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## MORE MUNICIPALITIES = LESS MUNICIPAL \$PENDING?

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**True or False:** Controlling for population, the more municipalities in a U.S. metropolitan area, the higher local government spending.

Looks like a no-brainer. More municipalities should mean more elected positions and additional appointed officials, hundreds of mayors and councilpersons, tens of police chiefs and recreation directors. Fewer cities would have less general administration and that should drive down costs.

So you answer true. And you are wrong.

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### **In the Case of St. Louis:**

Independent analysis of the 50 largest metropolitan areas in the United States, including the St. Louis region, shows that areas having a greater number of municipalities typically spend less per person on local government.

This is according to the latest edition of “Where We Stand?” compiled by the St. Louis East-West Gateway Council of Governments, using the most recent U.S. Census Bureau’s Census of Governments. **The report shows there is not a single metropolitan area among the nation’s 50 largest that has both an above-average number of municipalities and greater-than-average spending.**

Among the 50 metropolitan areas, the St. Louis region ranks third-highest in the number of municipalities per 100,000 population - but seventh-lowest in per capita local government spending.

St. Louis is among seven regions having more than six municipalities per 100,000 population. The others are Birmingham, Cincinnati, Kansas City, Louisville, Pittsburgh and Minneapolis-St. Paul. Like the St. Louis region, these comparable metro areas have lower-than-average or near-average per capita spending.

### **The Data:**

The accompanying scatterplot “Per Capita Local Government Spending by Municipal Density” provides the particulars. The vertical axis is the average annual per capita spending on all local government activities. The horizontal axis is the number of municipalities for each one hundred thousand population. All numbers are from the most recent (2012) Census of Governments conducted by the U.S. Census Bureau as reported in latest edition (2015) of the East-West Gateway Council of Governments *Where We Stand?*

Each of the fifty metropolitan areas is represented by a labeled dot. Let's divide the scatterplot into four quadrants:

1. Those with six or more municipalities per one hundred thousand population and per capita local government annual spending \$5,000 and higher. (Upper Right)
2. Those with six or more municipalities per one hundred thousand population and per capita local government annual spending \$4,999 and lower. (Lower Right)
3. Those with fewer than six municipalities per one hundred thousand population and per capita local government annual spending \$5,000 or higher (Upper Left)
4. Those with fewer than six municipalities per one hundred thousand population and per capita spending annual spending \$4,999 and lower. (Lower Left)

If it were true that more municipalities created increased municipal spending, the upper right quadrant (more municipalities/greater spending) should contain many cases. But instead there are none. There is not a single metropolitan area among the nation's fifty largest that has both an above average number of municipalities and greater than average spending.

Conversely, six of the seven regions having more than six municipalities per one hundred thousand population (Birmingham, Cincinnati, Kansas City, Louisville, Pittsburgh, and St. Louis) are in the lower right quadrant, below the \$5,000 average spending level and the seventh (Minneapolis-St. Paul) is right at the average. Among the fifty metropolitan areas, St. Louis ranks third highest in municipalities per one hundred thousand population but seventh lowest in per capital local government spending.

The scatterplot's left side demonstrates that fewer municipalities does not necessarily translate into lower spending. More than half of the regions with fewer than six municipalities per one hundred thousand are above-average spenders (upper left quadrant).

The evidence is clear and convincing. For major U.S. metropolitan areas, having more municipalities does not create higher local government spending. It produces less. Conversely, more often than not, having more government consolidation does not lower spending. It often generates more.

### The Leviathan Theory

Why does greater government consolidation typically increase spending? Why does having more and smaller municipalities generally cost less? There are no definitive

answers but two theories, both rooted in market economics, provide plausible and insightful explanations.

One supposition, dubbed "The Leviathan Theory," was advanced by James Buchanan, winner of the 1986 Nobel Prize for Economics. He contended that consolidating general purpose local governments creates a public monopoly, a "leviathan" which will devour tax dollars.

As monopolies with little or no competition, these much larger units would become more concerned with maximizing their own bureaucracies than delivering cost-effective services. They would focus more on their own internal needs and be less responsive to citizen concerns. Yes, there would be only one director for each department (for example a single recreation director) but cost savings would be elusive and temporary. Over time, management—especially middle management—would expand significantly as associate directors requested assistant directors and assistant directors demanded assistants to the assistant director. The beast, the leviathan, must be fed. Its appetite for taxes is insatiable.

The Leviathan Theory emphasizes the evils of monopoly. The second theory, dubbed the "Public Choice Model", stresses the virtues of competition. With tens upon tens of general purpose municipalities, there is persistent competition for residents especially in a low growth region like St. Louis. Maintaining and enhancing demand to live in Municipality X is the key to survival.

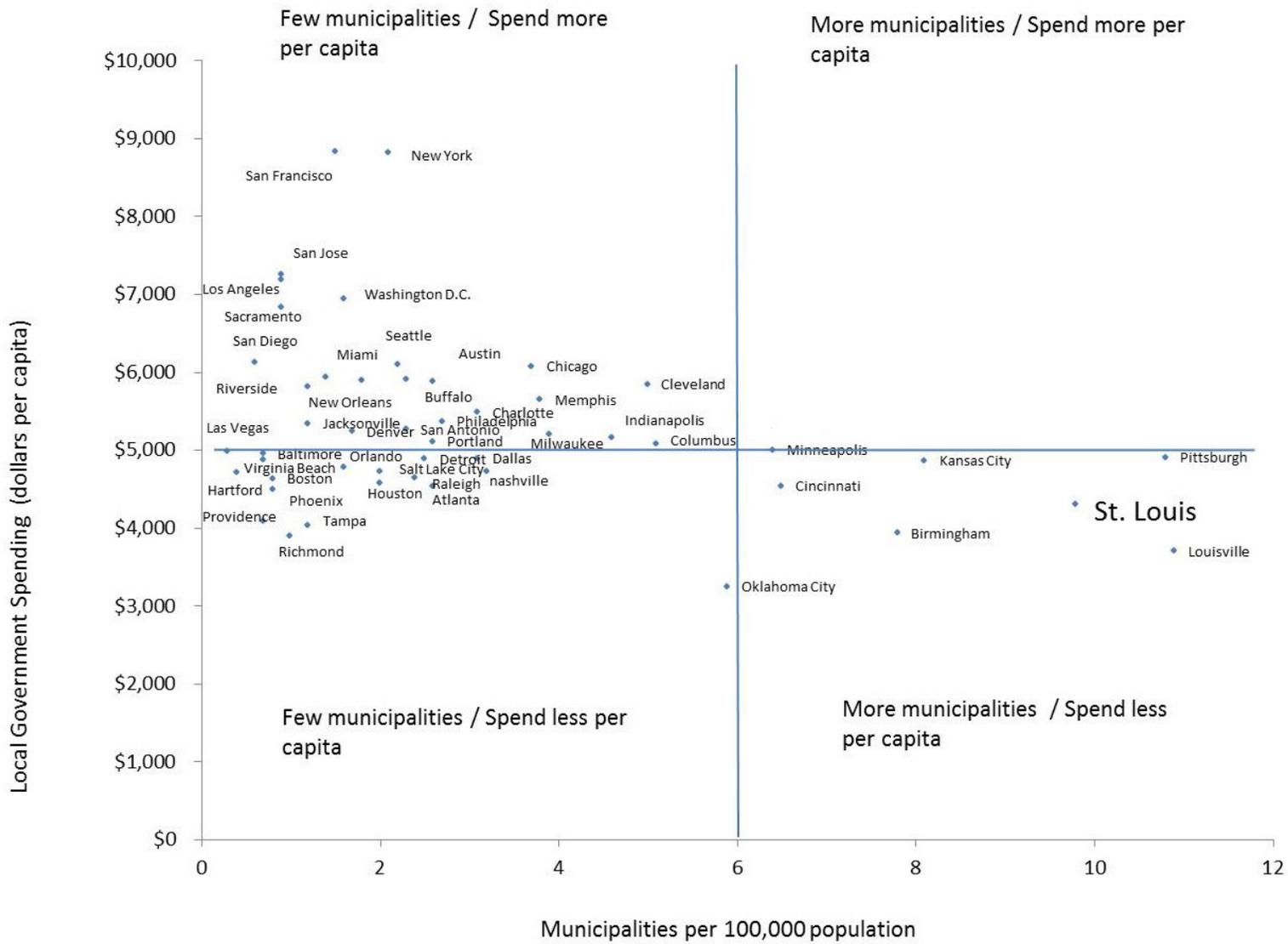
This rivalry engages market forces as Webster Groves competes with Kirkwood, Chesterfield with Wildwood, Olivette with Creve Coeur, Black Jack with Florissant to provide quality services at the lowest possible cost. As smaller jurisdictions, there are closer linkages among citizen demanding (improve our streets!), elected officials listening (we hear you!), and municipalities responding (repaving starts this summer!).

This competition also spurs collaboration among cities by creating incentives to lower costs without threatening quality or losing autonomy. Year after year, municipalities identify more opportunities to improve efficiency through joint efforts such as a combined dispatching center or a common insurance pool.

Having many small municipalities has many well-recognized benefits: greater sense of community, a small town ambience, easier accessibility to local officials, more options about levels and types of public services. Now there is one more: lower cost for local government services.

*The authors of this paper, James Brasfield and E. Terrence Jones, were both members of the Executive Committee of CitiesStrong.*

**Figure 1: Per Capita Local Government Spending by Municipal Density**



The data are from East-West Gateway Council of Government's Where We Stand 6th Edition, 2011. <http://www.ewgateway.org/WWS/WWSArchives/wwsarchives.htm>. See the table *Local Governments* on page 83 and the table *Local Government Expenditures* on page 85 of the report.