The Shrinking State? Understanding the Assault on the Public Sector

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Abstract

This article explores the 'shrinking state', the potential erosion of the state from its customary intervention in regulating economic growth and promoting redistribution and the overall weakening of the state as an institution in local/regional affairs. State retreat may be seen in the withdrawal of finance, services and staff as well as the failure to increase these resources to match growing needs, both of which are referred to as 'retrenchment' or, in the European case, 'austerity'. The erosion of the state as an institution is visible in underfunded social programmes, a smaller public sector, weakened regulatory structures, foregone infrastructure projects, public assets sales and continued privatization. This article argues that the 'shrinking state' both produces and is a product of a restructured social contract between government and citizens and the private sector that has transformed regions and localities. Although we have not seen wholesale state decline, there have been gradations of state change, especially in qualitative markers such as shifts in state functions, scales of activity, constituencies served and private sector involvement in governmental affairs. These changes, in turn, have led to shifts in state capacity and policy orientation that leave populations bereft of needed public services, increased inequality across geographic areas and sociodemographic groups, and political effects such as the growth of right-wing populism.

Introduction

The public sector appears under siege across the globe. While there are variations across and within nations in how this plays out, the arms of the state that provide the social safety net and protect citizens' well-being are especially at risk. The erosion of the state as an institution can be seen in cuts to social programmes and public sector jobs, underfunded infrastructure, the sale of public assets and other forms of privatization along with the more general weakening of regulatory authority and diversion of resources to the private sector.

Although such trends are often interpreted as part of the fallout from the Great Recession, they have been observed across localities and regions for a very long time. In a prescient volume, *The Fiscal Crisis of the State* (1973) James O'Connor documented the tendency toward growing structural gaps between state revenues and expenditures owing to the state's attempt to balance accumulation and legitimation functions. But even before that, a dominant trope in US urban studies of the 1960s was the fiscal crisis of the central city whose fortunes stood in contrast with more fiscally buoyant suburbs (Cox 1973: Chapter 3.) By the 1980s and 1990s, neoliberal policies of privatization and market deregulation were common, particularly in the UK and US – where they were shaped and structured by both conservatives and liberals alike.

It is not clear how widespread these trends are today and whether or not they represent a new phase of neoliberal development where capitalist elites have acquired unprecedented bargaining power relative to labour and citizens and altered the role of government at all spatial scales accordingly. Some see a "war on government" in the U.S. case (Hacker and Pierson, 2016), and even local governments that were long considered recession-proof experienced dramatic cutbacks in the post-Great Recession period (Maciag, 2017). Furthermore, as we write, in the United Kingdom the fiscal weakness of local governments and the austerity policies being undertaken are front page news (Goodman, 2018). And public sector workers, such as teachers, are taking to the streets in some U.S. states to protest against low salaries and spending cuts (Gebeloff, 2018).

In addressing the thematic question of the "shrinking state," we seek to investigate the extent to which the social contract between government and citizens and the private sector has fractured thereby transforming regions and localities. To what degree, why, and where is the public sector in retreat? At what scale of the state from central to local have changes been most profound? What does the future hold in terms of resistance to, or acquiescence in, these trends?

This article is organised in three sections. First, we appraise arguments about the shifting role of the state, focusing on central bodies of literature that grapple with state retreat. We also discuss the implications of the literature for theory, social change, and the welfare state in terms of the broader trajectory of capitalist development. Second, we explore the impacts of state change on a range of political, economic, social, and governmental outcomes. Finally, we outline new questions and directions for future research.

The shrinking state: debating the lines of public sector change

Wide-ranging bodies of literature have addressed recent changes in the state. Our interest lies primarily in the debates about the role of the public sector in society as they pertain to subnational regions and localities. At this scale, by the "shrinking state" we refer to the potential retreat of the state from its customary intervention in regulating economic growth and promoting redistribution and the overall weakening of the state as an institution in local/regional affairs.

State retreat may be seen in the withdrawal of finance, services, and staff as well as the failure to increase these resources to match growing needs, both of which are referred to as "retrenchment" (Starke, 2006) or, more commonly in the European case, "austerity" (Donald et al., 2014). Much of the work on local/regional retrenchment focuses on public services, particularly social assistance, and forms part of the broader literature on the welfare state (Bruch and White 2018; Lobao et al., 2014). Retrenchment however has also been observed as a result of competitive economic development efforts undertaken by some local governments in the United States (Xu and Warner, 2016). Finally, the retreat of the state is reflected in the marketization of government, as in the diversion of resources to the private sector, such as selling assets and subcontracting out service functions along with attacks on the protections afforded by government to its workforce and to labour unions. The degree to which these changes have eroded the state as an institution is profoundly important for the well-being of people and places, as we discuss further in this paper. We now turn to identifying the various literatures that have grappled with state retreat and the processes through which it has occurred.

Globalization and the eclipse of the state revisited

A narrative of wholesale state decline was ushered in by the globalization literature of the 1980s. In its early and extreme form, the globalization thesis held that states were withering away or reduced to impotence through the emergence of global governance structures and the rising power of transnational corporations (see McCashin, 2016). It was argued that globalization raised the power of capital relative to that of the state and labour so that national governments embraced the private sector's preferences for lower taxes, wages, regulation, and public spending - all of which further diminished the scope for progressive state intervention. Researchers tied globalization to the shrinking of welfare states across nations (Huber and Stephens, 2001) and across places subnationally such as in the United States (Schram, 2006). Summaries and critiques of this view of globalization and state retreat are provided by Levy (2006), McCashin (2016) and Sassen (2006).

Yet, there are clearly qualifications to the 'powerless state perspective'. Government intervention is indispensable to maintaining the global order and states themselves have become reconfigured to support the market economy (Sassen, 2006). Others stress state resilience stemming from forces such as the political difficulties of cutting programmes with established constituencies and the general effect of path dependency in policy and politics (Levy, 2006; Pierson, 1994). Revisiting his earlier, influential work on the welfare state, Pierson (2011) contends that the greatest pressures continue to come from national and not global sources. These pressures include ageing populations, new risks experienced by citizens, and growing levels of economic inequality that have increased the demand for state intervention to ameliorate social stress. In a similar vein, Levy (2006: 9) observes that public demand for state-rollback in the case of different nations is weaker than often assumed. Finally, research on the varieties of capitalism (Hall and Soskice, 2001; Hicks and Kenworthy, 2003) and different worlds of welfare provisioning (Esping-Andersen, 1990) suggests that there can be no single narrative that captures the state in retreat.

These challenges to narratives of wholesale state decline gain additional traction from data which indicate that state spending has increased as share of national income since the early twentieth century (as illustrated by Figure 1, with data for four countries - Germany, Japan, United Kingdom and the United States). There are, however, variations according to stages of economic development, with government expenditure as a share of national income in high-income countries tending to be higher than that in low-income countries (Ortiz-Ospina and Roser, 2017). Prior to the twentieth century, public expenditure in capitalist countries was relatively low (as a share of national income) with governments concerned with basic functions, such as law and order and enforcing property rights, although periodic surges in public expenditure occurred, and largely caused by the impact of wars. This trend was also evident during the interwar period, as shown in Figure 1 where public expenditure was volatile but with substantial increases before and during the two World Wars.

After the Second World war (and up until the 1980s), there were sustained increases in public expenditure in many advanced countries which were largely due to increases in social and educational spending (as illustrated in Figure 2 – with data for 11 countries). These increases reflected the interaction of four key factors. First, there was a growth of demand for public services during the Keynesian golden age--as incomes increased, demand for education and health and the need to fund pensions grew. Second, many of these services were considered as public or merit goods which would be under-provided by the private sector. Third, the state supported the capitalist system by facilitating the production of human capital and ensuring the health of the working population. Fourth, the public sector acted as an agent of redistribution and provided at least a minimum level of welfare.

The role of the state in many capitalist states came under attack in the 1980s. The state was accused of allocating resources inefficiently and crowding out resources that could have been more efficiently used by the private sector. Furthermore, stagflation was attributed to irresponsible labour market policies (including support for unions) which pushed up unemployment whilst inflation was caused by irresponsible monetary policies. This led to an attempt to diminish the role of the state, including: reductions in public expenditure; privatisation of public sector assets (often turning public monopolies into private monopolies); the introduction of markets or 'quasi markets' into the public sector; reducing the burden of taxation to increase 'incentives'; and reducing product and labour market regulations.

As shown in Figures 1 and 2, these policy shifts tended to slow the growth of social spending and stabilise the share of government expenditure in national income. But, in general, these shifts did not reverse the relative size of the state in many countries. This reflects the outcome of two opposing forces: the ideological drive to cut public expenditure because the private sector was (and is) 'efficient' and the public sector was (and is) 'inefficient'; and the increasing demand for public services (such as health and pensions) which was fuelled by rising expectations and an ageing work force. As shown in Figure 3, spending on health care and the elderly represent the largest components of social spending and they have experienced some of the greatest increases since 1980. The inability to significantly reduce the size of the state limited the scope for the reduction of the tax burden. This was further complicated by the emergence of (globally) footloose capital (and, to a lesser extent footloose labour) which could move to low tax jurisdictions. This has resulted in pressures to shift of the tax burden from capital to labour . According to the OECD (2017), corporate tax rate competition has intensified as shown by cuts in corporate tax rates in many countries. The secretary-general of the OECD has argued that this 'raises challenging questions for governments seeking to strike the right balance between maintaining a competitive tax system and ensuring they continue to raise the revenues necessary to fund vital public services, social programmes and infrastructure' (quoted in Houlder, 2017). Furthermore, many multinationals use transfer pricing and complex tax avoidance schemes to reduce their tax liabilities (Johansson, et al. 2017). Additionally, to avoid disincentives on well-paid workers (i.e. where the rich have to be paid more to work while the poor have to be paid less to work), there has also been the reduction in the top marginal rates of income tax in many countries (Ortiz-Ospina and Roser, 2018).

The financial crisis and the Great Recession led to further changes in the role of the state. The initial response was increased government intervention to rescue the financial system and the Great Recession which led to a (mostly temporary) return to Keynesianism which promoted global recovery. But a crisis that was primarily driven by private sector debts precipitated the rise of public sector debts. Although such debts are not large by historical standards (except in the case of Japan) and are easily funded in an era of 'cheap money', they have led to another round of attacks on the public sector to reduce public borrowing and subsequently public debt (Kitson et al., 2011).

Recent regimes of austerity share a number of common features although there are contrasts in how these play out in different countries. First, reductions in borrowing have primarily been pursued by reducing expenditure and not by raising tax revenue. Second, reducing expenditure on health and education has proven to be difficult as it is constrained by the long-run growth in demand for these services and the political implications such as the loss of votes. Third, austerity and retrenchment policies have focused on reducing expenditures in areas that impact the poor and marginalised (the 'undeserving poor') – these groups have less political power and penalising them is consistent with narratives that their plight is their own fault (see Figari et al., 2015)

[Figures 1, 2, 3 about here]

Although public sector spending is an important indicator, it cannot capture all the varied manifestations of state decline. Others have noted that spending may increase but this may not be commensurate with the growing risks in society nor work to the advantage of poorer populations (Pierson, 2011; Starke, 2006). Furthermore, the real costs of providing the same public services may increase as nations become more economically developed (Martinez-Vazquez and Timofeev, 2009). Spending data also say little about the quality of services, and these may deteriorate as growing claims are placed upon the state. Nor do spending data address the pressures placed on public sector workers to accomplish more with lower staffing levels. Thus, it is important to consider other markers of state retreat including qualitative indicators (Lopez-Santa, 2015; Pierson, 2011).

Thematic concerns from contemporary literatures

Moving beyond narratives of wholesale state decline, distinct literatures consider gradations of state change, especially in qualitative markers such as shifts in state functions, scales of activity, constituencies served, and private sector involvement in governmental affairs. Some of the changes identified in these literatures reflect state retreat while others indicate resiliency and the growth of new arenas of state activity including regressive forms of intervention.

A common concern of literature assessing the path of neoliberal development has been the diversion of state functions and resources away from social protection and towards economic development in various guises (Harvey, 2005; Peck, 1996; Wacquant, 2009). A major point is that the state is as active as ever but it increasingly directs its efforts toward accumulation over social reproduction. While states might invest in research and education to enhance accumulation, others focus more on decreasing citizens' protection from market forces and promote workforce discipline -- harnessing labour and disadvantaged populations in service to neoliberal economic growth. In this latter vein, Wacquant (2009) argues that bureaucratic agencies, the police, and the courts in the US have become more rightwing and punitive and that minority populations are particularly targeted. Thus, as the state limits support for the social safety-net this is accompanied by "the growth and glorification of the penal wing of the state" (Wacquant, 2012:66). At the local level, the diversion of state activity is seen in the growth of the prison-industrial complex. In the case of the United States, this tendency gains support from cash-strapped rural county governments which often see prisons as a panacea for poor community economic conditions because they provide jobs (Hooks et al. 2004).

State retreat is also a concern of the literature on "state rescaling" (Jessop, 2002; Brenner, 2004, 2009). This body of research views nation-states as being rescaled territorially in their division of labour as central governments seek to limit spending and divert intervention efforts toward the private sector. Nations are decentralizing and evolving toward "multiscalar" governance systems where emphasis is placed on off-loading central government responsibility for administering and implementing services, policies, and programmes to subnational governments that now must assume greater roles in both growth and redistribution (Brenner, 2004, 2009). Rescaling the state is a "means by which social forces may attempt to reconfigure the balance of class power and manage the contradictory social relations of capitalism" (Brenner, 2009:126).

Studies on state-rescaling raise a number of concerns about whether, where and how the state might be shrinking. First, researchers question whether decentralization and increased responsibilities of local/regional governments reduces the size of the state overall, though a common concern is that competition among jurisdictions increases the propensity for spending cuts. In a longitudinal analysis of 48 nations, Martinez-Vazquez and Timofeev (2009) find that decentralization has increased since 1990 but total government revenue and spending as a share of national GDP has remained relatively stable. Yet they also find differences between whether revenue or spending is decentralized with the latter having a negative effect on government size. In a subnational study of U.S. states, Bruch and White (2010) find that decentralization and increased state government discretion over welfare spending has generally not led to cutbacks in most areas. Second, researchers stress that state-rescaling invariably results in spatial inequality: the quality and quantity of government and the rights of citizenship increasingly depend upon *where* people live within nations (Brenner, 2004; Lopez-Santana, 2015). For example, looking at changes in labour market policies among the U.S., Italy, Germany, Spain, and the United Kingdom, Lopez-Santana (2015) finds that spatial variability is greatest in the US and Italy as these two countries have decentralized a greater degree of decision-making and administrative power to their respective subnational governments. Third, different levels of government may operate against each other to shape the aggregate size of the social safety-net and the provision of public services. Kim and Warner (2018) for example report that in the US, austerity-minded, conservative state governments are ratcheting up attempts to pre-empt local ordinances, policies, and programmes that support disadvantaged populations and community well-being. In summary, the state-rescaling research indicates that the visibility and experiences of state retreat are uneven and depend upon where one lives in a particular nation.

Literatures on both neoliberal development and state-rescaling point to changes in the state's social base. Numerous studies point out that the state increasingly serves the interests of the capitalist class over labour and citizens as it privileges accumulation over social reproduction (Crotty, 2012; Harvey, 2005; Keyder, 2011; King and Le Gales, 2017). Over time, "class warfare" has solidified the economic and political gains of the capitalist class. In some nations, this has led to a reconfiguration of the state whereby activities supporting democratic capitalism and the common good - such as investing in infrastructure and technology, improving education, health, and welfare, regulating business, using the tax system to generate sufficient revenue to fulfill public obligations, and ensuring employment at rising wages – give way to activities whose benefits are easily captured by the private sector and the capitalist class (Crotty, 2012). Scholars also show how the gap between state support for the middle class relative to the working class and the poor has grown. The extent to which the state has shifted away from responding to the needs of non-elite class segments varies from one country to another. In a historical analysis of Britain, France, and the U.S., King and Le Gales argue that such changes have given rise to "a sense of abandonment by the state amongst citizens... and eroded the traditional 'unifying energy of the state.' In its place has come a dispirited lethargy and selective activism" (King and Le Gales, 2017: S13).

A large, cross-nationally varied literature on "governance" has introduced further concerns about a shrinking public sector (Andrew and Goldsmith, 1998; Buchs, 2009; Lopez-Santana, 2015). By governance shifts, researchers typically refer to a movement toward flexible networks and new forms of relationships between the state and non-state, private and voluntary sector actors (Buchs, 2009: 41). The power and accountability of the state are generally thought to decline when the state becomes highly involved in sharing functional responsibilities such as policy design, funding, and service delivery with non-state actors (Buchs, 2009).

At the local level, governance relationships are often scrutinized by analyzing privatization, outsourcing of services, and public-private economic development initiatives, the effectiveness and equity of which have long been disputed (Crouch, 2013; Ochs, 2015; Reese and Rosenfeld, 2002). Privatizing and outsourcing public services are seen to represent the movement toward a new social contract whereby "populations can keep their welfare states, provided they become an arena for corporate profit-making" (Crouch, 2013:229). Subcontracting, the creation of special purpose bodies/agencies, and other public-private partnerships tend to function to subordinate the state to the market. Insofar as these arrangements reduce government effectiveness and public accountability, they make it difficult for citizens to "see" the state as a societal institution (Mettler, 2011). Popular consensus over the legitimacy of government then declines, leaving a "shrinking state" in the eyes of its constituents.

Finally, the centrality of the "shrinking state" is found across the major radical political economic perspectives that analyze the periodization of capitalism. These stress that social and political relations are not inherently deducible from the mode of production but, instead, interact with it to regularize production and consumption, providing distinct phases of social stability and forms of state intervention necessary for economic growth. Such common assumptions are found in the French school's regulation theory (Aglietta, 1979) and the US school's Social Structures of Accumulation (SSA) approach (Kotz et al., 1994). The periodisations of capitalism identified by these frameworks roughly correspond to well-recognized eras of state change, such as the transition from centrally-driven Keynesian systems with a stronger social safety net to market-oriented, neoliberal governance systems. While these political economic frameworks developed without much attention to spatial relationships, Jessop (2002:49) was among the first to recognize that "spatio-temporal fixes...facilitate the institutionalized compromises on which accumulation regimes and modes of regulation depend." Jessop (2002) sees a movement from a Keynesian welfare national state to a Schumpeterian welfare postnational regime in which the nation-state is hollowed out, state-capacities are reorganized territorially, and regional/local states play a stronger role in national governance.

In summary, the "shrinking state" is a thematic concern that arises in many bodies of literature. Scholars question the extent to which the state as an institution overall is in decline, whether its functional activities have moved away from serving non-elite classes, how the marketization of government has left the state open to private sector predation, and whether the social safety net of many countries is now irrevocably damaged. Much of the work by social scientists on these questions remains situated at a macro-level national or cross-national scale, although urban/local and sub-national analysis is emerging.

Implications for theory, social change, and the welfare state

One important and reoccurring theme in the literature on the changing state is the trajectory of capitalist development, including: how it should be understood and theorized; the stability of the welfare state; and the potential for progressive social change. Here we explore the class forces that historically put pressures on welfare states and led to more egalitarian outcomes; and how the balance of class power has shifted as capitalist relations of production have changed and neoliberalism has solidified.

A recent paper by Neil Davidson (2017) compares the major crises in the global economy – 1873, 1929, 1973 and 2007 – and their outcomes. The first three of these crises led to a clear shift in capitalist production relations, for example, the 1929 crisis played a role in the creation of the Keynesian-Welfare State and the 1973 crisis to neo-liberalism. Both crises already had some of their necessary conditions in place that foreshadowed the movement to a new subsequent order. However, Davidson (2017) argues that following the 2007 crisis, there is no alternative in sight and no clear conditions for one. Despite poor growth rates after the global financial crisis, policy makers in numerous countries have pursued austerity and further neoliberal solutions.

Gowan (1999) provides useful benchmarks in his book on globalization. He distinguishes between what he defines as two contrasting poles of capital: a money pole where the emphasis is on returns to investments regardless of their source; and a productive one where the focus is enhanced profitability through the enhancement of capital's productive stock. He argues that neoliberalism works to the advantage of the former - including the pursuit of short term gains and the trading of financial assets rather than long-term investment in productivity. Shareholder value and the assimilation of managers to the more short-term view of owners is part and parcel of the shift toward the money pole.

As part of this shift, many contemporary political economists have revived the debate about the important role historically played by labour in pressuring capital for radical change in its organization and practices (Palma, 2009; Streeck, 2014a,b). Many argue that the labour movement's loss of power has liberated capital from most constraints (Davidson 2017). Thus, Streeck (2014a: 46-47) argues that there are now few counterweights to capital:

> … capitalist progress has by now more or less destroyed any agency that could stabilize it by limiting it; the point being that the stability of capitalism as a socio-economic system depends on its *Eigendynamik* being contained by countervailing forces—by collective interests and institutions subjecting capital accumulation to social checks and balances.

There have been some union successes in the private sector (Gray and Defilippis, 2015), but they have been exceptional and public sector unions, the most heavily unionized part of many countries' labour markets, are now under sustained attack (Peck, 2014).

Crucially, contemporary forms of globalization allow the state to avoid blame for workers' weakened position, declining wages, and stagnant living standards. The trope of 'globalization' and international competition for inward investments has become a part of accepted discourse. Davidson (2017) points out that externalization and depoliticization of functions has allowed states to avoid responsibility for the fundamental shift of power to the money pole. For example, the global determination of currency values puts sharp limits on monetary discretion of the nation state.

There are large and real variations in the structure and functioning of capitalism and the role of the state (Hall and Soskice, 2001). The American version of the welfare state was always weaker than its European counterparts and the potential strength of labour devolved to the state level (ibid). The assault on the labour movement in the US started shortly after the war with the Taft Hartley Act of 1947. This act let American states determine the legality of the union closed shop. As a result, closed shops were forbidden across large swathes of the South, the Plains and the Mountain states, paving the way for the shifting geography of manufacturing that would undermine labour (Davidson, 2017). Moreover, the American labour movement was never a political or social movement in the European sense: more an interest group to which individuals attached themselves with a view to increasing wages but lacking a broader social vision. Union pension funds solidified the American labour movement's stake in capitalism.

More broadly, the American version of the welfare state was always underdeveloped, when compared to its European counterparts: a housing sector that made public provision look abnormal; no public healthcare, though some dents would eventually be made in it; and a delegation of responsibility to the states for workers' compensation for injury on the job, for unemployment compensation and aid to single parent households. This gave the US not one but fifty welfare states.

Western European countries have been more resistant to the neo-liberal nostrums. The weakest link is the United Kingdom, but even here there is more variation than captured in references to the Anglo-American forms of neoliberalism. The welfare state in the UK is still much stronger than that of the US. What the UK did share with the US in the wake of the 1973 crisis was a relative competitive weakness in the global economy. The shift to the money pole, though, would also allow a national revival – albeit one that was geographically unbalanced – based on the fortunes of the City of London. However, even the UK had a radical critique of capital that was marginalised in the US.

France and Germany have been much more resistant to the erosion of worker rights and privatization and, in Germany at least, rule by the stock market. However, this balance and the historic strength of the labour movement is under attack in Europe as well. The EU itself embodies many contradictions around labour. While the EU has been a vehicle for bringing the state and workers' rights back onto the agenda, it has also been castigated for its neo-liberal ambitions. At the same time, numerous nations within Europe have tried to weaken labour rights. Thus, Macron in France was elected on the promise to reform labour law and his administration has decentralized collective bargaining and introduced measures allowing firms to close plants more easily.

In Japan, the productive pole of capital continued to prevail long into the 90s, protected by a distinct ensemble of institutions that insulate industry from short-termism and erosion by money capital in the interest of rent seeking (Dore, 2006). Much corporate capital in Japan was owned by banks and the banks in turn owned, through cross-shareholdings, by other firms in the bank's *keiretsu*, a cluster of interrelated firms that were the preferred business partners with each other. As a result, there has been a greater emphasis on governance through inter-firm networks than through the market. Revenue, therefore, tended to circulate among the member firms, available for reinvestment and salaries and wages. The firm, relatively free from stock market pressure and able to adopt a longer-term view, could invest in innovation, the fruits of which were shared with labour. As Ronald Dore (ibid) argues, this system is breaking down in Japan, although the country remains a much more equal society. For example, according to the latest available figures (United Nations 2009), the ratio of average incomes for the top ten percent of households compared to that for the bottom ten percent was 4.5 – this contrasts with a quite massive ratio of 15.9 for the US, and 13.8 for the United Kingdom, while France (9.1) and Germany (6.9) compare more favorably. Like elsewhere, Dore (2006) argues that this model is breaking down in Japan – and that the weakness of the labour movement is a significant reason for the undermining of the Japanese model.

State change and retreat: taking stock of the impacts

Recent changes in the state and its various forms of retreat have profound effects on specific places and populations. These include shifts in capacity and policy orientation that leave populations bereft of needed public services, increased inequality across geographic areas and sociodemographic groups, and political effects such as the growth of right-wing populism. Here we assess these and other impacts.

Changes in the scale and scope of the national state have often directed and limited the fiscal autonomy of lower scales of the state (Peck, 2014; Kim and Warner 2018). In many countries this has resulted in attempted reorientation of the state away from social welfare functions and presented a challenge to national redistributive policies. Scholars have explored these shifts both in states which experienced severe fiscal crisis after the global financial crash, such as Greece, Ireland, and Spain and also in paradigmatic welfare states, such as Sweden (Svallfors and Tyllström, 2018). A sharp shift away from redistributive policies has been observed which Banting and Myles (2013) call the "fading of redistributive politics." Banting and Myles (2013) show that even countries such as Canada that weathered the global financial crisis without high rates of deficit and debt have "borrowed" the narrative of crisis to channel state policies away from welfare spending and other forms of redistribution.

This shift away from redistribution is both intensified and enabled by the rise of the austerity or retrenchment policies across many European countries and in the US. The use of these policies has a long history which predates the Great Recession, but the global financial crisis created a newer consensus among the financial and political elite around budgetary contraction. Austerity budget cuts were imposed upon some countries such as Greece, Italy, and Spain by international financial institutions; but were actively pursued by other countries, such as Ireland, the UK, and the US, in a bid to reassure financial markets of the stability and basic strength of these economies (Clifton, Diaz-Fuentes, and Gomez, 2018). Although austerity has taken different forms in different countries, the shift away from redistribution is seen in the simultaneous attacks on numerous pillars of the welfare state, such as state benefits to the disadvantaged (Beatty and Fothergill, 2016), education, pensions and healthcare (Rami and O'Leary, 2017; Reeves et al. 2015) as well as basic public services (Donald et al., 2014).

Many argue that this is both a budgetary and a *political* project (Peck, 2014; Jessop, 2017; Pike et al., 2018). Steinebach et al. (2017) find that in addition to reducing welfare services themselves, European countries used the crisis to normalize lower social policy *standards* and reduced state capacity. Barford and Gray (2018) show that in addition to cutting redistributive programmes and services, some countries have also cut economic development and tax collection budgets, affecting the traditional capacity of the state to stimulate the economy and collect revenue. State capacity also has been compromised by generations of outsourcing and a common impact of the Great Recession was to intensify the trend toward outsourcing public services (Peck, 2012). The privatization of public services has a long history in many countries, including the US and UK, where neoliberal solutions are less contested, but it is also becoming well-established even in paradigmatic welfare states, such as Sweden. Svallfors and Tyllström (2018) explain how large international corporate services providers in the Swedish welfare state have been an important feature of public service provision since the 1990s, although such outsourcing has been accompanied by a robust political debate about the ethics of profit-making from basic public services.

As reductions in the capacity of the national and local state can be a by-product of outsourcing, the loss of capacity may increase in velocity in times of austerity. Failures in private sector provision of public services are increasingly common as successful bids for contracts are often low cost – but come with a high price of reduced standards. The restructured public sector itself, reflecting the austerity budget cuts, often lacks the capacity for oversight and scrutiny of their private sector contractors. For example, England and Wales closed its Audit Commission in 2015 which was the public body that monitored value for money in public contracting. The Commission was largely replaced by a private sector regime of audit firms with a much reduced audit scope, leaving many areas of local public services operating without effective oversight (Ellwood and Garcia-Lacalle, 2015). Thus, the work of the Audit Commission to oversee public-sector outsourcing was itself outsourced to the private sector. In the last decade, the UK has experienced numerous scandals with the private provision of public services from global corporations such as G4S, Serco, Capita, and Carillion -- with issues spanning poor value for spending, human rights abuses, non-delivery of services, collapse, and fraud. This reinforces Steinebach et al.'s (2017) arguments that the economic crisis has been used to normalize reduced social policy standards and state capacity. Yet, despite its well-known problems, outsourcing remains an important and ubiquitous mechanism for providing public services indicating that potential declines in state capacity and the quality of service provision are likely to extend into the future.

While reduced state capacity along with deteriorating public services is a central impact another important effect is distributional. Cuts in public services, welfare, and public sector employment may be pushed down to the local state where the effects are especially uneven – spatially and demographically (Lobao and Adua, 2011).

The uneven geography of state change has long been noted. For example, within the UK, Beatty and Fothergill (2016) examining changes in welfare benefits, find that a key effect of welfare reform is to widen the gap in prosperity between the best and worst local economies across the country. Similarly, Kitson et al. (2011) highlight regional divergence resulting from austerity cuts in the US and in the UK. They find that the effects of austerity cuts are unevenly concentrated amongst regions and populations that are most dependent on government spending and public sector employment. Localities with the highest unemployment also have relatively high concentrations of public sector jobs and thus are particularly exposed to reductions in job opportunities in the public sector. Thus, the poor recovery from the recession has meant that the largest negative effects have been felt in the economically weakest regions.

State change and the resulting austerity policies also have been shown to have uneven demographic effects where some social groups bear the costs more than others. Researchers have analyzed how the politics of austerity justify cuts and policies that disadvantage social groups based on age, race/ethnicity, and gender (Svallfors and Tyllström, 2018; Davis and Blanco, 2017; McKendrick et al., 2016; Allen and O'Boyle, 2013). Austerity policies have taken similar form in different countries of tightened eligibility requirements for state benefits, private provision of some benefits areas, lowered benefit rates – outright or by capping annual increases below the rate of inflation, and removal of some benefits altogether. Other common austerity measures include declining social protection and reduced investment in health, education, housing, care, and community development services. The fire at Grenfell Tower, London, in June 2017 is a tragic reminder of how weakened regulatory policies have led to the state's failure to protect vulnerable populations.

The social consequences of state change and resulting austerity policies have exacerbated existing gender and racial inequalities. Many scholars show that women are more likely to depend on public services, work in public sector jobs, and need state benefits. MacLeavy (2011) highlights how cutbacks in state spending present a particular challenge to the financial security and autonomy of women in Britain who are subject both to large benefit cuts and the changes to public services. Within the UK, detailed analysis of changes to the benefits system show that cuts in welfare budgets and eligibility have had a disproportionate impact on single parents, most often women, and particularly, low income women (Beatty and Fothergill, 2016; The Women's Budget Group, 2018). In Ireland, Keane et al. (2014) find that tax and benefit changes have reduced the individual income of women more than men with the greatest reduction experienced by women in low income categories.

The effects of marginalization from changes in the welfare state are also bound up with race and it is often the extent of intersectionality between race, gender, and class which shapes the size of the impact. Many researchers examine the extent to which race, class and gender reinforce disadvantage in benefits, income, and public services under a restructured welfare regime. The Women's Budget Group (2018) which has tracked UK austerity policies effects on women since 2010, reports that the poorest 20% of women have borne the largest cumulative austerity cuts, and that within that group, Asian, Black, and mixed-race women have seen the largest impact.

In the US, changes to the benefit system, together with severe cutbacks in the public sector workforce have a disproportionate effect on women, and particularly ethnic minority women who rely more on state benefits and comprise a larger share of the public sector workforce (Christensen, 2015). Thus, many low-income minority women have experienced increased financial and social precarity. At the same time, and despite politicians' promotion of the voluntary sector, austerity cuts have jeopardized voluntary-sector organisations that assist women in crisis with some reducing or outright eliminating their services (Women's Resource Centre, 2013).

Debates around race and changes in the welfare state go beyond the effects of cuts to spending on benefits and public services. Many scholars of the US political economy trace the roots of contemporary urban fiscal crisis to longer histories of persistent racial and class inequality, discrimination, and deindustrialization. For example, Hohle (2015) argues that due in part to the history of local struggles over race, the welfare state in the US was displaced and rescaled upward from the state to the national level during the Keynesian period. Hohle shows the ways in which the welfare state was then “repurposed” to protect racial boundaries and allow private appropriations of the public purse. Sugrue (1996) analyses the urban history of Detroit, arguing that we can only understand the city’s contemporary political economy and fiscal problems by examining its long history of racial tension and segregation (Sugrue, 1996; also see Reese et al, 2014).

Others have examined race in relation to the sub-prime mortgage crisis in the US, which precipitated the global financial crisis and the state’s turn to austerity (Rugh and Massey, 2010; Wyly et al., 2009; Dymski et al. 2013). Black residential clustering and spatial isolation are powerful predictors of foreclosures across U.S. (Rugh and Massey, 2010). It has been argued that the financial crisis itself was a highly racialised process linked to histories of housing segregation and discrimination (Wyly et al, 2009). Dymski et al. (2013) show how banking “innovations” were produced and reinforced by patterns of racial, gender and class inequality as new loan instruments were directed to previously excluded applicants. Thus, race becomes an important lens through which to examine the shrinking state, the rise of neoliberalism, and the fading of redistributive politics.

Other impacts of changes to the redistributional state reflect the power, control, and the nature of democracy. A number of scholars have pointed to the shift in power away from democratic control and public accountability under austerity policies (Streeck and Schäfer 2013; Donald et al. 2014; Clifton et al. 2018). Streeck (2014b) explains how high levels of national sovereign debt in southern European countries, along with the impossibility of currency devaluation, legitimised financial creditors’ demands that debt repayment be firmly established in both international treaties and in national fiscal plans. This functioned to disable democratically elected regimes threatening this agenda and citizens’ attempts to defend their social rights (Streeck, 2014b). Clifton et al. (2018) explore the role of the European “Troika” --

the International Monetary Fund (IMF), the European Commission (EC) and the European Central Bank (ECB)--- in the imposition of austerity programmes in Greece, Cyprus, and Ireland. They highlight the constant tension between the ability of these institutions to demand austerity policies in return for financial aid versus the sense of imposition, lack of local autonomy and frustration of the local democratic process. Furthermore, they point to the very urban nature of this conflict – both in terms of where the withdrawal of public services and benefits are felt and as the location of a local "pushback."

The crisis in legitimacy and its urban nature is also illustrated in other cases. Urban bankruptcy in the US, in cities like Detroit, Michigan (Reese, et al, 2014) and Vallejo, California (Davidson and Ward, 2014), enabled unelected "administrators" to control contentious decisions surrounding municipal finances such as reducing public pensions, public services, and healthcare benefits to public employees. Davidson and Ward (2014: 94) examined California during the wake of the Great Recession, where a growing number of "cities have either declared bankruptcy or have threatened to do so as a means of gaining leverage over debt holders, labour unions, and state officials." Although UK cities and regions cannot go through a legal process of bankruptcy, in 2018, Northamptonshire County Council became the first local government in the contemporary era of austerity to issue a section 114 notice – which stops all spending at the local scale, except for statutory spending required by the national government – effectively going bankrupt. The national government played a large role in this – both reducing grant support and capping council tax rises (Gray and Barford, 2018). This in effect, replaces by national fiat, the complicated and contested nature of local spending priorities at the scale of local government, displacing local democratic processes with rule-based decisions limiting spending to the most basic level.

Finally, we consider the rise of populist politics -- as reflected in Trump's successful presidential bid in the US, the rise of right-wing "nativist" parties across many European countries, and the UK's vote to leave the European Union – and its relationship to the "shrinking" state. Many link globalisation and the uneven nature of the economic recovery to explain popular resentment and the legitimation crisis of the state: here the failure of successive neoliberal projects to deliver prosperity and the fading of the redistributive functions of the state play an important role (Jessop, 2017; Essletzbichler, et al., 2018; Gonzalez-Vicente and Carroll, 2017). Others consider the uneven nature of globalisation, the legacy of deindustrialisation, unemployment and regional inequality and discontent (Spicer, 2018; Rodríguez-Pose, 2018; Gordon 2018). Rodriguez-Pose (2018:190) makes an explicit argument that inter-regional inequality, rather than interpersonal inequality, is an important, but often ignored factor in the rise of populism:

> In recent years the places that "don't matter" have increasingly used the ballot box (and, in some cases, outright revolt) to rebel against the feeling of being left behind; against the feeling of lacking opportunities and future prospects. Such reaction—which was already evident in places like Thailand or some Latin American countries in the mid-2000s—pitches not so much the rich against the poor, as would have been envisaged by those focusing on interpersonal inequality, but lagging and/or declining regions against more prosperous ones.

Research on the rise of contemporary populism, outside of political science, is still dominated by economic explanations (Gordon, 2018). While studies analyzing the importance of regional GDP and regional unemployment rates as indicators of regional disparity are common, few scrutinize indicators of the changing functions of the state. An exception is the study by Essletzbichler et al. (2018) which focuses on changes in austerity spending and related factors that explain the electoral success of Brexit. The authors examine the interaction between the supply of and demand for public services and welfare benefits and their effects on the populist right-wing vote. They find that, along with migration, higher losses in benefits had one of the largest positive effects on the regional vote for Brexit.

In summary, places and populations have been profoundly affected by the impacts of state change. The consequences range from growing economic hardships and socio-spatial inequalities to the more recent turn toward right-wing populism.

New directions for research

The thematic issue of "the shrinking state" raises new questions and concerns for future studies evaluating the assault against the public sector. First, a more holistic understanding of the meaning and significance of recent changes in the state is needed to move research forward. As we show, studies addressing state-retreat are fragmented across different bodies of literature. While there is often empirical overlap, a unifying theoretical umbrella is yet to emerge particularly as applied to the actions and impacts of the subnational state. Such a theoretical umbrella must grapple systematically with the issues raised above: the trajectory of current neoliberal capitalism; the forces that could potentially challenge it such as invigorated labour and poor people's movements; and the variegated forms of state intervention/retreat and the spatial scales along which they arise. While radical political economy has long offered a base for such theorizing (e.g. Jessop 2002), it has only been integrated selectively into empirical accounts of state-retreat and its insights are in continual need for updating as the path of contemporary capitalism becomes more convoluted.

Second, new sources of data are needed to improve the current evidence base. Drawing any firm conclusions about state change is inherently limited by the lack of systematic, quality data especially when applied to the subnational state. As Gray and Barford (2018) note, the problem ranges from simple bureaucratic differences in how local government data are collected to potentially deliberate political efforts to obscure hardship and inequality generated by retrenchment and austerity. As a consequence, social scientists tend to know far more about cross-national differences in welfare states' policies and spending than they do about subnational differences within home-countries. This makes it difficult to assess both trends and causal questions about state-retreat including its geographic and political foundations. Bruch and White (2018) draw from original longitudinal data on US states to assess changes in social programmes; in contrast to assumptions about widespread spending cuts, they find cutbacks were largely confined to cash-assistance welfare while other programmatic areas have changed little or even expanded. Moreover, the changes documented do not clearly coincide with states' political geography indicating that other causal forces at work. In the case of the UK, Gray and Barford (2018) utilize a new series of data on local governments to identify systematic trends. They find that across-the-board national cuts in spending have geographically uneven effects, falling most heavily on local areas whose populations are more economically disadvantaged.

Third, the "shrinking state" should be understood not in terms of any linear progression of a neoliberal agenda but as variegated across time and place and especially within nations are more highly decentralized. As Murie (2018: page # when available) notes: "This means walking a line between producing overgeneralised accounts of a monolithic and omnipresent neoliberalism that are insufficiently sensitive to local complexity and placing excessive emphasis on variation in strategies." Nation-states are characterized by varying degrees of uneven development and historical paths of devolution which fragment the state an institution and create divergence among local states. Barford and Gray (2018) for example note how the Scottish and Welsh national assemblies have been more successful in buffering local governments from central government cuts. Empirical accounts are needed that are sensitive to the nuances of state change and how local and regional political economic context can modify the degree of state retreat and its impacts. In the case of the housing sector in the UK, for example, Murie (2018) explains that a complex pattern of change has emerged where there is a smaller but still significant degree of public sector involvement and an expanded voluntary sector involvement with the result that the housing market remains relatively decommodified.

Finally, the forces that might counteract state-retreat need greater scrutiny. At present, there is much to be pessimistic about. It seems unlikely that things are going to change until there is a credible counterweight to capital, one which can swing the balance away from capital's money or financial pole to its productive pole. In the United States, the labour movement has been in protracted decline and the promise of civil society long eroded. Yet, the nation is large and there are points of resistance such as among some local governments (Kim and Warner 2018) and states (Bruch and White 2018). There are also some glimmers of hope in the success of the Fight for 15 (the movement for a fifteen dollar-an-hour or living wage, which has been adopted by states, such as New York). Poor people's movements and an invigorated labour movement are examples of forces that could pose a challenge to capital and initiate a shift away from Gowan's (1999) money pole. In the EU more enlightened governing elites and stronger unions still offer a broader geographic band of resistance. Examples might include the success of Podemos in Spain. Can the energy that comes to populism be channelled into more progressive forms of governance? Questioning the roots of resistance and whether new forms of governance will emerge from the ashes of austerity are important for future research and for practical efforts aimed at challenging the neoliberal dogma that "there is no alternative."

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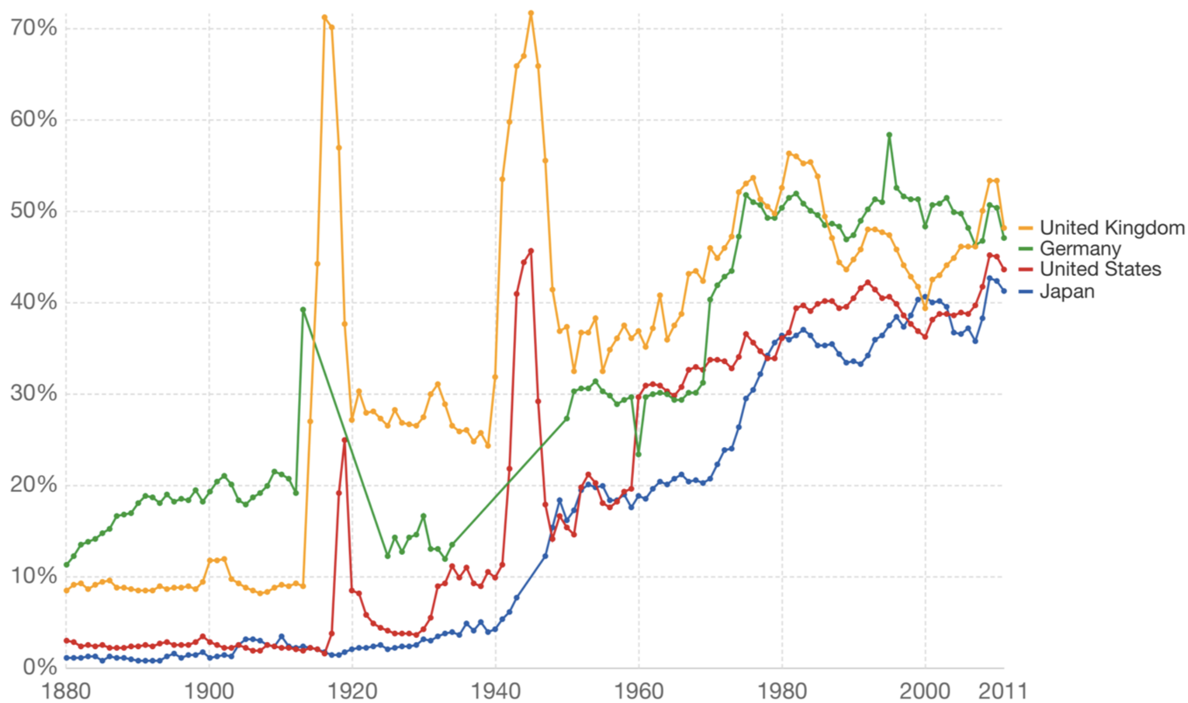
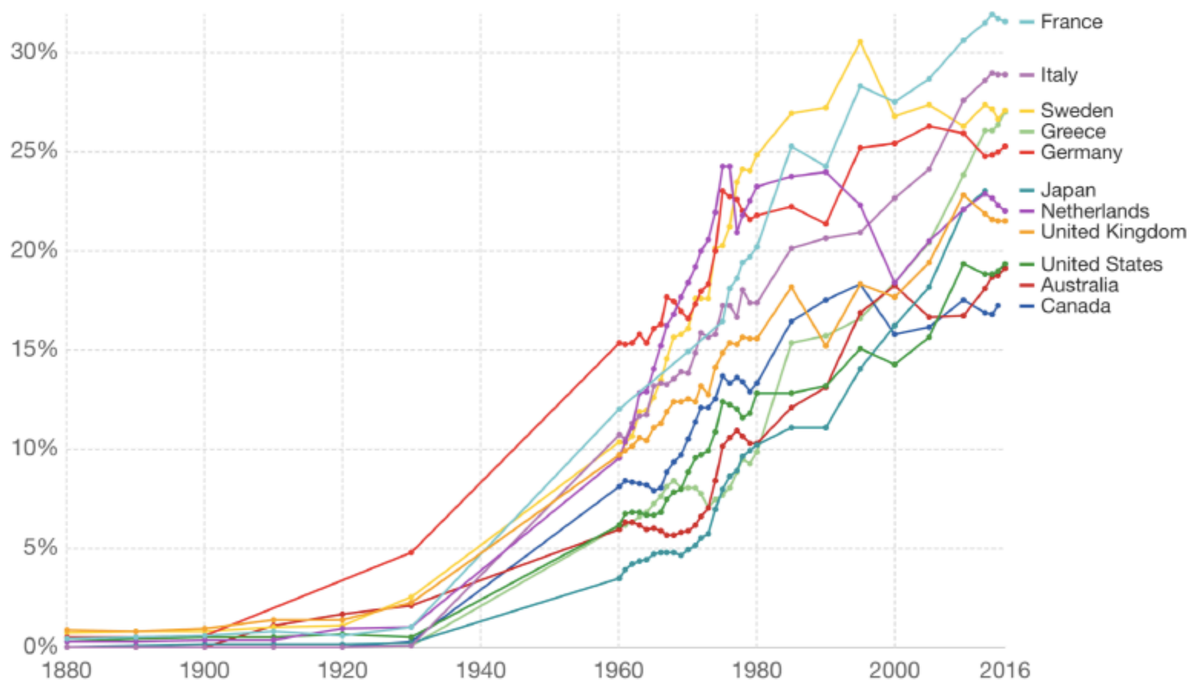
Figure 1



Government Spending (% GDP) – Selected Countries, 1880-2011

Sources: Ortiz-Ospina and Roser (2017) using data from Mauro et al (2015) and IMF.

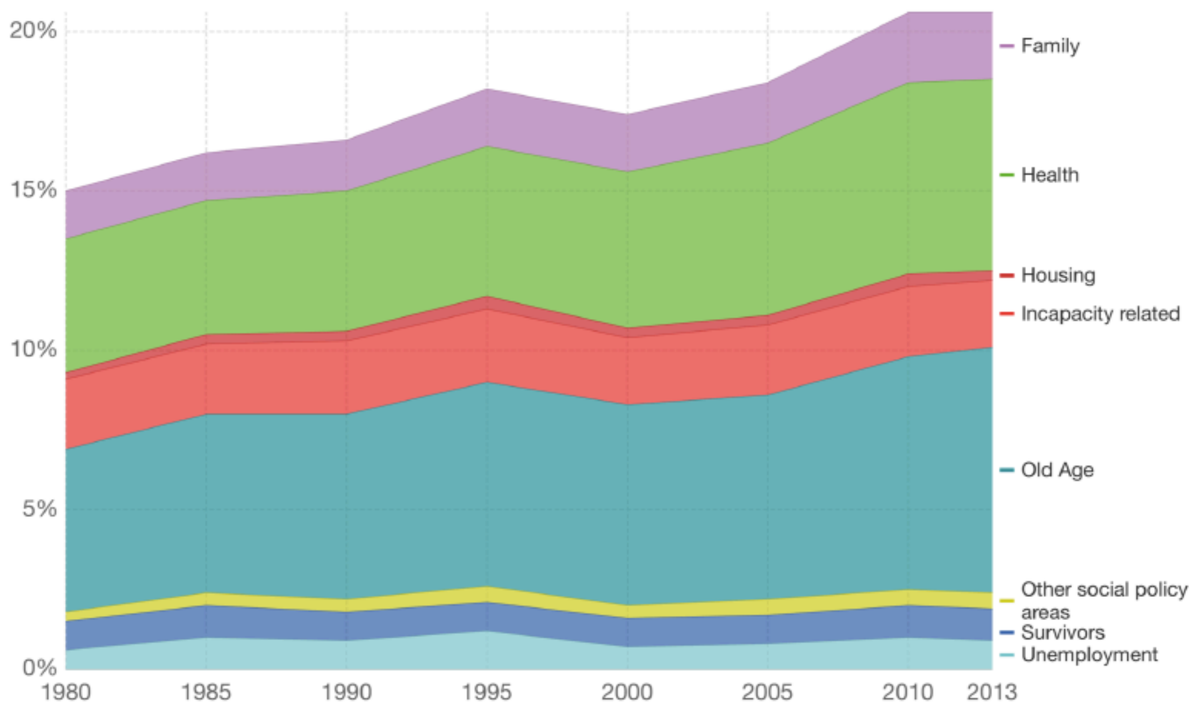
Figure 2



Public social spending as a share of GDP, 1880-2016 (social spending includes, among others, the following areas: health, old age, incapacity-related benefits, family, active labour market programmes, unemployment, and housing).

Sources: Ortiz-Ospina and Roser (2017) using data from Lindert (2004) and OECD.

Figure 3



Social Expenditure (% of GDP), OECD countries, 1980-2013

Sources: Ortiz-Ospina and Roser (2017) using data from OECD.