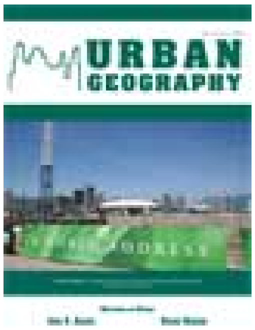

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Debt Wish: Entrepreneurial cities, US federalism, and economic development, edited by Alberta Sbragia, Pittsburgh, University of Pittsburgh Press, 2016, 308 pp., $28.95 (paperback), ISBN-10: 0822955997

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BOOK REVIEW

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Introduction

Today, decisions made in city halls across the United States are commonly understood to be shaped in large part by a particular set of financial calculations and logics. Entrepreneurial freedoms have brought with them financial responsibilities. Municipal pensions now require complex actuarial science. A reliance on bond financing has made urban development an exercise in risk management. More financially adventurous (or desperate) cities have used financial derivatives to fill fiscal holes and speculate on future revenues. Few commentators expect this trend to abate and many consider it the new "financialized" normal of urban politics. Within this context of seeming novelty and innovation, there is an urgent need to understand where this new normal came from: is it a product of neoliberal ideology, or does it have origins preceding the 1970s urban fiscal crisis?

Although Alberta Sbragia's 1996 book *Debt Wish* is now over 20-years old, it remains necessary reading for those pondering these types of questions. In her own words, the book examines "urban government as a borrower and investor" (1). Over 10 chapters, the book casts a broader territorial frame of reference, examining incremental adjustments in the relations between federal, state, and local government over the course of two centuries. Sbragia concludes that US local government is more interventionist than its western European counterparts. Moreover, the political conditions sustaining urban entrepreneurialism arose not so much from neoliberal economic policies in the 1980s, although these played their part, but instead from nineteenth-century liberalism. It is this attention to the longer-term historical geographies of US urban politics that is the most profound intellectual legacy of *Debt Wish* and we believe makes it worth revisiting in light of developments since its publication.

The effect of the book and its legacy in geography, but also in planning, political science and sociology, is to challenge much of what has become assumed to be new or novel features of US urban politics. Instead it recasts them as a long-term characteristic of the municipality. The most central part of this re-reading relates to the financial constitution and behaviors of US municipalities. Sbragia convincingly demonstrates that US cities have always sought out opportunities to debt-finance development activities even if the means by which they have gone about it has been subject to change. Indeed, the history of the United States is bound up with the entrepreneurial acumen of city politicians and bureaucrats. Some of the defining features of the entrepreneurial city become historical staples within *Debt Wish*. In 1996, this reading of urban politics presented many empirical and conceptual challenges that still remain unmet today.

It is worth drawing out one particular challenge of Sbragia's reading which relates to the idea of city agency or autonomy, of the sort Peterson (1981) grappled with in *City Limits*. For Sbragia, cities have substantial but not unstructured financial freedoms, and they continually seek to expand them. From this perspective the massive growth of the municipal bond market since the 1980s looks markedly different. For most today, this growth is a consequence of structural imperatives and the loss of autonomy elicited by the undemocratic logics of neoliberal capitalism, mediated in various national formations. *Debt Wish* today provides a potentially rich vehicle with which to revisit this conceptualization and its political implications. Far from being on the receiving end of financial capital, this account locates cities as agents in its emergence and sustaining. Some US cities, particularly the largest and most successful, are important authors of contemporary financialization, along with other national and international actors.

Yet *Debt Wish* was also of its time. The following commentaries question Sbragia's claims about how the scale of urban governance is conceptualized (Jonas) and whether US exceptionalism now exists given the global emergence of municipal debt financing (Knuth). Weber questions whether *Debt Wish* resolved the question of whether cities jumped or were pushed to become financial entrepreneurs. When Wilson pushes Sbragia's narration forward in time, he argues the unforeseeable trajectories of neoliberalism have created transformations not explained in *Debt Wish*. None of these comments would surprise Sbragia since *Debt Wish* was never a definitive statement. Yet it remains a necessary – and very persuasive – reminder that within accounts of urban governance saturated with theories of financialization and structural disciplining, the messiness of city politics still matters.

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Debt Wish offered a compelling interpretation of municipal finance as driven by territorial politics, a concept which refers to intergovernmental struggles over the allocation and distribution of public debt across different levels of the federal system. Although highlighting local government's role as borrower and investor, Sbragia in fact cast a much broader territorial frame of reference, examining incremental adjustments in the relations between federal, state, and local government over the course of two centuries. Today such territorial politics assume similar and new forms. On the one hand, US local government has become ever more jurisdictionally fragmented into municipalities, townships, counties, and special purpose districts. On the other hand, municipal finance has become inextricably intertwined with the interests of global financial actors who raise funds for public capital investment on international financial markets. Although *Debt Wish* did not set out to provide an analysis of the causal relationships between urban entrepreneurialism, municipal finance, and the changing geography of the US state, her arguments are nevertheless helpful for reconstructing the basic elements of such an analysis.

For Sbragia, territorial politics involve struggles to harness the legal and infrastructural capacities of the state beyond the jurisdiction of local government. While she correctly highlighted extraterritorial strategies, Sbragia perhaps underestimated the variety of ways in which ensuing struggles for access to state structures and capacities are territorialized. This occurs not just vertically (i.e. city-state-federal relations) but also horizontally (e.g. central cities enter into collaborative agreements with surrounding suburban municipalities as well as other local public agencies such as regional transit districts). Here Sbragia's arguments might have benefited from Cox's (1993) critique of the New Urban Politics. Because certain businesses, as well as the local state itself, are dependent upon urban localities they often engage in political mobilizations around the different territorial structures of the state and, in so doing, alter the metropolitan geography of public provision and finance (see Cox & Jonas, 1993).

Moreover, although Sbragia could not have anticipated the degree to which the financial arrangements surrounding territorial politics have globalized, her analysis does recognize that capital raised to finance urban infrastructure is sourced internationally. Indeed, today's public and private sector-led consortia raise capital in global equity markets in order to finance all sorts of urban developments including but not limited to infrastructure. In the process, ever more complex extraterritorial relationships are being forged between local governments and such consortia. Given the expanding jurisdictional geography of urban development, moreover, such relationships could be said to underpin a city-regional "geopolitics of capitalism" (Jonas, 2013). Nonetheless, the United States remains something of a geopolitical anomaly in respect of these new territorial arrangements. Drawing upon Sbragia's analysis, one might explain this anomaly by referring to how much infrastructure finance in the United States is already socialized and to the intensely local political culture of risk and regulation that prevails, which in turn can be a deterrent to global investors. In these respects, the arguments in *Debt Wish* have withstood the test of time admirably.

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In *Debt Wish*, Sbragia documents the turbulent economic history and evolving legal geography of US federalism in the nineteenth and twentieth centuries, from which she identifies the enduring structural tendencies and path dependencies. In work that speaks to growing scholarly interest in the legal geographies of finance on- and off-shore (e.g. Christophers, 2016; Sarah & Shaina, 2016), Sbragia's analysis illuminates how the United States' geographical division of powers and common law system opened up spaces for financial experimentation. Notably, Sbragia characterizes waves of austerity politics and fiscal financialization as entwined over time – through the neoliberal era, but also for a hundred years prior. In Sbragia's account, US urban governments fettered by taxation and debt limitations have repeatedly turned to the financial sector to circumvent these constraints. Because their work-arounds have typically exploited legal and structural loopholes their efforts have produced increasingly complex, opaque, and arguably undemocratic political structures. Circumvention politics have permitted cities to take on higher total debt burdens in concealed form – for example, via off-balance sheet accounting and the creation of new urban governmental entities (e.g. public authorities and special districts). Circumvention has also helped produce the United States' massive, globally unusual municipal bond market. Scholars of fiscal financialization today might rightly question *Debt Wish's* relatively optimistic account of the "freedom" that indebtedness can offer embattled cities, as urban administrations reel from the effects of the Great Recession and subsequent austerity measures. However, consistent with Sbragia's arguments, US cities have simultaneously initiated fresh fiscal experimentation. Today, climate change and green economic development provide increasingly influential justifications for experimental finance. Powerful institutions reframe this challenge as a major untapped opportunity for financial innovation (e.g. World Bank, 2010). Emerging instruments range from new green municipal bonds and financing districts to infrastructure trusts, new applications of TIF products, and bids to tap into carbon markets. Circumvention strategies are often made explicit in these frontier financing schemes, as programs tout off-balance sheet status as a major selling point.

Debt Wish spoke to the United States experience at a time when the country's system of sub-sovereign debt was unique. The less exceptional nature of US municipal finance makes *Debt Wish* increasingly relevant today. Green development arguments, government decentralization programs, and financial institutions' search for emerging markets are prompting new urban experiments with municipal debt globally, including in developing countries.

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In *Debt Wish* Sbragia demonstrates how the "politics of circumvention" makes local public finance an inherently dynamic field. Small loopholes and legal ambiguities are exploited as some provisional strategy like revenue bonds becomes the dominant method of raising or allocating revenues. Such a strategy then exerts its own path dependencies, supplants older ones, and opens up new opportunities for further circumvention. This was as accurate an observation of late nineteenth century America as it is today.

The public debt markets of the twenty-first century, however, are a far cry from the sleepy backwaters that were earlier ones, when municipal bonds were marketed to risk-averse investors as "widow and orphan" investments. These markets have grown in size and complexity, and there has been a deepening dependence on credit to pay not only for bricks-and-mortar, but also for city operations. Some local governments are using exotic instruments such as derivatives and interest rate swaps to build infrastructure and operate basic public services (Weber 2010).

Witness, for example, the CPS $1 billion foray into auction rate securities to construct new facilities during the 2000s. The school district was encouraged to engage in risky behavior by financial advisors and by the City of Chicago, who having freed the district from state control 5-years earlier, went on a debt-financed building spree. Voters were, for the most part, kept in the dark, in keeping with Sbragia's idea that the material and financial interests of cities are often insulated from partisan politics and that bureaucrats can bypass voters to engage in off-budget revenue generation and spending (77). When the auction market imploded, CPS had to pay exorbitant penalties, revealing the opportunity costs associated with today's fiscal adventurism. It meant school closures, layoffs, and the forfeiting of autonomy to the state government.

Sbragia might argue that these risky instruments were adopted because clever local governments figured out how to use capital markets to circumvent state and federal restrictions. Every few years a new instrument or technique is devised to get around state-imposed tax caps or debt limits, exploit interest rate differentials, or increase liquidity. She emphasizes the powers this access gave governments as tools like revenue bonds "maximized local governmental power while simultaneously fragmenting it and insulating it from electorates" (5). They gave localities freedom to borrow for purposes that were prohibited by more orthodox debt instruments (105) and provided them with the proceeds to pay down past debts, fund current operations, and/or invest in long-term capital projects. However, I grapple with questions of agency in Sbragia's book and in my own work: do local governments jump or are they pushed? Where one comes down on issues of motivation affects how one tells the story – cities are either wily survivors or hapless victims of the financial sector's schemes to extract value from the city.

If the balance of power has not changed substantially in recent years, then Sbragia's book challenges the implicit periodicity of urban neoliberalism. One could argue that the use of complex financial instruments in the 2000s is not so different from the late nineteenth century. On the other hand, today governments have worse credit than the private sector, debt markets are much larger and formalized, public sector officials and investment capital operate through layers of intermediaries, and legal interventions shift the risk of default more to taxpayers rather than bondholders. The entrepreneurial state of the twenty-first century may necessitate different analytical frameworks, but *Debt Wish* still provides prescient insights.

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Debt Wish, I propose, gives us an important benchmark to know the current politics of redevelopment, even as its implications and nuances need refinement. Most fundamentally, city investment today is more undemocratic than Sbragia ever imagined. Today a shadow government is fully emergent in many US cities as nontransparent Public Authorities have become central to delivering basic municipal services. Thus, the New Jersey-New York Public Authority anchors infrastructure provision in the New York City metropolitan area. It builds and maintains three airports, Hudson River ports, six tunnels and bridges, and the Path rail system. Similarly, Local Development Finance Authorities across urban America help finance new housing in cities keyed to real-estate developer desires and governance wishes to replenish city tax bases. As these shadow governments move into new terrains and do the business of city governments, the provision spreads. There is seemingly no end in sight for this service transfer to furtive, nondemocratic Authorities.

At the same time, City governments now, ironically, have become more powerful and resource-potent with the rise of shadowy Public Authorities. Sbragia misses this point entirely. This might seem counter intuitive: city governments have ceded significant decision-making authority to Public Authorities. They can only watch as Authorities float revenue bonds to build up their base of assets. But there is another dynamic: city governments no longer have to pay to provide the public housing, public water, mass transit infrastructure, and roads and highways the Authorities now increasingly provide. This reality frees them to concentrate on their bread-and-butter: subsidizing real-estate and industrial capital's basic needs. Now, city governments focus on deploying tax increment financing, residential tax abatements, and industrial write downs to build glittery downtowns, gentrified rows, and core anchoring public parks in the new "go-global" (Wilson, 2007) era.

Finally, new financial instruments have emerged whose timeliness and innovativeness could not have been predicted by Sbragia. Drawing on neoliberal sensibilities, city governments have learned to center a highly sellable "privatism" in rhetoric and programmatic organization. In this context, infusing privatism in the public domain purportedly provides efficiency, accountability, and effectiveness. In Chicago, Indianapolis, Cleveland and St. Louis (to name but a few cities), public–private partnerships are the new redevelopment norm, tax increment districts spread like wildfire, and homesteading initiatives dot public ledgers.

With these new trends perhaps, it is not surprising that US cities have become more race-class polarized. Underemployment in urban America is at an all-time high. Poor spaces of color have enlarged and encompass more deeply impoverished populations in the last 10 years. *Debt Wish* hints at this future possibility, a testimonial to the depth and insight of this mid 1990s book. To be clear, when Sbragia outlines the logic of US cities having to invent and use new financial instruments to supersede state mandates and restrictions, a key insight is missed: The recent evolution of new constraints and barriers a neoliberal world now imposes on city governments. But this shortcoming is to be expected and is excusable: Sbragia's crystal ball proves sharp enough.

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I would like to thank my colleagues for their thoughtful essays.

I first became interested in cities as borrowers in the 1970s after I studied housing policy in Milan, Italy. The city's public housing agency faced a rent strike which reduced the cash flow for repaying the funds it had borrowed in order to build prefabricated housing needed for Southern Italian migrants (Sbragia, 1974). The subsequent dilemma faced by the housing authority foreshadowed the difficulties faced by American cities that have used innovative financing methods to pay for projects (Weber 2010). Borrowing may expose a public borrower to unpredictable cash flow problems that make the timing – and ease – of loan repayment more uncertain than originally assumed. So it matters whether cities finance urban renewal by borrowing or by relying on tax revenue.

When I switched to researching the financing of urban infrastructure in the US, I realized that American cities differ significantly from their international counterparts in being permitted to borrow from a unique capital market – one in which all interest paid to buyers of municipal bonds is exempt from federal taxation (Sbragia, 1979). Further, local government borrowers in the United States are exposed to credit ratings by outside agencies which affect the cost of borrowing. The Tax Reform Act of 1986 was a milestone in that it restricted the use of tax-exempt bonds to those activities which had traditionally been the responsibility of local governments. Further, individual investors replaced banks as key bond holders. The financial crisis of 2008, for its part, led to local governments using less complicated financial instruments.

Currently, the issues arising in urban revitalization have more to do with cities' internal politics than with financial markets. These politics limit and lead decision-making about both financial and land markets. Cities have very different histories and different types of business and political elites. Some are "24-hour" cities; others, only "9–5" cities (Kelly, 2016). Some cities have many major business firms while others are more dependent on important not-for-profit organizations which are not subject to property taxes.

Public–private partnerships have played a key role in many cities and have long been studied by social scientists. That type of partnership has been crucial in Pittsburgh's history, as the Allegheny Conference on Community Development, established in 1944, is often seen as paradigmatic of public–private partnerships. However, as Pittsburgh transitioned to an "eds and meds" economy, it experienced the financial problems common to cities with numerous large nonprofit organizations, such as hospitals and universities, none of which pay property taxes (Farmer, 2016). These nonprofit organizations typically are large employers but are excluded from the tax base which funds city services (Tahk, 2014). Thus, city residents are forced to pay higher property taxes than would be the case if large nonprofits were taxed. While some cities do collect revenue "*in lieu* of taxes", the amounts collected are typically smaller than tax payments would be.

The issue of whether large nonprofits should be taxed calls into question the definition of urban "regimes." Clarence Stone introduced the concept of a "regime" to indicate a set of political and institutional relationships which produced a string of "civic accomplishments" in Atlanta (Stone, 1989, 2001). Rather than analyzing urban governance by focusing on elections, political parties, and community groups, Stone focused on elites in politics and business as the key actors in the city's renovation (Jones-Correa & Wong, 2015; Stone, 2015). However, over time the regime lost effectiveness, and Stone now argues that changes in the factors underpinning the coalition can lead to its disintegration (Stone, 2015, p. 103). Further, he acknowledges "a new era for neighborhood politics". Thus, "aiding a distressed neighborhood is no longer seen as necessarily ill-conceived redistribution; it might be part of a policy mix that yields widely shared benefits." (Stone, 2015a, p. xi).

The Trump Administration, however, may well introduce a new set of parameters as well as a new cost-benefit optic for urban areas. The intersection of local politics, public authorities, and business interests, on the one hand, and newly activated and unrestrained federal pro-development strategies on the other could strengthen the underlying dynamic of urban development so criticized by citizen groups. Ironically, it may be that not-for-profit entities such as universities and hospitals will be viewed as allies (to at least some extent and under certain conditions) of citizen groups attempting to combat development. If the Trump Administration does in fact support urban development with minimal regard for environmental or neighborhood interests, the non-profit sector may find itself playing a far more visible and crucial role in balancing urban development than it has thus far.

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