The Higher Costs of Rationing Local Government:

The Case Against State-Imposed Consolidations

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For the Michigan Townships Association

Foreword

The State of Michigan's ongoing structural budget deficit has caused many people to suggest restructuring government—including reducing the number of local governments in Michigan—to lower public expenditures. Local government consolidation has also been suggested as a strategy to make local government more efficient.

Census data clearly shows that Michigan has fewer local governments than most states of comparable size, yet consolidation proponents often try to depict Michigan's local government as "fragmented" or excessive in number.

Certainly the size, number and composition of Michigan local governments are a legitimate component of any analysis as to whether Michigan's local governments can efficiently and effectively serve the needs of their citizens. There is nothing divinely ordained in the current number of local governments.

However, cost savings will *not* automatically result from making smaller governments combine into bigger governments. As government grows in size, fiscal oversight becomes less precise and political pressures for equitable services result in a growth in government spending. Consequently, the Michigan Townships Association commissioned noted demographer Wendell Cox to provide a global perspective to this fiscal impact of consolidating local governments. Mr. Cox makes a strong case that the cost of government will most certainly increase from reducing the number of local governments in Michigan, rather than reducing costs as consolidation proponents wish were the case.

Consolidating local governments is far too complex to be accomplished by state fiat. Disparities in taxation and tax bases, legacy costs and other incurred debts, disposition of assets, accountability, and citizen alienation are factors that would have to be addressed by every community considering altering its existing local government structure. And while consolidation may appear to address specific local issues, residents should expect local taxes to increase significantly as a result.

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Executive Summary

In recent years, government consolidation has become the antidote for everything from urban sprawl to state fiscal crises. Upon closer examination, however, the truth is evident: Bigger government does not necessarily equate to cost savings. In fact, the opposite is typically the case. Roughly an equal number of people live in Michigan's townships and cities. However, townships spend far *less* for government functions and services—including conducting elections, collecting taxes, operating fire departments and other emergency services, and maintaining parks and recreational facilities—than do cities.

Similarly, municipal consolidation has *not* led to more healthy core urban areas. Although state and federal governments often provide greater fiscal aid to higher-density municipalities, neither this extra funding, nor the consolidation of surrounding governments, guarantees urban revitalization or greater economic health.

Keeping local government closest to the people results in greater accountability, enhanced responsiveness to constituents and maximized democracy to serve our state's residents.

Smaller Government Means Lower Costs

A frequently cited justification for consolidating municipal governments is that larger units of government have lower costs. However, the actual evidence, as indicated by spending experience, indicates no such relationship. Generally, greater local democracy, with smaller local jurisdictions, does *not* result in higher government costs per capita.

University of Western Ontario Professor Andrew Sancton generally finds that municipal consolidations in both the United States and Canada have not led to materially lower costs per capita.[1]

Sancton's conclusions are echoed by an analysis of U.S. local government spending patterns by average jurisdiction size at the state level.[2] Among expenditure categories that are principally made at the local level, per capita spending does *not* follow the predicted pattern that would associate higher spending with greater local democracy. The quintile of states with the largest local governments (in average population) have the second highest spending per capita, approximately 5 percent above average. The lowest spending is in the third (middle) quintile of states, with spending approximately 15 percent below average. The highest spending is in the quintile of states with the second smallest average jurisdiction size. But this result is driven by the excessively high spending of Alaska, without which average spending is $1,512—well below average. The second lowest spending level is in the states with the smallest average jurisdiction size (Figure 1).[3]

With respect to debt per capita, the evidence is virtually the opposite of the expected result that greater local democracy is less efficient. The quintile of states with the least local democracy have the highest per capita debt. With each quintile of increasing local democracy (decreasing average jurisdiction size), per capita debt declines. The lowest per capita local government debt is in the states with the greatest local democracy (Figure 2).

This is also illustrated by the expenditures per capita of governments in the five Midwestern states that make up the former Northwest Territory (Illinois, Indiana, Michigan, Ohio and Wisconsin), all of which have comparatively small units of government and include township government. Among the five Midwestern "township" states, per capita spending on principally local government functions was

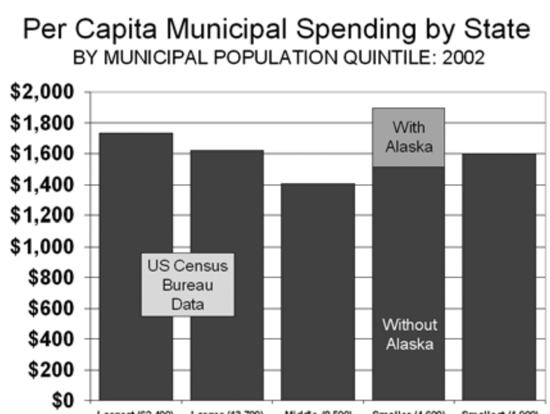

Figure 1

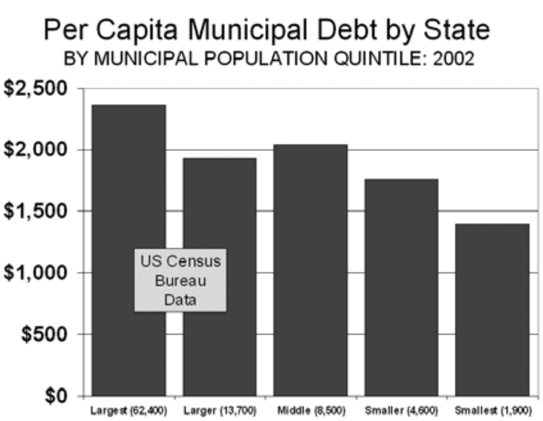

Figure 2

[1] Andrew Sancton, *Merger Mania: The Assault on Local Government* (Montreal: McGill-Queen's University Press), 2000.
[2] Per capita spending on functions in which more than 50 percent of spending is at the local (county, city and township) level. Excludes primary and secondary education.
[3] Calculated from U.S. Census Bureau data. Excludes education.

Smaller Government Means Lower Costs

approximately 7 percent lower than in the other 45 states. Local government debt per capita was approximately 2 percent lower than in other states. If larger units of government were inherently less expensive, this relationship would be the reverse.[4]

A more detailed analysis in Pennsylvania for 2002 yields similar results.[5]

Generally, net local government expenditures[6] per capita were lower in the smaller jurisdictions and highest in the largest jurisdictions. The smallest local jurisdictions had per capita net spending amounts of from one-third to one-half the largest.

Similarly, per capita debt was smallest in the smallest jurisdictions and largest in the largest jurisdictions. The smallest jurisdictions had average debt per capita less than one-half that of the largest jurisdictions.

Michigan is among the states with greater local democracy, ranking 29th in average local jurisdiction size .[7] Yet, per capita local government spending was 16 percent below the national average in 2002 (Figure 3). Moreover, average local government debt per capita was 24 percent below average (Figure 4).

The lack of reported state financial data from Michigan's larger cities makes it difficult to compare costs by size of municipality. Nonetheless, there are indications that city governments, representing larger entities, spend considerably more per capita to serve their residents than do townships, which tend to be smaller. Approximately the same number of people live in the cities and townships of the state. Yet, a comparison of functions shows a substantial difference in relative spending levels, with township spending far less than city spending.

- Townships spend less than one-seventh the amount on police protection as the cities.
- Townships spend less than one-half as much on fire protection as cities.
- Townships spend less than one-seventh as much on parks and recreation as cities.[8]

Moreover, townships receive less than one-seventh the amount of state and federal aid as the cities of Michigan. This is in stark contrast to contentions that smaller, more suburban jurisdictions are being cross-subsidized by cities.

Why Larger Municipal Governments are Not More Efficient

The analysis above indicates virtually no per capita cost advantage for larger municipal governments. Instead,

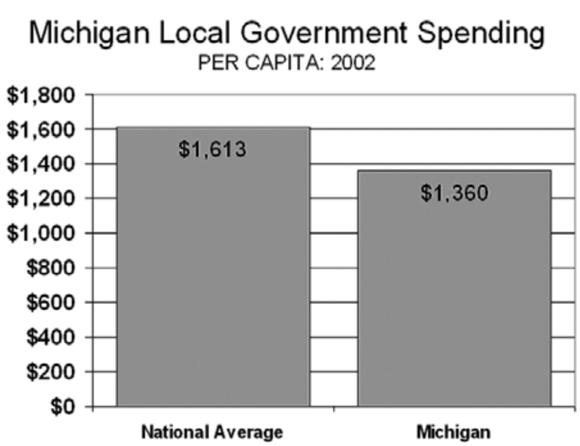

Figure 3

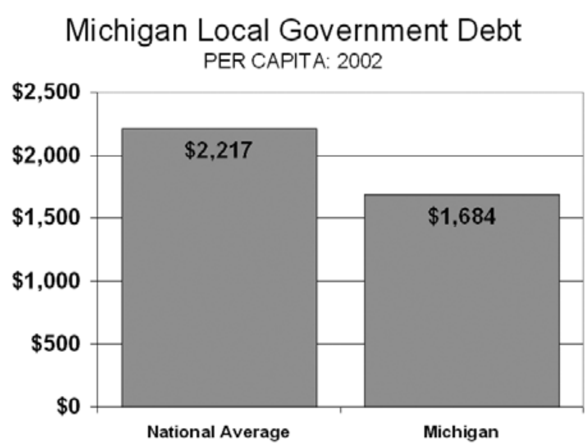

Figure 4

4 Calculated from U.S. Census Bureau data. Excludes education.
5 Wendell Cox Consultancy, *A Research Report on Growth, Economic Development and Local Government Structure in Pennsylvania*, Pennsylvania State Association of Township Supervisors, 2005.
6 Net spending is total spending minus federal and state aid, with a population based allocation of county net spending.
7 Average population of counties, municipalities and townships.
8 Based upon U.S. Census Bureau data for 2001-2002.

evidence exists that smaller municipal governments may exercise greater stewardship over the resources of their citizens. Possible reasons for this include the following:

- **Citizens have greater control of their governments.** This occurs both because individual votes are more powerful and because there is likely to be a greater sense of community in a smaller jurisdiction. Robert Bish notes smaller jurisdictions tend to have higher participation rates in local public hearings and meetings.[9]

- **Local elected officials are likely to be more responsive to the electorate where there are fewer voters, because each voter is more important.** Part of the reason is that in a smaller jurisdiction, a much larger portion of the population actually knows their municipal officials. President George W. Bush told the 2004 annual convention of the Pennsylvania State Association of Township Supervisors that smaller government units were more responsive because "your [township supervisors'] numbers are in the phone book."

- **At the same time, larger jurisdictions tend to be more susceptible to control by special interests.** Bish notes that "large governments are also more responsive to special interest programs and projects than are smaller governments."[10]

Moreover, larger local government units are generally less popular than smaller units. A number of attempts to merge suburban areas into central cities have been strongly opposed by local citizens. Most recently, voters in more than 30 Quebec jurisdictions have approved measures to "demerge" their cities, which would reverse the consolidations forced upon them by provincial government. Referenda in six jurisdictions returned majorities of 70 percent and more against a consolidation in Toronto, which was forced upon citizens by the provincial government. Similarly, there have been highly publicized, though thus far unsuccessful efforts, to "exit" the cities of New York (Staten Island) and Los Angeles (San Fernando Valley and Hollywood).[11]

Perhaps the principal reason that expenditures per capita tend to be lower in smaller government units is that, to paraphrase Milton Friedman, "people are more careful with their own money than with other people's money." Because the power of the average voter is greater in a small jurisdiction, it seems likely that there is more sense of "ownership" with respect to the tax revenues raised.

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[9] Robert L. Bish, *Local Government Consolidations: Discredited 19th Century Ideals Alive in the 21st*. C. D. Howe Institute.
[10] Ibid.
[11] Municipal withdrawal efforts are often very difficult because they generally require approval not only of voters in the withdrawing area, but also within the area that would remain in the splitting municipality.

Urban Revitalization: Unrelated to Municipal Consolidation

In his book, *Cities Without Suburbs*, David Rusk claims that "inelastic" city boundaries result in impoverishment of core municipal governments.[12] Inelastic city boundaries exist where municipalities do not have the ability to annex additional territory, principally because they are surrounded by other incorporated municipalities. A predictable policy inference is that municipalities would be more fiscally healthy if they were permitted to annex adjacent jurisdictions or consolidate into larger, regional governments. This directly opposes the view that local communities should be in charge of their own electoral fate and not subject to incorporation into larger cities.

It has also been claimed that consolidating central cities leads to greater urban revitalization. But, generally, urban revitalization does *not* appear to have been materially different in the urban areas that have experienced large municipal consolidations. Further, consolidated core cities and larger core cities do *not* generally produce better human development results in, for example, median household income, poverty rates and home ownership rates, according to 2000 U.S. Census data.

Fiscal Health and Local Jurisdictions

Income and economic differentials exist between local governments, regardless of size or age. Some newer suburbs are considerably more affluent than others. Similarly, some older core cities are considerably more affluent than others. At least partially because of these differences, state governments and the federal government have developed programs to provide greater aid to less affluent jurisdictions.

For example, in 2000, older and higher-density municipalities received considerably more state and federal aid than newer and less dense municipalities. The top federal and state aid per capita quintile of municipalities received approximately $850 in state and federal aid in 2000, more than three times the $266 average and more than 20 times the average of the bottom quintile.[13] The municipalities receiving the greatest aid had an average house age of 45 years and an average population density of 5,800 per square mile. In contrast, the quintile of municipalities receiving the least federal and state aid had a much lower average house age of 26 years and a lower than average population density, of 2,300 per square mile.

Generally, the older and denser municipalities already receive considerably more federal and state aid per capita than the newer suburbs. Whether or not this aid is sufficient to negate any lack of financial ability in some central cities is beyond the scope of this study.

Much of the analysis that decries the financial ability among some larger cities (including the Rusk analysis) is limited to revenue and debt measures. Routinely, the issue of expenditures is excluded. Yet there is substantial evidence that older, central city expenditures per capita are higher than in smaller, suburban municipalities.

Excessive costs have led to central city government crises in a number of cases. New York, Philadelphia, Cleveland and Pittsburgh have experienced particularly severe financial crises, much of which resulted from insufficient control of expenditures. Honolulu now

[12] David Rusk, *Cities Without Suburbs:* Washington: Woodrow Wilson Center Press, 1995.
[13] Wendell Cox and Joshua Utt (2004), *The Costs of Sprawl Reconsidered: What Does the Actual Data Show?* Washington, DC: Heritage Foundation (http://www.heritage.org/Research/SmartGrowth/bg1770.cfm).

faces a similar crisis, which, according to Mayor Mufi Hannemann, has been the result of a "credit card mentality" in city spending.[14]

Tax-Base Sharing: The revenue-based focus on central city financial conditions has led to suggestions that metropolitan tax-base sharing should be implemented. Such proposals would compel suburban jurisdictions to provide tax support to central cities. Tax-base sharing violates a fundamental principal of democracy—that citizens should have control of their taxes through the electoral process. With tax-base sharing, suburban taxpayers fund spending in other jurisdictions, whose elected officials they cannot vote for in elections. The more conventional approach, of providing aid through state governments, preserves the right of suburban voters to select the representatives who make such funding decisions, in state legislative elections.

Moreover, a city receiving funding through tax-base sharing will not have the same incentive to spend such money wisely as it might with respect to funding provided by its own taxpayers. This is obviously because the city's own taxpayers have electoral control over its elected officials, while suburban tax contributors do not.

Urban Revitalization: Unrelated to Consolidation

There does not appear to be a strong case that the urban consolidations of recent decades (Indianapolis, Jacksonville, Miami and Nashville) have induced unusually significant revitalization of core areas. The downtown areas of each of these urban areas have added significant new construction. Yet at least as much construction has occurred in the cores of urban areas that have not implemented large urban consolidations. While reliable indicators are not readily available, it appears that downtown development in, for example, Columbus, Kansas City and Milwaukee has been at least as great as in consolidating Indianapolis, Jacksonville and Nashville. Non-consolidating Atlanta's core development appears to be every bit as substantial as consolidating Miami's.

Metropolitan areas with consolidated cities have *not* generally produced better results in the more important indicators of income and poverty. The metropolitan areas that have experienced recent major municipal consolidations—Indianapolis, Jacksonville, Miami and Nashville—exhibited the following characteristics in 2000:[15]

- Average median household incomes were 6.9 percent lower than metropolitan areas without consolidations.
- Average poverty rates were 3.3 percent higher than metropolitan areas without consolidations.
- Average home ownership rates were 1.3 percent higher than metropolitan areas without consolidations.

Further, there is no indication that metropolitan areas with larger core cities are more economically healthy than those with smaller core cities, which would tend to suggest that consolidation does *not* lead to better human development indictors. A quintile analysis of the 50 largest metropolitan areas indicates that:[16]

- The highest average incomes are in the metropolitan area quintile with the smallest population shares in the central city. Incomes are the lowest where the core cities comprise the highest share of metropolitan population.
- Poverty rates are lowest in the metropolitan area quintiles that have a lower percentage of their population in the core cities. Poverty rates are lowest where the core cities comprise the highest share of metropolitan population.
- Home ownership rates are highest in the metropolitan area quintile that has the lowest percentage of population in the core cities. Home ownership rates are lowest where the core cities comprise the highest share of metropolitan population. ❖

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[14] Jaymes Song, "Amid Wealth, Honolulu Sinks in Debt," *The Detroit News and Free Press*, April 10, 2005, p. 2.
[15] 50 largest metropolitan areas. Data calculated from U.S. Census.
[16] Calculated from 2000 U.S. Census data.

About the Author

As principal of Wendell Cox Consultancy, an international public policy firm, Mr. Cox specializes in urban policy, transport and demographics. He has provided consulting assistance to the U.S. Department of Transportation, has consulted for public authorities in the United States, Canada, Australia and New Zealand, as well as public policy organizations. He also serves as visiting professor of transport and demographics at the Conservatoire National des Arts et Metiers (a national university) in Paris.

Mr. Cox served three years as the director of public policy of the American Legislative Exchange Council, where he oversaw the development of state model legislation and policy reports. Most recently, he was commissioned by the congressional Millennial Housing Commission to prepare a policy report *Smart Growth and Housing Affordability.* He lectures widely, writes numerous articles and is frequently interviewed by the media.

Los Angeles Mayor Tom Bradley appointed him to three terms on the Los Angeles County Transportation Commission. In 1999, Mr. Cox was appointed to the Amtrak Reform Council by the speaker of the U.S. House of Representatives, and was appointed chair of the Financial Analysis Committee.

Mr. Cox was born in Los Angeles and attended the University of Southern California, earning a bachelor's degree in government from California State University-Los Angeles and a Master of Business Administration from Pepperdine University.

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