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Rolling Downhill: Effects of Austerity on Local Government Social Services in the United States

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Austerity policies have been instituted in countries around the world attempting to address the fallout from the global economic crisis beginning in 2008 and still lingering through today. While the literature debates the economic impact of these policies, limited attention has been given to the effects of austerity at the local governmental level. It is posited that at the local government level, the effects of austerity policies are most noticeable and detrimental. States and local municipalities are “switching roles” with the federal government (Davidson, 2013, p. 1). They are providing jobs and social welfare services in the gap left by the departure of the federal government from a broad social welfare delivery perspective. The ideological rationale associated with state budgets being balanced through austerity-like reductions in revenue sharing and the reducing the social safety net will be highlighted. In the U.S., the majority of those states which implemented drastic and sometimes draconian budget reductions have been under majority Republican legislatures and governorships. Characteristics of austerity policies and the modern welfare-state are discussed in relationship to the reduction in public investment, particularly in government non-education employment through discretionary spending. The results of austerity policies on funding for social welfare services and public employment will be illustrated.

Key words: austerity; local government; stimulus spending; social welfare services; social policy

“The boom, not the slump, is the right time for austerity at the Treasury.” John Maynard Keynes, 1937, Collected Writings (Jayadev & Konczal, 2010)

Austerity has become a buzzword as nations world-wide, along with many American states, address the fallout and effect of the world-wide economic crisis stemming from financial and housing downturns in the United States to the crisis among some Euro-zone countries brought on in part by growth in social welfare expenditures. Nations have attempted a variety of measures to address the economic crisis, including both stimulus packages and reduction of expenditures. Those measures focused on budget reduction are commonly referred to as austerity. While articulated by those on the political right as the only viable option out of the economic crisis, evidence documenting the limitations of austerity measures continues to mount. One only needs to look to the United Kingdom, Greece and Cyprus to see the effects of austerity measures on the populations and economies of those countries. These include continued economic malaise as well as human deprivation. In the United States, austerity measures have contributed to the continued political gridlock and competing proposals to address this nation's economic and social welfare program future. Budget sequestration at the federal level is part of the austerity movement in the United States (Usborne, 2013). Congressman and Republican Vice-Presidential nominee Paul Ryan's budget proposal and the Bowles-Simpson Fiscal Responsibility and Reform plan are but two examples of austerity-focused proposals which have been put before Americans. These proposals, at their core, would have a major negative impact on social welfare and safety net programs.

Nations have implemented budget balancing measures by reducing spending on social welfare and entitlement programs, reducing public employment and raising taxes to increase revenue. In the United States, the focus has been primarily on decreasing expenditures at the federal and state levels of government. This action has had a direct impact on the budgets and services provided by local government. Local governments are downstream from austerity policies implemented at the federal and state level. However, as suggested by Clark (2012), local governments are inextricably linked to the financial condition and health of state and federal government. As revenue sharing from federal and state sources is reduced due to austerity policies, local governments are faced with reducing public service employees, reducing the number

of public and social welfare services, and/or asking residents to pay higher taxes in order to maintain existing services. With few available options to close the gaps between revenue and expenditures, local governments face daunting fiscal challenges. Unmistakably, local governments are on the frontlines when it comes to experiencing the effects of austerity policies.

This paper will focus on the impact of austerity policies on local government, and, in particular, their major role in providing health and social services in communities throughout the United States. As the extant literature on this topic indicates, local government is most often discussed in terms of large metropolitan areas; however, in this paper, the effects of austerity on smaller local governments (i.e., less than 50,000 residents) will be included. The implementation of austerity policies is overtly characterized by its proponents as steps to reduce federal and state budget deficits that are the result of spending and public indebtedness. More covertly, it is suggested that the implementation of austerity measures is an attempt to dismantle social programs (Krugman, 2012; Peck, 2012). Characteristics of austerity policies and the modern welfare state will be discussed in relationship to the reduction in revenue sharing with local communities for needed and necessary community services. It is posited that the effects of austerity policies are most noticeable and detrimental at the level of local government. States and local municipalities are “switching roles” with the federal government (Davidson, 2013, p. 1) in that they are providing jobs and social welfare services in the chasm left by the departure of the federal government from a broad social welfare delivery perspective. Now states are also engaged in austerity measures, including reduced revenue sharing to municipalities, which impacts directly on service provision at the local level (Delisle, 2010).

This paper also highlights the ideological rationale associated with deficit-driven budgets and the resultant reductions in revenue sharing with local government and social welfare services. The majority of states implementing drastic and sometimes draconian budget reductions, including sharp decreases in revenue sharing with local government, have been under majority Republican legislatures and governorships. In Ohio, losses from reduction in the local government fund and tax reimbursements totaled nearly a billion dollars for

calendar years 2012-2013 (Patton & Krueger, 2012). Additionally, the states workers were reduced by approximately 51,000 workers through layoffs and attrition. The effects of these reductions are realized at the micro (e.g., local) level. Discussion of the effects on the local level in northeastern Ohio communities will be used to exemplify how austerity policies affect the delivery of social welfare services, as well as shift the burden onto local taxpayers to pay for needed public safety and other basic services.

This paper will conclude with a discussion of the policy alternatives for local government, state and federal policymakers. Katz's (2010) position that the recent economic downturn altered the structure of poverty and risk among the middle and working class is reflected in no better place than the experiences of local government as a result of austerity-like policies emerging from the federal and state levels.

Background

Upon taking office in 2009, one the first pieces of legislation signed by President Obama in response to the economic crisis was the American Recovery and Reinvestment Act (ARRA). The ARRA appropriated \$831 billion dollars to address the multiple negative consequences of the Great Recession. As reported by Recovery.gov (2013), \$796 billion dollars has been expended through the ARRA as of 2012. The ARRA provided cash-strapped states and local governments with needed funds to keep public employees, hire additional ones, promote infrastructure development, and support safety net programs such as Medicaid and the Supplemental Nutrition Assistance Program, which saw increased usage as a direct result of rising unemployment. However, funding for the ARRA ended in 2012, and in the current political climate an additional stimulus package is not likely. As will be highlighted in this paper, stimulus spending has been replaced with calls for austerity. The current sequestration reinforces austerity policies across federal and state government (Appelbaum, 2013).

What is Austerity?

It is important to offer an explanation of "austerity" as it applies to governmental economic and social policy. In 2010,

the word austerity was named as the word of the year by Merriam Webster dictionary (McBride & Whiteside, 2011). The Oxford Dictionary and Thesaurus (Abate, 1996) defines austerity with the phrases "moral severity" and "severe simplicity." It goes on to indicate that austerity is synonymous with hardship. Growing evidence indicates that fiscal hardships due to austerity measures are being experienced by communities and individuals across the nation. An estimated \$717.1 million dollars will be lost due to sequestration in Ohio—funding for children with disabilities, job assistance and public safety forces (Plunderbund.com, 2013). Stuckler and Basu (2013) posit that austerity measures can have deleterious effects on health services and health outcomes. They point to the loss of nutritional funding for pregnant women and an \$18 million dollar cut in the Centers of Disease Control's budget—our nation's bulwark against disease and epidemics—all due to sequestration.

Lest one thinks of austerity as it applies to governmental policy as a recent description, Terrell (1981) highlighted the effects of such policies on social welfare expenditures in the state of California due to the passage of Proposition 13. What Terrell's discussion provides for us today is that austerity, or related terms such as "retrenchment" "cutbacks" or "containment" (p. 275), continue to effect the delivery of general and social services at the community level. Appelbaum (2013) highlights that the periods of the Vietnam War and for most of the 1990s, federal government approaches to the reduction of spending were of longer duration and depth.

Konzelmann (2012) defines austerity as a combination of reductions in public expenditures along with increased taxes. Hazel (2012) indicates that austerity is a reduction in government spending when deficits are high. Austerity in these circumstances denotes governmental actions or measures taken to reduce public expenditures and in some cases increase taxes. The Congressional Budget Office (2010) succinctly states "Austerity programs generally include both tax increases and spending reductions" (p. 8). These measures are taken when a government's expenditures exceeds its revenues, creating significant debt burdens due to borrowing. Peck (2012) employs the term "fiscal purging" (p. 630) to describe the manner in which governments reduce their spending, particularly in the

area of social welfare expenditures, including the employment of public sector employees.

Since the beginning of the global economic crisis, local governmental entities in the United States have seen reduced spending due to reductions in both federal and state funding. The PEW Charitable Trusts' report, *The Local Squeeze: Falling Revenues and Growing Demand for Services Challenge Cities, Counties and School Districts* (2012), states that aid to local government fell by \$12.6 billion dollars in 2010. This has resulted in broad declines in public employment at the local level across the nation (Dadayan & Boyd, 2013). Lucas (2011) indicates that since August of 2008 public payrolls at the local level have decreased by 450,000 jobs, a rate of nearly 15,000 jobs being lost monthly. Another analysis of the employment number places public sector job loss at 627,000 since June 2009 (Bivens & Shierholz, 2012). Appelbaum (2013) indicates that there are 500,000 fewer public employees across all three levels of government since 2007.

The loss of those jobs and the continued shedding of government jobs at the local level contribute to the increase in long-term unemployment and increased usage of safety net programs (e.g., Supplemental Nutritional Assistance Program). With the ending of stimulus funding from the American Recovery and Reinvestment Act (ARRA) of 2009, many of the jobs that were preserved through this policy are now being phased out. Local government is faced with declining revenue yet increasing need for services to residents. Ironically, when austerity measures are implemented, and particularly when public sector jobs are reduced, there is an increased usage of safety net services due to the job losses. Increases in unemployment compensation and Medicaid costs have been tied to cutbacks in local government employment (Larson, 2012). Larson's observation regarding entitlement programs is a perspective which offers a crystal clear portrayal of these programs. He states, "entitlement programs are open to everyone who is eligible, and there is no cap on how many eligible persons are allowed into a program" (p. 13). It is through austerity measures that more, not fewer, individuals seek services from the social safety net, leading to increases in spending for programs. Blinder and Zandi (2010) report that \$321 billion dollars of the stimulus appropriations were spent

on Medicaid, food stamps and unemployment benefits.

Friedman (2013) indicates that austerity measures continue to be pushed, even in the face of mounting evidence reflecting their failure to facilitate economic growth and employment. The slashing of public spending continues to contribute to both unemployment, particularly among the middle class, and stagnant economic growth. Republican-controlled state legislatures (e.g., Ohio) are inflicting austerity measures which force local governments to either ask residents to make up the shortfall with higher taxes or lose services, or in some cases, both.

Austerity Impact on the Welfare State

The welfare state as defined by Esping-Andersen (1990) is basically the provision of welfare services and support to the citizens of a particular state. This includes both cash assistance and non-cash assistance to meet a variety of human needs. In addition, government spending for social welfare provides public employment opportunities which contribute to the growth and expansion of the middle class. It is posited by scholars (Krugman, 2012; Peck, 2012) that austerity measures have a negative impact on welfare state provisions by reducing employment opportunities, in addition to decreasing social welfare programs and services. This is particularly true at the level of local government. The U.S. Census reported that state and local government employed 19.6 million people in 2010!!, nearly 250,00 less than 2009 (U.S. Census Bureau, 2012). The overwhelming majority (14.3 million to 5.35 million) were employed by local government, with a proportional loss of jobs. Haze (2012) poignantly points out that the impact of austerity measures is experienced the most by the poor in society through the loss of both income and services. However, as austerity measures lead to a reduction in public employment, members of the middle class are also directly affected.

Democratic versus Republican Approaches to Austerity

Austerity measures and policies can come from different points of the political spectrum. In California, Governor Jerry Brown's initial 2011 budget contained significant reductions in funding to schools, corrections and human services (Pollin

& Thompson, 2011). Governor Brown's budget cut nearly \$13 billion dollars from those aforementioned areas. Not only were services reduced, but there were significant employment losses among the middle class of the state.

Republican approaches are often associated with cutting taxes and privatizing or contracting out governmental services. However, recently state legislatures, many of them Republican-led, have introduced bills which would expand the sales tax to services ranging from haircuts to funerals. In his second budget, Governor Kasich proposed taxing over 500 different services in order to partially compensate for a decrease in the state's income tax. In this case, the proposed sales tax expansion was removed by the legislature.

Funding to local governments in the current Ohio budget remained flat; however, the 12.5% share of property-tax payments that the state had subsidized in previous decades will cease to exist for all future tax and school levies, therefore leaving citizens to pay the full amount of any future income tax or school levy increases. For example, before the 2014-2015 Ohio budget was signed, in the first author's city, legislation was passed to place a safety forces tax levy on the ballot. At first introduction, if approved by voters, the cost to the homeowner of a \$100,000 home was \$99.00 a year, but with the passage of the new budget, with the elimination of the 12.5% credit, the cost to the homeowner rose to \$114.00.

Another potentially devastating legislative proposal in the state of Ohio would further reduce allocations to local governments. This is the proposal to establish a uniformed code for the purposes of tax collection. It is estimated that this legislation, if passed and signed into law, will cost local governments \$46 million dollars. States such as North Carolina are pushing austerity policies which clearly harm those most in need of safety net services. The recently passed North Carolina budget reduced income taxes for higher-income individuals and families, reducing the number of weeks individuals can receive unemployment and refusing to participate in the Medicaid expansion portion of the Affordable Care Act.

Following the reduction in the Local Government Fund (LGF) in Ohio, the state legislature implemented a competitive grants initiative called the Local Government Innovation Program (Gurwitt, 2011). In essence, local governments could

compete for a portion of a \$45 million grant resource to study and implement the centralization and sharing of services. The seeking of competitive grants and the move towards cities joining together to address the reduction of services is seen by those supporting austerity measures as an example of reducing redundancies in local economies but also shrinking public sector jobs and services. Also, the Republican-led legislature is proposing in its 2013-2015 biennial budget that the surplus of over \$2 billion dollars be used to cut income taxes to residents with the hope of eventually eliminating the state's income tax all together.

Democratic approaches tend to target a mix of government spending. Paul Krugman (2012), winner of the Nobel Prize in Economics, has frequently highlighted that austerity measures are not what governments should implement during severe economic downturns. Instead, governments should increase spending so as to prime the employment engine. Additionally, as was seen during the Great Recession, the government could provide stimulus funds for states and local governments to keep public service employees working and assure that safety net services are maintained. Given the level of job loss during the economic crisis, reduction in safety net programming could contribute to significant hardship on individuals and families.

Austerity Effects on Local Government

Unlike the federal government, state and local governments are required to balance their budgets. Nearly every state faced historical budget deficits in the aftermath of the Great Recession (Jimenez, 2009). The austerity measures taken by the federal and state governments intensified the effects of two essential sources of revenue on which the majority of local governments build their budgets: property taxes and transference of resident income tax payments back to the community. A report by the Pew Charitable Trusts (2012) calls this a "one-two punch" (p. 1) to local governments. Recently, the terms "fiscal stress" or "fiscal shock" have been applied to the manifestations of austerity policies on local governments. With the decline in real estate values seen during the housing crisis, local government budgets have realized significant reductions in funding from property tax collections. For example, in

South Euclid, Ohio, the first author's city, property valuations dropped on average 12%. This resulted in a significant decrease in the amount of property taxes collected and returned to the city.

The second factor is that states, in efforts to improve their budget shortfalls, have reduced the amount of funding that they return to the local municipalities. In the state of Ohio, the local government funds were reduced by nearly 50% across the board, equaling a reduction of nearly \$630 million from the 2010-2011 to the 2012-2013 budget years (Local Government Fund Coalition, 2011). The Local Government Funds (LGF) are state revenues returned to local governments following the collection of taxes. These funds are then used to support critical and essential city functions from police and fire to social services (Plunderbund.com, 2013). In addition to the reduction of the LGFs, the state budget eliminated the estate tax in 2013 and the Commercial Activity Tax, which further reduced financial resources used by local governments to pay for and provide essential community and services.

From police and fire to health clinics and public recreation facilities to community centers for older people, LGFs are essential to a local government's ability to provide services to its residents. While Ohio's governor is able to tout that he wiped out the state's deficit and balance the budget without raising taxes with his initial budget, local governments were left with few options to make up the reduced allocations and were left scrambling to fill in the budget gaps with tax increases to residents, laying off of public employees, reducing services. or in some cases, seeking to merge services with neighboring cities or actually merging with other cities. In some states, cities filed for bankruptcy as a result of cuts in their allocations from their state government, as states grappled with the consequences of the financial and housing crises (Delisle, 2010). Measures taken by local governments to achieve fiscal balance in their budgets have led to a reduction in public employment and payrolls. Estimates vary as to the number of public sector employees whose jobs were eliminated since 2008, yet those estimates consistently suggest that more than 500,000 of these jobs have been lost in this time period.

For example, in Ohio, local governments have seen a significant reduction in public employees and services (Local

Government Fund Coalition, 2011; Scott, Schleis, Antoniotti & Warsmith, 2013) as result of the reduction in LGF from the state government. In Ohio's smallest county, Vinton, there are no safety forces and the criminal justice system consists of only a judge and sheriff. In the city of Cleveland, the reduction of \$35.7 million dollars in LGFs in 2012 contributed to the reduction of between 350-400 public employee jobs. The state of Ohio has lost 33,500 jobs in the local government sector since the end of the recession. The fact that many of these laid off workers utilize unemployment, Medicaid and food stamp programs during the time they are unemployed, increases the need for safety net services. While stimulus spending was criticized by conservatives, the city of Akron, Ohio was able to retain 36 firefighters while adding an additional 38, plus 12 more police officers (Scott et al., 2013); this would not have been possible without the funds appropriated in the ARRA.

Peck (2012) presents several options that local governments are pursuing as they address the realities of austerity measures. While reduction in public employees and increased taxes are the most commonly advanced examples, the options of privatization of services, "grant hustling" (p. 649), and increased reliance on voluntary and non-profit organizations to deliver social services are focal points for local governments seeking to do more with less. The city of Cleveland had to enact major reductions to make-up the shortfall in its LGF allocation from state government (e.g., charging fees for garbage collection), but it also has available options that smaller cities do not have. Admission fees for sporting events and entertainment, along with increased taxes on region-wide services such as water service, have enabled the city to bring in additional sources of revenue: That, however, is not the case with the smaller local governments in the region. In the city of South Euclid, one action taken was privatization of garbage collection. What was once a city function and a source of employment is now contracted with a private agency for rubbish and recycling efforts. Although the city realized a savings of nearly \$1.2 million dollars, several positions in the city's service department were left unfilled, with the remaining workers needing to fulfill extra duties.

One option, of course, is to increase taxes at the local level. In Shaker Heights, Ohio, the second author's city, citizens

voted to increase the municipal income tax rate by .5% to 2.25% in order to preserve essential city services (Brown, 2012; Jewell, 2012). Shaker Heights is a diverse but largely upper middle income community. While pride in strong public service is an important reason for the passage of the income tax increase, ability to pay the increased tax based on income level also was a significant factor. The reliance on local tax levies to fill the budget gap caused by federal and state austerity policies is resulting in increasing disparity between have and have not communities. This growing inequality is again exacerbated by public policy.

Conclusion

It is evident that local government is a major focal point for the hardship synonymous with austerity. This paper has identified the manifold impact of national and state austerity policies on both public services and public employment at the local level. Municipalities, for the most part, are ill-equipped to compensate for the sharp drop in income resulting from the rollbacks in state government revenue sharing. This, coupled with decreased funding for many health and social service programs through federal sequestration, has resulted in an austerity induced crisis at the local level.

This crisis is likely to deepen in the coming years. Local governments in states where policy makers are intent on reinforcing federal austerity policies are particularly vulnerable. For example, in Ohio municipalities will increasingly experience the ramifications of austere state budget policies and allocations. According to Wendy Patton (2013) of the policy advocacy think-tank, Policy Matters Ohio, the recently passed biennial budget for 2014-2015 contains additional significant allocation reductions that will directly affect local governments. The elimination of the estate tax and further reduction of revenue sharing through the Local Government Fund will simply add to the difficulty of choices facing municipalities large and small. These choices are to reduce services, lay off public employees, increase taxes or some combination of the three. Some have argued for greater efficiency through privatization of services and increased payment of fees by residents. However, studies have documented the fact that this has not

proven to be an effective way of controlling costs (Patton & Kruger, 2012).

Increasing taxes at the local level is a difficult choice, not least because most communities already have property tax levies to support public schools, and larger counties have levies to support various human services. Some affluent suburbs, such as Shaker Heights, can be successful in passing local income tax increases, but this also increases disparity in public service provision based not upon need, but rather on income. An axiom of taxation policy is that the more that services are funded by local taxes, the greater the differentiation between the haves and have nots. This has traditionally been a major issue in public education policy and now is becoming an increasingly important issue in health and social service policy.

Thus, there are no easy answers to counter the impact of austerity policies on local governments. Clearly the policy battles must be fought at the national and state levels both through electoral politics and policy advocacy. Austerity produces hardship at the local level, but its policy activation and impact is basically determined by federal and state government. Mayor Georgine Welo of South Euclid has said, "It is fend for yourself local government" due to the austerity measures being employed in by Ohio's governor and legislature. Is this truly how we, as a civilized society, want our elected officials to perform?

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