Innovation in Hard Times is Essential, Yet Often Most Difficult

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Innovation in hard times is essential, yet innovation is often most difficult in hard times. During difficult times citizens expect more from their governments in terms of providing a safety net, providing quality services, and in being accountable for every dollar spent. Citizens also tend to demand that governments meet these increased expectations without any increase in the taxes they, the citizens, are asked to pay. This requires innovative thinking and action on the part of public managers and elected officials. Doing nothing is not an option. With revenues falling and expenditures rising, maintaining a balanced budget will not be possible without taking action, and that action often requires ingenuity and innovation.

Innovation is essential in hard times, often because tried and true solutions from past experience have failed to avert the crisis, or are not available to address the new crisis. For example, local governments and their constituents can no longer count on higher levels of government to provide significant assistance to help them get through the tough times. This is in sharp contrast to previous times when programs including General Revenue Sharing and generous matching grants from federal and state agencies provided local governments with the opportunity to both leverage their limited funds in difficult times and to provide needed economic activity in their community. Nevertheless, many local governments have met the challenge through innovation. Successful innovations have included financing of public facilities through lease arrangements, sales of naming rights to public facilities, joint development of projects by local governments and for-profit development entities, and developer-financed infrastructure. Successful financial innovations have tended to be those that allocate or reallocate the costs of public services and infrastructure to their beneficiaries rather than the general public.

Innovations vary as to whether they are sustainable after the end of the crisis. Innovations that reduce service magnitude or quality in tough times have not been generally been sustainable in good times (e.g., policies which provide reduced snow removal response on side streets during and after storms). However, tough times can also produce the impetus for finding efficiencies or new alternatives that are sustainable over time (e.g., replacing a city garbage department with a municipally negotiated contract with a private waste removal firm). Regardless, innovation can be difficult in hard times.

In hard times, there is less of a margin for error if an idea fails, and stakeholders prefer safe bets when resources are scarce for governments, businesses, and households. Safe bets are often provided by tried and true solutions which have already failed or are no longer politically palatable. For example, cuts made in personnel lines typically offer greater assurance of immediate and meaningful savings than do cuts in non-personnel lines or a change in a tax rate that may or may not produce the desired effect. But, by the time the fiscal crisis is at hand, local governments often have little personnel flexibility left in their budget, with unpalatable public safety personnel cuts often looming as the only place to make further cuts (large cities in Massachusetts faced this dilemma head-on in 1990 [1]). Raising property taxes is also a reliable means of balancing the budget, but is particularly unpalatable in a down economy with falling housing values. The successful innovator finds ways to pare expenditures with a well-targeted scalpel, identify new revenue sources with ingenuity and foresight, and utilize all resources in a planned and targeted fashion.

To succeed in hard times, public managers need to be strong leaders. During good times, public managers should innovate in leading strategic planning for hard times. In times of extreme fiscal crisis, choices among good alternative uses of resources must be made. Local governments must have a clear definition of their core responsibilities and services. Governments with a strategic financial plan already in hand will find responding to fiscal crises more straightforward, but it is still not too late to develop a strategic financial plan even after a fiscal crisis starts. This may itself be an innovation for a community that has not undertaken such a plan in the past, though spending money and effort on such a plan may again be controversial in the midst of a fiscal crisis despite its potential to provide short and long-term benefits that will pay back the investment many times over.

Public managers should also be leaders in educating policymakers and citizens of the virtues of a countercyclical fiscal policy which requires running surpluses in good times so as to build up rainy day funds. The failure to actively counter the business cycle around the turn of this millennium has much to do with the severity of the fiscal crises faced in 2008 and 2009 [2]. Public managers also need to exercise leadership in explaining and supporting the governing responsibilities of elected officials. Elected officials need to be informed of and embrace their fiduciary responsibility to their unit of government. Few elected officials recognize that their responsibilities are not only to taxpayers, but also extend to assuring the fiscal health of the government. Successful innovators will plan ahead for hard times, but also be strong leaders in focusing stakeholders' field of vision on long-term investments in fiscal health in the face of short-term fiscal stress on government and the constituents themselves.

FOOTNOTES

1. I was a resident of Worcester, Massachusetts (and on the city manager's budget advisory committee) at the time. Worcester was the second largest city in New England at the time, behind Boston but ahead of Providence and Hartford. The experience there was the same as other large cities in Massachusetts in 1990. The state, after Proposition 21/2 limiting property taxes as I understand it, instituted something called the "Cherry Sheet" which provided large intergovernmental revenue transfers to cities. For large cities in Massachusetts, the Cherry Sheet represented 50% or more of their revenues. In 1990, the state abruptly stopped/suspended (not reduced) the Cherry Sheet payments and state law offered municipalities no tax sources to replace the revenues. There were a few things that happened: prior to the Cherry Sheet suspension, Worcester had cut back to, I want to say, 5 single officer squad cars in the evening to cover a large city of about 170,000 residents. When the Cherry Sheet revenues were suspended, they "pink slipped" the entire fire department and most of the police department. Unfortunately, I moved in June so I didn't see the medium term and long term outcome.

2. The federal, state, and local governments were in many cases abating revenue sources in the late 1990's and early 2000's rather than building up their fund balances commensurate with the economic expansion. This was a pretty sustained pattern from what I know. Frankly, the federal, state, and local governments generally got lazy with the longest post-war sustained bull markets and economic upswing in history. I went to a special National Tax Association symposium on this very issue November 2003 at the Federal Reserve Bank of Chicago. The state budget directors and academics who spoke indicated that the fiscal stress of the early part of this decade was a REVENUE crisis and that state and local governments had somehow given up on responding to it as a revenue crisis and were doing the opposite things that they should have been doing (namely, they had provided and continued to provide tax rebates and tax concessions). They foresaw insufficient fund balances, especially with a structural Medicaid deficit that wasn't even on the table. Yes, there were some jurisdictions who planned appropriately and just didn't have enough to cushion against this size of a downturn, but most simply were not willing to keep taxing aggressively in sustained economic good times. That certainly happened in the all the communities around NIU--they were in trouble in 2007 and 2008 and are now in absolute financial crisis in 2009.