficient, less subject to political pressures, and thus should respond better to fiscal stress.

> [R]esults [of research by Lineberry and Fowler] showed that cities with reformed institutions tended to be less sensitive to the higher spending demands of lower-income and minority interests. Hence, contrary to the public-regarding view, reform cities tended to impose less tax and expenditure burdens . . . The finding that reformed cities produce lower spending commitments suggests that perhaps these cities are better suited than unreformed cities to manage fiscal stress. Reform governments typically embrace the idea of efficiency, sound budgeting practices, and centralized control over the budget and personnel. (Pammer 1990, 49)

In general, these attributes should allow for more effective cutback management with less interest-group influence on the outcomes.

Some researchers have focused on the budgeting process as a political process and have found that, whatever political culture or organizational structure prevails, attempts to respond to fiscal strain will usually proceed incrementally, rather than through any dramatic restructuring of revenue sources or expenditure patterns. It follows, then, that the best predictor of this year's expenditures is last year's (Pammer 1990; Rubin 1980; Schick 1980). This runs somewhat counter to what two observers describe as the "long and multidisciplinary tradition of the [over]responsive local public sector" (McDonald and Ward 1984, 29–30). This very stability in budgeting might help explain, however, why cities get into a condition of fiscal stress: policy does not change much even in the face of evidence that expenditures and revenues are increasingly out of balance. Incrementalism leaves open the question of why

public officials behave incrementally. Is it because of the cautious and self-protective behavior of bureaucrats? Or because of the need to avoid upsetting established electoral coalitions? Rubin (1980) argues that officials are more inclined to "muddle through," rather than make the politically unpopular choices they face in a period of fiscal stress. McDonald and Ward find a confluence of factors that explains this behavior: "For better or for worse, it was restrictive fiscal ideologies, vested bureaucratic interests, and failure to achieve consensus on fiscal expansion that made local politicians timid, seemingly inert, and always incremental" (McDonald and Ward 1984, 32).

Another factor cited to explain the success or failure of urban politicians in responding to fiscal strain lies in the scope of city responsibilities. Cities with a narrow range of functions may have a more manageable governance problem than cities, like New York, with a very broad range of responsibilities. If cities are burdened with redistributive programs, then they will feel the strains of managing these tensions more acutely (e.g., New York in 1975). This is not least because many social service functions are joint responsibilities of the city and with state and federal governments, greatly restricting the city's freedom to control its own budget allocations. If they are not so burdened, then the fiscal situation *might* be relatively better (Detroit, with a narrow functional scope, is perhaps one exception).

Some studies have found that differences in functional scope are related to different political cultures associated with geographic regions. Older Frostbelt cities of the Northeast and Midwest are characterized as

> disposed toward high levels of social service provision, an acceptance (however begrudging) of the mobilization of both economic and racial minorities, a recognition of the legitimacy of municipal employee unions, a tolerance for local patronage systems, a suspicion of the motives of businessmen, and an indifference to the maintenance needs of the city's capital infrastructure. (Sbragia 1983a, 2)

This stands in contrast to the newer cities of the Sunbelt in the South and Southwest. The Sunbelt cities are "attractive for sunshine, low taxes, and a pro-business climate. . . . More so than the Frostbelt, the South and West are suspicious of government intervention to help minorities and the poor, hostile to taxation, pro-business, reluctant to accept public (or private) sector unionization,

and uncomfortable with collective as opposed to individual solutions to problems" (Ibid., 3). Sbragia points out that the Sunbelt cities also have generally enjoyed the advantage of being able to annex growing areas, and thus avoided the central-city/suburb disparity that plagues many Northeastern cities.[4]

Echoing Sbragia's characterization, Shefter writes:

> American cities fall into one of two categories. The first, which is most typical of the Southwest, is composed of cities in which local business elites dominate local politics, and their priorities are reflected in municipal fiscal policy. The second category is composed of cities, such as New York and other major cities in the Northeast, in which the local political system possesses a significant measure of autonomy from the hierarchies of civil society and in which politicians and public officials are at times tempted to engage in deficit financing. In such cities fiscal discipline is imposed upon the local government by the municipal bond-rating agencies and the public capital market, and by the threat that if the market closes to the city, political forces allied with local business elites may be able to wage a successful reform campaign and gain control of City Hall. Such threats provide the city's politicians and public officials with a strong incentive to reach an accord with business and to pursue fiscal policies that are acceptable both to it and to participants in the public capital market. In other words, municipal governments may be subject either to *internally-imposed* fiscal discipline or to *externally-imposed* fiscal discipline, but in one or the other form they cannot evade such discipline over the long run. (1985, 232)

Regime Theory and Response to Fiscal Stress

Political scientists, then, have usually focused on governmental structures and on interest groups as actors in the formation of policy, including fiscal policy. Rubin (1993), for example, characterizes budgeting as a process involving multiple actors, with numerous and varied motivations, and differential power over time. Different actors are involved in different parts of the process: revenues, expenditures, policy, implementation, budgetary balance. The power of interest groups is seen as principally electorally based. There is a certain determinism to this approach, as noted by McDonald and Ward:

> Most historians of the politics of urban fiscal policy assume that once one has identified the social basis of support for an urban regime, one

> has also identified the nature of the regime's fiscal policy. This follows because of the essentially functionalist notion that political and social institutions persist because they fulfill certain functions for their supporters. The implicit slogan of functionalist analysis is, 'Survival implies ongoing usefulness—search it out.' However, because of the variety of variables intervening between them, there is no necessary connection between a political movement's social basis and the nature of its policy. To believe otherwise is . . . to assume that political institutions mechanistically reflect the social configurations that underlie them. (McDonald and Ward 1984, 2)

The literature on responding to fiscal stress that focuses on political variables tends to see nongovernmental actors as constraining. Unions, minority groups, business groups, and other political claimants are modeled as if the government sector had some objective function to maximize.

In contrast, regime theory in Stone's formulation (1986, 1993) is based on the notion that "government authority is inadequate for governing"; and therefore the "cooperation and participation of nongovernmental actors becomes essential." In Stone's conception, the coming together of different groups *empowers* both government and its private sector allies, rather than constraining them. He calls this process a social production concept of power, as opposed to the traditional social control notion. The power to govern is not "captured" but "created by bringing cooperating actors together, often as unequal contributors to a shared set of purposes" (Stone 1993, 8). In particular, businesses and the resources they control are too significant to be excluded from the job of governance; they enjoy a "systemic power advantage" not commensurate with the small number of votes they actually control (Stone 1980). Significantly, the electoral coalition and the governing coalition therefore need not be—and indeed probably will not be—one and the same.

The social production model helps explain why regimes can endure difficult environmental changes and stresses. However, this view of how urban regimes operate, maintain, and adapt, was developed from looking at a city where fiscal stress was not a preeminent problem. Much of the durability of particular coalitions between business and government in the economic development sphere is premised on the creation of particularistic benefits: "selective incentives" and "small opportunities" as Stone calls them.

In regime theory, "politics is about the production rather than the distribution of benefits" (Stone 1993, 8). In a city experiencing fiscal stress, the challenge of "producing benefits" is intensified. In a situation of fiscal stress, the availability of these benefits may be limited and perhaps diminishing. The city is, however, confronted with the dilemma of meeting service demands, which can pit the needs of maintaining a coalition against the potentially competing demands of its members, in a context of diminishing resources. If a regime is based on more than a mere exchange of votes for services, for example active cooperation of the participants toward shared purposes, can these shared purposes continue to be pursued when the resources of government are highly limited?

Stone notes what he calls the "two basic institutional principles of the American political economy: (1) popular control of the formal machinery of government; and (2) private ownership of business enterprise" (Stone 1989, 6). It is the tension between maintaining the city's economic viability, on the one hand, and meeting the demands of its population for services and political participation, on the other, that characterizes the American city's governance problem.

Echoing this theme, and borrowing from the neo-Marxian theory and arguments of James O'Connor (1973), Pecorella (1984) argues that the problem of governance is in balancing the demands of two broad constituencies: business and financial interests, who enjoy the advantages of "systemic power" (he borrows Stone's term) through their control of the capital that makes them crucial to economic development, on the one hand, and "attentive non-elites," on the other—the "politically organized elements among the urban masses" whose power is principally the ability to generate votes. These groups come into conflict during retrenchment, as the latter seek to protect their gains, and the former to ensure economic and political stability. The Pecorella model of retrenchment politics "weighs the import of business demands for cutbacks and government reorganization as more significant and direct than the counterclaims of attentive non-elites for service maintenance and participation . . . [but] does not treat decisionmakers as 'tools of elite interests'" (Pecorella 1984, 299-301). Friedland, Piven, and Alford share this view:

> The dilemma of cities in capitalist societies is how to maintain a structure of expenditure and taxation that can stimulate stable eco-

> nomic growth, while at the same time maintaining the popular legitimacy of governmental institutions, even when the potential for political conflict becomes intense. The series of structural arrangements [they describe] tend to convert political conflict between groups and classes into demands on the state which force state expansion. But this process also tends to create fiscal strains. Public expenditures increase faster than the state's ability to finance them from its own revenues. Thus fiscal strains are a recurrent feature of capitalist cities. (1978, 219)

Cities must balance the imperatives of the credit markets and economic development against the demands of citizens, expressed through organized groups acting by various means on the formal structures of power for greater levels of services. The resources that businesses control are crucial to the city's economic well-being; the votes that organized groups of citizens control are crucial to reelection.

This raises the question of just how much freedom of maneuver is available to politicians, and whether they can effectively control the municipal agenda. Peterson (1981) and others have suggested that city political leaders are virtually powerless in the face of economic "restructuring" and other phenomena that are exogenous to the local economy. They seek to define a space for politics in the general urban crisis. Numerous authors have responded to this assertion. In his case study of Cleveland's 1979 default, Swanstrom (1985; 1986) criticizes the recent trend toward economic explanations of urban politics as creating "an abstract economic determinism," which he summarizes thus: "Local policymaking is tightly constrained by the functional need to serve mobile wealth . . . Policies are not viewed as the result of the intentions of political actors but as the product of the function of the political system in the economy" (Swanstrom 1986, 81–82). Whether Swanstrom's critique is neo-Marxian or follows Peterson's analysis, they both assert that the modern city is highly constrained in its policymaking freedom by the imperatives of economics.

To the contrary, Swanstrom asserts that Cleveland's default was largely political. Motivated by the animosity of a tightly knit business community toward a populist mayor, the community used their financial power to refuse to roll over city notes unless certain conditions (the sale of the municipal power company to private interests) were met. The banks and other financial interests made

a political choice that threw Cleveland into default; they could have chosen not to call in their loans, as had been done in other cases. "In short, the economic pressures on the political system were mediated in crucial ways by politics. . . . [T]he degree of discretion that is available to local governments and to investors must be determined empirically" (Swanstrom 1986, 102–3). Economic pressures are not unimportant for political decision making, but their effects are mediated in complex ways by political variables.

Stone also seeks to refute an economic determinist argument by describing the workings of a political regime consisting of an alliance between elected officials and downtown business interests. But while he tries to explore an alternative to pluralist and elitist theories of urban governance, and to show the empowering nature of a coalition regime, he also demonstrates just how constrained politicians are by the imperatives of economic growth, and the systemic power advantages of business. His chapter on Maynard Jackson's election to the Atlanta mayoralty is particularly revealing. It describes the business-government alliance that reasserted itself in the face of an attempt to set the political agenda by Jackson's electoral coalition.[5]

Federico Peña was in some respects the Maynard Jackson of Denver. He came into office with the support of a diverse coalition and "promised to open city hall to neighborhood groups, minorities, and others who had previously been shut out of city government" (Judd 1986, 152). Like Atlanta, Denver had a history of pro-growth, downtown development policies, with neighborhood groups and minority groups largely shut out of city policymaking. Peña initiated neighborhood "town meetings" and increased the size of the neighborhood planning staff. However, before the end of Peña's first term, economic development had become the administration's first priority. The city was compelled by the logic of a declining revenue base. Investment to make the city an attractive location for both business and more affluent residents was necessary to maintain spending levels—and to avoid the vicious circle of declining services leading to residential and business flight, further undermining the revenues to provide services. The Denver equivalent to Atlanta's CAP—the Denver Partnership—and the mayor, formed a commission to create a master plan for development of the central business district. Denver Partnership members outnumbered neighborhood representatives on the

steering committee. The Denver Partnership provided 75 percent of the initial funding and two-thirds of the staff for the planning project. The city's chief planner explained that the partnership had a dominant voice in the downtown plan because the city did not have the core staff or the money to do the work on its own (Judd 1986, 155). Again, the "systemic power" advantage of business in money, personnel, and other resources is illustrated. Judd attributes the failure of neighborhood and minority groups to mobilize against this policy thrust to the mayor's ability to convince voters that downtown development was necessary before the city could afford to improve or increase neighborhood services. As an aide to the mayor put it, "We probably will be criticized by some for focusing too much on downtown. People will ask, 'What does Saks Fifth Avenue have to do with the neighborhoods?' The answer is that downtown retailing has everything to do with the neighborhoods. The city needs the revenue" (Judd 1986, 145).

Cities are thus caught in the tension between the need to promote themselves to the private sector—the development strategy—and the need to manage conflict and promote social cohesion. The latter is particularly true for mayors elected by a voter coalition consisting of those who do not directly benefit much from pro-development strategies, who "may be impatient for the benefits of growth to trickle down" (Ibid., 148).[6]

Shefter (1985) sees the resolution of this tension, at least in the case of New York City, in a cycle between reform and post-reform regimes. No matter the party label or rhetoric of successive candidates for mayor, the governing regimes they formed reflected their position in the cycle between periods of fiscal plenty and periods of fiscal austerity.

Shefter finds four major imperatives of urban politics: mobilizing an electoral majority, promoting economic growth, maintaining the city's credit, and moderating political conflicts (Shefter 1985, 195). Different sets of institutions, personalities, and circumstances dictate how a regime manages the frequent tension between these goals. Satisfying the demands of one's electoral coalition and abating social conflicts may push spending growth faster than revenues, creating a fiscal crisis. The coalition that mobilizes to "reform" the government and restore the fiscal health of the city (thus serving the other two imperatives) is not, however, electorally broad-based and durable, and thus has difficulty maintaining itself

in the presence of a strong party organization such as exists in New York. Machine politicians may return to office in part by adopting some of the reformers' agenda (Ibid., 220–221). He describes the cycle during the City's fiscal crisis:

> The regime that governed New York between 1969 and 1975 managed to dampen political conflicts, but did so in a way that was not fiscally viable. It increased benefits to municipal employees and racial minorities without making commensurate reductions in public expenditures benefitting other segments of the city's population or increasing municipal taxes enough to finance its expenditures. (Ibid., 203)

The successor, post–fiscal crisis regime established a relationship with these groups "that contains conflicts without throwing the city's budget out of balance" (Ibid., 203). Most importantly, however, the new regime reduced the political power of these groups—especially racial minorities—who previously had seen their power expand.

Shefter's analysis suggests that the patterns of politics and fiscal policy prevailing in New York and other major cities embody an accommodation between those who control credit and capital, on the one side, and the ideal that government should be subject to popular political control, on the other (Ibid., 235). Although there may be "accomodation," it has not been stable and institutionalized. There is, as he notes, a "category . . . of cities, such as New York and other major cities in the Northeast, in which the local political system possesses a significant measure of autonomy from the hierarchies of civil society." The problem of stable fiscal management in New York and other cities is a regime-formation problem. This occurs when the city's business community has not been actively engaged on a regular basis with public officials and other organized groups who control voting blocs and are thus crucial to the political success of any given administration. Although Shefter uses the term, what he describes is not a regime, in the sense that Stone means it, because it is not cooperative and empowering.

Is an Alternative to the Development Regime Possible?

There is no doubt that regimes may exist. The question is whether it is possible to have a regime that includes members other than downtown business and financial interests and government. Is it

possible to have a progressive regime, as Rosdil (1991) and Swanstrom (1986) argue? Or, do the Atlanta and Denver cases confirm the virtual inevitability of reliance on a "corporate-center" strategy?

The arguments of the progressive urban agenda proponents have some validity. The very exiguity of the space they are able to define, and the very particular conditions under which some flexibility may be available (e.g., Rosdil 1991), demonstrates how much localities are subject to the forces of economic competition. As a result, localities are obliged to adopt pro-development strategies to the detriment of pursuing more "populist" redistributive goals. Swanstrom's policy prescription, for instance, is *linkage:* downtown office developers must contribute to a fund for low-income housing or for development-related expenses incurred by downtown growth. But the sums involved are small, perhaps $5 million to $7 million annually, in cities with budgets of $800 million to $1 billion (Swanstrom 1986: 104; Bureau of the Census 1982). The experience of these few communities does suggest that a pro-growth environment can coexist with a municipal progressive agenda, but seemingly only in highly particular circumstances, and only to a small degree.

The problem with the Swanstrom/Rosdil analysis is that it fails to accurately locate the principal difficulty that cities actually face. The problem is not some global "economic restructuring," but the political economy of American federalism. Swanstrom touches upon this issue in the conclusion of one of his articles, finding "many of the economic constraints on local governments in the United States are the result of political choices, especially the political structure of American federalism, not the inevitable result of a capitalist economic system" (Swanstrom 1986, 105). But he fails to elaborate on this point and, a few years later, fails to focus on it further (1993). Yet these choices are are not political choices that are available to local officials. The important choices have already been made and can only be unmade at the national and state levels.

It is the political economy of American federalism that lies at the core of the fiscal problems of American cities and goes the furthest toward explaining them. The problems that the political arrangements of American federalism raise and that contribute to the urban fiscal crisis are numerous. Separate suburban jurisdictions encouraged by federal policies and the resulting failure to create a regional

tax base mean that central cities provide services to workers who reside (and pay taxes) in another jurisdiction. Unlike other countries, local governments in the United States must rely principally on private investment and lenders for their capital needs, resulting in competition among cities for development and investment in order to muster the resources necessary to maintain spending. Nor does the federal government assume the burden of redistributive policies, further aggravating the competitive nature of relations among localities (including states), which have little incentive to provide a level of redistributive services greater than their neighbors (Oates 1972; Ladd and Doolittle 1982). The rise and fall of federal and state aid to cities has already been mentioned as another element of the problem, with higher levels of government imposing either unfunded mandates or matching requirements for grants on localities.

The states are the intervening variable between the federal government and local governments. Fuchs's analysis (1982) of why Chicago avoided a fiscal crisis describes Chicago's success in maintaining a narrow functional scope. New York, according to Fuch, could not. There was a kind of regime at work in Chicago, between Mayor Daley and his protegés in Springfield. The result was an intergovernmental structure that kept the city free of a large burden of social spending, unlike New York. It is important to note that Daley was able to help put this structure into place; but not every mayor can arrange such a relationship between city and other competing governmental entities. Daley's success was rooted in the power of his political base.

"Economic determinism" should not be used to replace a different variety of structuralist argument. Most cities have successfully managed fiscal strain through various managerial strategies in order to improve productivity without facing default.[7] Nonetheless, as Ladd (1994) has shown, cities continue to face a situation of scarcity and strain. An addition to this analysis should focus on a neglected variable, the origins of fiscal stress in American cities, which helps explain the dynamic that cities face. In the face of our particular federalist structure, competition among localities remains the most viable option. Consequently, even the national level is constrained by its reliance on private lenders and the mobility of capital. This in turn dictates reliance on a governing coalition that is in conflict with the needs and desires of the electoral

coalition. As has been earlier suggested, the needs of the latter are not addressed adequately by state or federal policies.

Regime theory was developed without focusing on fiscal stress as a preeminent problem. The primary concern was instead managing and directing growth in a dynamic social order. Whether a particular set of relationships can be characterized as a regime depends, in part, on overcoming severe environmental stress. This requires an ability to adapt to new circumstances. One could hypothesize that, at least in some cases, cities that have undergone one or more periods of fiscal stress have failed to build a coalition that bridges the tension between the competing imperatives of the American urban political economy. More research is needed to determine the extent to which the alternative hypothesis presented here—that American federalist arrangements have a large role in contributing to the fiscal stress of cities—is valid.

Finally, there exists a normative dimension to the regime theory perspective on governance. For such a coalition to succeed, all participants must view the process as an opportunity to combine their resources in a way that *produces* benefits rather than merely divides them. This is in contrast to the conventional political science view of conflict as a zero-sum process. Therefore, the theory presented here suggests that the current direction of federal policy toward decentralization of redistributive functions is likely to increase the problems of local governments, rather than alleviate them.

Notes

[1]See Drennan (1994) for a discussion of labor costs in New York and other large cities between 1982 and 1992.

[2]At least in some cases, cities have actually managed to keep revenues at the same or higher real levels, despite the limits imposed on certain revenue sources and decreases in intergovernmental aid, by diversifying their sources, mostly by increasing user fees and charges. While the overall budgetary level may remain at approximately the same real levels, how the changing revenue sources affect the budgetary allocation among different functions remains an open question. See Niblack and Stan's (1992) study of Los Angeles.

[3]See also Levine et al. 1981, Rubin 1980, and Schick 1980.

[4]See also Elkin's description of the governing regime in Dallas.

[5]See Stone 1986, chap. 6.

[6]See also Reed 1984.
[7]See Levine et al. 1981, Pammer 1990, Matzer.

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