

**GOVERNMENTAL FINANCIAL
RESILIENCE: INTERNATIONAL
PERSPECTIVES ON HOW LOCAL
GOVERNMENTS FACE AUSTERITY**

PUBLIC POLICY AND GOVERNANCE

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FACE AUSTERITY**

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CHAPTER 1

INTRODUCTION: GOVERNMENTS AND CRISES

Iris Saliterer, Martin Jones and Ileana Steccolini

ABSTRACT

Governments are no strangers to dealing with crises. On the contrary, a central role of any government is to absorb, navigate and mitigate them. However, crises themselves are unpredictable and represent a significant challenge to governments at both the national and local level. Despite such uncertainty, studying how governments in different countries respond to crises offers a great opportunity to learn from the past and to understand the nature of resilience in the face of significant shocks and disruption.

This book charts how local governments in 11 countries, covering Europe, the United States, South America and Australia, responded to the recent crises and austerity period by shedding new light on the role of contextual- and policy-related conditions as well as the internal capacities and conditions that may influence responses and, ultimately, performance.

This chapter sets the scene for the book, by highlighting the relevance of examining financial crises and austerity and the ways in which governments, and more specifically, local governments, are facing the related shocks. In doing so, it proposes a preliminary framework for exploring governmental financial resilience at the local level. In such a framework, financial resilience is seen as the dynamic combination of internal and external dimensions,

including the external environment, financial shocks, vulnerability, anticipatory capacity and coping capacity.

Keywords: Local government; austerity; financial resilience

Governments are no strangers to dealing with crises. On the contrary, it could be said that one of central roles of any government is to absorb, navigate and mitigate them. However, crises are not straightforward to solve, as they do not respect timescales, are unexpected and disruptive and tend to be dynamic and chaotic in nature (Boin & 't Hart, 2003). Indeed, they are a challenge to governments, which may even make mistakes along the way in their attempts to deal with them (Peters, 2011).

While crises and shocks are often described as one-shot, unique events, it has been observed that they are increasingly becoming 'routine', requiring governments to be constantly ready to tackle with them, as they are left with the ultimate responsibility to manage and cope with them. As such, there have been increasing claims for studying how governments face crises so as to learn important lessons for the future (Boin & Lodge, 2016). There have also been calls to ensure that the wider complexities and nuances of responses to crises are explored, not only focusing on political and policy perspectives, but also allowing a greater understanding of institutional effects and organisational practices, together with how these are changed and implemented and the outcomes they deliver (Boin, 't Hart, & McConnell, 2009; Lodge & Hood, 2012; Peters, 2011). As such, a multidisciplinary approach may be required to give a fuller understanding of crisis responses within and across governments (Grossi & Cepiku, 2014).

The recent global financial crises, and the ensuing context of austerity, representing another important and contemporary crisis that governments have had to face, can provide an interesting opportunity for learning lessons of general relevance on how governments cope with difficulties and unexpected events. Whereas much of the preceding empirical literature on crisis responses has been focused on discrete events (such as natural disasters or terrorist attacks), and is therefore very localised and not necessarily generalisable, the global financial crisis and austerity period offer the opportunity to examine responses from a large population of essentially similar organisations from a wide range of countries, all facing a similar (though not identical) set of circumstances.

This book shows how local governments in 11 countries responded to the recent crises and austerity by shedding new light on the role of contextual and policy-related conditions as well as the internal capacities and conditions that may influence such responses and, ultimately, performance. In spite of national

governments having attracted most scholarly attention (Kickert, 2012; Lodge & Hood, 2012; Peters, 2011; Peters, Pierre, & Randma-Liiv, 2011; and Raudla, Savi, & Randma-Liiv, 2013), local governments are often the residual bearer of the impacts of crises and shocks, and have been significantly affected by recent crises and austerity (Barbera, Guarini, & Steccolini, 2016; Steccolini, Barbera, & Jones, 2015). Moreover, while traditional literature on crises, austerity, fiscal stress, cutback management and financial difficulties has focused on the contextual conditions and the organisational actions and reactions to difficulties, this book considers the role of internal preexisting conditions and organisational capacities in affecting such responses. In doing so, it adopts the conceptual perspective of financial resilience. The concept of resilience, which can be defined more generally as the ability to ‘learn how to do better through adversity’ (Wildavsky, 1988, p. 2), can contribute to the adoption of a long-term and life-long perspective on organisational ability to cope with difficult times. Moreover, a resilience perspective can help overcome the traditional focus of management approaches to efficiency, stability and control (Leach, 2008; Shaw, 2012) and point to the likely importance of flexibility and adaptation, or the enduring capacity to absorb shocks (Dalziell & McManus, 2004; Hood, 1991; Martin-Breen & Anderies, 2011; Pain & Levine, 2012; Scotti-Petrillo & Prospero, 2011).

This chapter sets the scene for the book and in so doing it introduces and explores a number of issues relevant to understanding the following chapters. The remainder of this chapter considers the need to examine the financial crises and austerity period and introduces the concept of financial resilience. It proposes a first framework, where financial resilience is viewed as a dynamic combination of interrelated dimensions which are seen as being at the same time the antecedents and the results of their interactions with the external context and shocks. The possible dimensions of resilience from the literature (in terms of robustness, recovery ability, awareness and flexibility) are identified and translated into a first conceptualization of financial resilience. This seeks to show how local authorities’ capacity to anticipate, absorb and react to shocks, which affect their finances over time, can be considered to be a dynamic combination of interrelated dimensions, namely financial shocks, vulnerability, anticipatory capacity and coping capacity. Finally, we discuss the importance of the global financial crisis and associated austerity to the study of resilience before focusing on the impact that each has had on local government.

STUDYING CRISES AND AUSTERITY IN THE PUBLIC SECTOR

Crises have been the subject of enduring interest in public administration and public policy research. While a variety of approaches and standpoints have been