

Foreword

The existence of a flourishing system of local government is a commonly accepted pre-condition of any well-ordered democracy. As expressed by the European Charter of Local Self-Government, the principle denotes ‘the right and ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population’. Yet, despite being universally acknowledged, this principle is invariably qualified—and, indeed, often undermined—in practice.

It is not difficult to discern the causes for the uncertain status of local government in today’s world. One obvious reason is that the processes of modern government are driving inexorably towards a continuous functional differentiation of public tasks, and this is a tendency that wears down the presumption that the local authority should act as a general-purpose institution with responsibility for delivering a wide range of local public services. But an even more powerful impetus has been a persistent trajectory towards increased governmental centralisation. This becomes especially problematic with respect to the issue of public finance. The principle of local government requires that municipal authorities possess sufficient financial resources to give them the capacity of policy choice in the manner of delivery of local services. In practice, however, central government’s overriding commitment to macro-economic policy management not only mandates it to maintain effective supervision over levels of local expenditure; it also drives the centre to retain a power to direct local expenditure towards the realisation of centrally determined targets and policies.

These trends of functional differentiation and increasing centralisation combine to weaken local government’s capacity to act as a self-sufficient authority. The resulting weaknesses are most acutely exposed in times of fiscal stress. This is the subject of this important research study. Pursuing a multi-disciplinary comparative inquiry into the topic, the authors of *Municipalities in Financial Distress* provide a comprehensive overview of the legal, financial and policy aspects of the challenges faced by local authorities in the UK, the US and South Africa that, owing to these strains, are brought to the brink of bankruptcy. *Municipalities in Financial Distress* is a perceptive account of an

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under-examined topic that fills a significant gap in the literature on central–local government relations.

The threat of local financial breakdown first figured prominently during the 1970s and 1980s. This was an era marked by a radical restructuring of government brought about by an apparent disintegration of a post-war consensus over the welfare state. The most high-profile episode in this scenario occurred in 1975 when New York City, having borrowed extravagantly to finance an extensive programme of social services, was facing bankruptcy once its debt obligations fell due. Following the Federal Government's refusal to provide a bailout—dramatically encapsulated in the *New York Daily News* headline: '[President] Ford to City: Drop Dead'—the City had no option but to carry out a stringent programme of cuts and service restructuring. But the US was hardly alone: during the 1980s, there were a series of similar threats of local financial breakdown in Britain that were a consequence of disputes arising from opposition to the Conservative government's imposition of strict local expenditure controls by Labour-controlled urban authorities who sought to circumvent them by various creative accounting mechanisms.

We are now in a new era of austerity, leading to a renewed threat of local financial breakdown. And whereas the strains of the 1970s and 1980s were highly politicised consequences of ideological differences between governmental tiers, the fiscal challenges facing local government would appear to be structurally embedded. The financial problems that local authorities now face arise from a wider set of factors. Ranging from local financial mismanagement, through unanticipated loss of local tax revenues, to significantly increased service demands, these problems are occurring against a general background of macro-economic shifts. One consequence is that local authorities are becoming exposed to the threat of being plunged into a vicious cycle of diminishing revenues, service cutbacks, and increasing debt levels.

Because of their fixed public service obligations, local authorities cannot simply file for bankruptcy. How, then, are these threats to be managed? This is the question that this research work addresses. Noting that states have generally failed to develop principled strategies for alleviating municipal distress, the authors have carried out a systematic analysis of the problem and surveyed the available strategies. More than this: they also outline a strategy which, having regard to environmental, social, and governance considerations, might just provide the basis for the restoration of local financial stability in the longer term. This commendable study will undoubtedly be of value to all who are concerned about the continued well-being of our local governmental systems.

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