

Moving Beyond Magical Thinking Finding Leadership, Strategy, and Fiscal Sustainability in Local Government

BY RICHARD F. CALLAHAN

The fiscal challenges facing local government leaders are both as tangible as cash flow and as intangible as public sentiments. A major challenge to developing fiscal sustainability in local government is expressed by John L. Korey as: “Magical thinking on the part of the California electorate . . .” (p. 6) and by Jeffrey Chapman as “deep belief of most residents that there really is such a thing as a free lunch” (p. 127). A further challenge to moving forward on intractable governmental problems is best described as a problem of depleted intellectual capital.

The way to move forward is for leaders in local government to develop strategy. Strategy is the opposite of magical thinking and a belief in a free lunch. As a process of inquiry, of asking the right questions, leaders developing strategy also develop new solutions, new intellectual capital to address previously intractable problems. Strategy develops a shared clarity on outcomes and leverages assets through targeted behaviors that advance those outcomes.

A research team that included experienced local government executives, university researchers, and the National Civic League executive team, funded by the Haynes Foundation, searched for the past year to find examples of local government leaders who develop strategy that leads to fiscal sustainability. This research developed four case studies, at different levels of local government: the City of Brea and the City of Long Beach, Whittier Unified School District, and the County of Los Angeles. The premise of this research is that design matters, that fiscal sustainability does not occur by accident, and that strategy happens by design, not by accident. The

challenge is to discover who is good at strategy that leads to fiscal sustainability.

The search for leadership in local government that developed strategy for fiscal sustainability proved as interesting as the actual research on fiscal sustainability. The process of searching for leadership examples suggested considering the importance of experienced leaders.

Strategy facilitates moving from the existing path dependency of an organization. Leaders develop strategy to get out of the trap of doing business the way that business has always been done. The difficulty of this change has typically challenged any leader who has tried to move city or county government. The impact of path dependency on institutions has been an important feature of the research in sociology of democracy; for example, by Robert Putnam in *Making Democracy Work* and by Douglass North in his Nobel Prize-winning research on economic institutions.

What matters in the success of local government is not readily apparent or often written up journalistically. So the research team developed a strategy based on Malcolm Gladwell’s *Tipping Point* insights concerning the importance of networks for understanding social change. The research team members leveraged their existing networks from working in or with the public sector to identify individuals and organizations with in-depth knowledge of local governments in the Southern California region. The organizations we consulted include:

- California State Associations of Counties
- International Management Association
- League of California Cities
- Institute for Local Government
- National Civic League Board

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- Southern California Association of Governments
- American Society of Public Administration
- Public Engagement and Collaborative Governance
- Common Sense California

Among cities, counties, special districts, school districts, and regional associations, a pool of hundreds of jurisdictions could be researched. Our search within Southern California offered a large set of jurisdictions and also conformed with the Haynes Foundation’s focus on collective action issues in the region.

Challenge of Finding Leaders and Strategy

Finding jurisdictions that have developed strategies is not as easily accomplished as would appear. The type of research Jim Collins did to find strategy successes in his book, *Good to Great*, in which he identified financial performers that beat the market consistently, has no parallel in local government. In the absence of such a standard, we shifted to seeking more qualitative assessments. There are several possible explanations for the challenges in finding strategy successes.

First, perhaps there are few successes. As David Wolfe notes in research on successful economic development strategies by cities, successful strategic management exercises are demand and opportunity driven. The alignment of the city council, community, and city manager asking for strategies with the opportunity to develop the assets needed for strategy might occur only on limited occasions. In his research on the design of public agencies, political scientist Terry Moe frames a question that local government leaders have asked in various forms: Are public agencies designed to succeed? If not, then the difficulty of finding successes is to be expected.

Second, perhaps there are just partial successes. The economic downturn may have so profoundly affected local governments that there are few, if any, clear-cut successes.

Also, the famous cases of Enron in the private sector and the City of Bell, California, in the public sector suggest caution in equating short-term success with fiscal sustainability.

Third, professional norms and experiences could be a factor. For example, city managers and other appointed officials typically may not look to bring attention to their efforts, deflecting credit and success to elected officials and the community. Moreover, the experience of working in a bureaucracy suggests the reality of the proverb of the nail that sticks up gets hammered down. Calling attention to success can be seen as an invitation to future problems.

Professional reflection is an integral part of developing successful strategy.

Fourth, there may be the view that the financial success of one jurisdiction comes at the expense of surrounding jurisdictions. After Proposition 13 passed in 1978, municipalities put more emphasis on development patterns that favored commercial uses, creating what the then director of the California Research Bureau Dean Mischynski termed the “fiscalization” of land use policy. This quest to capture sales tax revenue might create a reluctance to publicly share strategy that could be valuable to a potential competitor for sales tax revenue.

Fifth, the many demands on local government officials may preclude taking the time needed to think about and develop strategy or to let those outside the jurisdiction know of fiscal successes. The reality of being too busy doing the work speaks to the challenge of developing what well-respected researcher Donald Schön described as reflective practice.

Professional reflection is an integral part of developing successful strategy. A wide range of research finds that through reflection leaders learn from experience, develop high-performing teams and organizations, develop social capital in regions, and create shared meaning that facilitates developing strategy. The challenges of finding success stories suggest that reflective practices are not common among local government leaders or are not readily accessed.

Reflection on successes in developing fiscal sustainability would access the strategy and mechanisms developed to move beyond the magical thinking that

calls for increased services with decreased funding. The growing gap between revenues and expenditures are the inverse of sustainability. In California, the state budget is viewed as starting from a structural deficit, creating what historian Kevin Starr has described as the perfect political storm, leading to the recall of one governor, and calling into question the “California dream.”

A framework for practices that advance fiscal sustainability might be developed from the long-standing environmental sustainability research by Dan Fiorino:

- Decision making by the current generation does not foreclose future options.
- The view of the system considers the interrelationships of the parts.
- There is an expectation that political processes define how to “sustain” each system and to “maintain” a balance among them.
- The political conditions facilitate citizens gaining information, mobilizing, voting, and otherwise pressing leaders to address problems.
- Solutions are comprehensive, analytical, normative, and flexible.

Finding successful leaders in fiscal sustainability draws on the strength of decentralized approaches to government administration that delighted Alexis de Tocqueville nearly two hundred years ago. Finding the varied paths to fiscal sustainability across varied local governments generates the creative knowledge needed to replenish the depleted intellectual capital characteristic of seemingly intractable social problems. Research at the intersection of reflective leadership and fiscal sustainability looks to deepen the understanding needed for designing strategies that continue to advance the values and practices of representative government. The selection of these four cases offers specific access to actual leaders reflecting how they developed strategies and how they address fiscal sustainability. These stories suggest ways for

other leaders to adopt a strategic approach to fiscal sustainability.

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magic bullet that can deliver governance transformation across all developing country contexts. All of them rely on other supporting conditions. Reform champions usually fall short without allies in government and civil society as well as a competent bureaucracy to implement new policies. Public demands have limited impact when the state cannot respond. Enclaves of bureaucratic excellence require robust political support to maintain their independence. Incremental advances can unravel in the face of political instability. 3.3. Partial fiscal decentralization and sub-national government fiscal discipline: empirical evidence from OECD countries (52F). 4.1. fiscal decentralisation and budgetary stability: transitory effects and long-run equilibria.Â Once we have seen why the issue of fiscal decentralization is gradually gaining more importance, let me now briefly mention the main elements that in my view could favour a proper functioning of fiscal coordination among government levels. I think there are four factors on which a sound fiscal decentralization should be basedÂ Firstly, I think that credit markets are poorly suited to discipline the borrowing of sub-national governments. This is basically due to the limited tax autonomy assigned to territorial governments. The notion of global sustainability also implies ensuring equity with regard to generations, so that the future world is comfortably habitable for the future generations. Along with this, sustainability in the broad sense, as emphasized in many UN documents, should serve as a fundamental principle for all aspects of development and in all societies. Preservation of biosphere and its co-evolution with civilization will create those fundamental conditions and perspectives that will be able to form a completely new system â€œnature - societyâ€, the system that implements the sustainable development strategy