

Municipal Fiscal Stress, Bankruptcies, and Other Financial Emergencies

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Guzman, T., & Ermasova, N. (2023). *Municipal fiscal stress, bankruptcies, and other financial emergencies*. Routledge, 310 pp., \$49.95 (paperback), ISBN: 978-1-032-34938-1.

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This book is physically compact but provides in its 15 chapters a cornucopia of material taken from the authors' extensive review of the relevant academic literature, think-tank reports, and other sources, and from their case studies of six recent local-government financial emergencies (Detroit, Colorado Springs, Jefferson County, Pittsburgh, Central Falls, and Vallejo). It can be read as a book-length scholarly argument leading up to a proposed descriptive model of the progression of municipal emergencies. Still, it can also be used as a handbook (or “sourcebook,” to borrow a label from Miles and Huberman [1994]). As the authors suggest, “[t]his book could serve as a desk reference for practitioners” (p. ix). For practitioners and aspiring practitioners, Guzman and Ermasova provide good points of entry into the academic literature and a wealth of largely sound practical advice that nicely complements resources such as the GFOA's Best Practices and Fiscal First Aid guidance. For academics, there is a reasonable descriptive model of the trajectory into and out of financial crises, six rich case studies of fiscal emergencies that provide evidence to support that model, and extensive reference lists for the literature review and case-study chapters.

Following an introduction, Chapters 2 through 6 review the large and unruly bodies of literature related to local-government fiscal troubles, financial management and measurement, and municipal bankruptcy, and draw from those reviews a variety of general prescriptions for fiscal policy and practice and some research propositions for the case studies to follow. Reading these engagingly, if not always clearly written, chapters, I was reminded how extensive the relevant body of literature is and how short it falls of the ideal of cumulative progress toward settled knowledge. Guzman and Ermasova are not to blame for that collective disarray, of course; they do a great deal to impose order on the literature in ways that support both their practical prescriptions and their approaches to the case studies. I have been researching fiscal

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health and fiscal stress for over a decade, including co-editing a handbook on the topic, but even so, I encountered a great number of useful sources here for the first time. My copy of the book is heavily dog-eared and annotated so that I can follow up on many of the insights and sources cited in these chapters.

Practitioners and students will also find much value in these chapters. One of the ways in which Guzman and Ermasova impose order on the unruly prior literature is to digest it into some usable guidance about ways to manage local government finances to prevent severe fiscal crises or, if it is too late for that, at least to mitigate crises' harmful effects and hasten recovery. Although the authors do not make the connection explicit, they present the material and advice here in a way that complements and demonstrates the practical value of the Government Finance Officers Association's (GFOA, 2024a, 2024b) best practices and fiscal first aid guidance.

The relevance and utility of those sources of guidance are further demonstrated by the six case studies presented in Chapters 9-14 (Ch. 8 is an introduction to the case studies). Although the cases are (by design) highly diverse in their populations, histories, political cultures, and *fiscal policy spaces* (Pagano & Hoene, 2018), they follow similar trajectories: extended periods of experiencing multiple fiscal challenges associated with constrained fiscal policy spaces and economic conditions, exacerbated by fiscally unsound (and sometimes corrupt) decisions which eventually are brought to a crisis by some internal or external shock. The authors use the term *environmental jolt* (Meyer, 1982) to describe these shocks. However, some of the crises in the case studies seemed to stem as much from organizational behavior (e.g., dysfunctional labor relations in Vallejo, compounding effects of incompetence and corruption in Jefferson County) as from external events (long-term decline of dominant industries, abrupt departure of dominant employers, secular financial crises, and the like). Indeed, perhaps that is one lesson we can draw from the cases as from the literature reviewed in the earlier chapters: every fiscally unhappy local government is unhappy in its own way, and there are many complex ways in which organizational policies and practices can interact with external environments and events to produce, prevent, mitigate, or exacerbate fiscal stress and financial emergencies.

For academics, this is a good reminder of the likely inadequacy of strict and simplistic explanatory, or even descriptive, theories, and a defense against harsh criticism of our inability to package neatly our several decades of work in this area. For current and aspiring practitioners, the cases offer a cornucopia of points of comparison and object lessons: things that might happen, alternative ways to respond to them, and the ensuing outcomes. While the cases are in many respects outliers – company towns, shrinking cities, places dogged by incompetence and corruption – their extreme situations help to highlight pitfalls of more ordinary human and fiscal limitations. Guzman and Ermasova highlight the positive lessons to be learned from the eventual recoveries documented in the case studies.

The final chapter ties together the literature review chapters and the case studies by proposing a descriptive three-stage model of the development and resolution of fiscal crises. Guzman and Ermasova identify three general stages: a period of "haphazard" temporizing, an "emergency" period of dealing with an immediate crisis by substantially and abruptly increasing revenues and/or decreasing expenditures, and an "innovative" stage in which municipal leaders consolidate and put their fiscal houses in order for the long term. Similar to the stages of fiscal stress models from the previous century (e.g., Levine, Rubin, & Wolohojian, 1981; Wolman & Davis, 1980), this model implicitly posits an intuitive way of responding to challenges: taking the easy way out until that is no longer possible. Different from those earlier models, this model is less precisely stipulated and seems more generally applicable. Academics can and probably

will argue the strengths and weaknesses of this model compared to other stages models, and the usefulness of stages models in general compared to other ways of theorizing fiscal decision-making. For (aspiring) practitioners, this model helpfully draws together the lessons offered explicitly and implicitly by the book: financial emergencies may often be precipitated by unforeseeable external shocks, but it is possible (albeit not easy) to learn from the experiences of others (and from the authors' and GFOA's advice) how to manage your fiscal affairs in ways that can prevent a shock from becoming a crisis or at least facilitate robust recovery if a crisis occurs.

Disclosure Statement

The author declares that there are no conflicts of interest that relate to the research, authorship, or publication of this article.

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