

MUNICIPAL DEMERGER: QUEBEC HAS A CHANCE TO GET IT RIGHT

Note: A Version of this Oped was published by *The National Post* on 19 June 2004, the day before a referendum in which 15 former municipalities voted to demerge from the city of Montreal, with which the provincial government had previously forced them to consolidate. At the time of publication, *The National Post* did not post its editorial pages to the internet.

By Wendell Cox

If there is one thing that politicians of every stripe seem to agree upon, it is that bigger municipal governments are better than smaller ones. The trend has been particularly evident in recent years in Canada.

During the past decade, forced amalgamations occurred in Ontario, Nova Scotia and throughout La Belle Province. In virtually all of these cases there has been opposition to consolidation. Referenda were held in many of the former cities and consolidation plans were soundly defeated, but it went ahead anyway. The people, in whose name all of this was to occur, had nothing to say about it.

But the trend may be turning. Withdrawal movements have gained momentum, but not yet prevailed, in Oakland, California, Boston, Los Angeles and Gothenburg, Sweden's second largest city. Now, citizens of Quebec are taking the fight one step further. In the past, when all-knowing provincial legislatures forced their consolidations on an unwilling populace, they could be assured that the protests would die away soon after the deed was done. But not in Quebec.

The new Charest government adopted Bill 9 allowing municipal demergers last December. The next step in the process is the opening in May of registers to allow citizens to request that a referendum poll be held in their former municipality. If the number of signatures required by law is reached, the referendum is planned to happen next fall. Although the process is far from perfect and has been criticized by many groups as biased towards the status quo, this is an important development that will be watched closely by others with similar ideas virtually everywhere.

Larger Cities are not More Efficient Cities

There is indeed good reason to be suspicious of this political consensus in favor of larger municipal governments. The cost efficiency justification for amalgamation rests on a foundation less stable than a Nunavut permafrost. Larger units of government do not cost less, they cost more. Of course, the studies commissioned by ministries and politicians bent on consolidation always produce the required "bigger is better" results. The agenda-armed consultants proceed from their offices and count the people that they would make redundant if they were in charge and plan on sending back the excess personal computers. But, of course, they are never put in charge, the redundancies never come, and more equipment is purchased.

Regrettably, what none of the advocates of consolidation do is to look at the actual data. Research in the United States illustrates the point. There are 10 city-county consolidated governments in the United States that have, at one point or another, had more than 500,000 residents. The most famous is the city of New York, composed of five counties forced upon local residents by the local legislature. Local government expenditures per capita in the consolidated city of New York are 34 percent higher than elsewhere in the state. It might be expected that New York, as the largest consolidated government in the United States would have government expenditures per capita that are among the lowest. But, not so --- they are among the highest.

One place that is higher is the consolidated government of San Francisco, where expenditures per capita are 154 percent higher than in the counties of the state that have not been consolidated. That's not the worst however. The consolidated city of Baltimore has expenditures per capita 174 percent higher than the average for all other local governments in Maryland combined. On average, the 10 large consolidated governments have average expenditures per capita 57 percent above that of all other local governments in the corresponding states (Table 1). In only two of

the 10 cases are consolidated costs lower, and not by much (New Orleans at 1.3 percent, and Jacksonville at 8.7 percent).

| Table 1 Expenditures per Capita: Consolidated City-Counties in the United States Compared to Non-Consolidated Areas: 2000 | | | |
|--|-------------------------------------|---|------------|
| Consolidated City | Expenditures per Capita: 2000 | Local Government Expenditures per Capita: State Outside Consolidated City: 2000 \$US | Difference |
| Baltimore | \$3,099 | \$1,133 | 173.6% |
| Denver | \$2,594 | \$1,874 | 38.5% |
| Indianapolis | \$2,068 | \$1,358 | 52.4% |
| Jacksonville | \$1,629 | \$1,784 | -8.7% |
| Nashville | \$2,623 | \$2,414 | 8.6% |
| New Orleans | \$1,436 | \$1,455 | -1.3% |
| New York | \$5,971 | \$4,453 | 34.1% |
| Philadelphia | \$2,799 | \$1,321 | 111.8% |
| San Francisco | \$5,763 | \$2,267 | 154.2% |
| St. Louis | \$2,160 | \$1,109 | 94.8% |
| Average | \$3,014 | \$1,917 | 57.3% |
| Calculated from US Census Bureau data for 2000. | | | |

But there is a further problem. Larger municipalities cost more than smaller municipalities. A sample of more than 700 municipalities was reviewed from the United States Census Bureau governments database for 2000.¹ The sample was divided into quintiles (20 percent shares) based upon population. The highest municipal expenditures per capita were in the quintile with the *largest* population (Table 2). The lowest costs were in the second and third quintiles, where populations averaged 38,000 and 71,000 respectively. The fourth and fifth quintiles, with even smaller population averages, had somewhat higher municipal expenditures, but not as high as the largest municipalities. This obviously violates the “bigger is better” theory and the view that larger government have greater “economies of scale” that should drive down costs. The only “economies of scale” in larger governments are those faced by special interests. It is easier for special interests to exercise control where governments are larger, than where they are smaller and more fragmented.

One such interest, government employee unions, usually does very well in larger municipalities. In the United States virtually all of the difference between the higher cost largest governments and the lowest cost medium sized governments is accounted for by higher government employee compensation. Greater special interest control means less control for citizens who live in the cities and are theoretically the very purpose of its existence.

¹ Sample of 736 municipalities from the U.S. Census Bureau 2000 governments database. Detailed paper to be published in 2004 by Wendell Cox and Joshua Utt.

| Table 2 Expenditures per Capita by Size of Municipality | | | |
|---|------------|-----------------------------|---------------------------------|
| Quintile | Population | Expenditures/US \$Capita | Employee Compensation/Capita |
| 1 | 273,960 | \$1,209 | \$541 |
| 2 | 71,320 | \$1,038 | \$458 |
| 3 | 38,376 | \$1,035 | \$450 |
| 4 | 21,578 | \$1,119 | \$401 |
| 5 | 8,722 | \$1,161 | \$428 |
| Mean | 82,731 | \$1,112 | \$456 |
| Calculated from a sample of 736 municipalities from the United States Census Bureau (2000 data) | | | |

There are functions that need to be administered at the metropolitan level, or above. For example, air pollution, highways and public transit are best administered at the regional level. But there are many more government functions that do not need to be administered much higher than the neighborhood level.

Successful Metropolitan Areas have Many Local Governments

Some of the world's most successful metropolitan areas have highly fragmented government. Tokyo, the world's largest metropolitan area, has more than 225 municipalities that stretch through the parts of four provinces. The Milan area has more than 150 cities.

The best guarantee of effective local government is a populace with a strong stake in its performance. In a smaller jurisdiction, the stake of the individual citizen or neighborhood group can provide an important counterbalance to interests that would prefer to siphon off the resources of local government to their own advantage. Larger governments are harder for the citizenry to control.

It is clear that the most efficient city size is not large, but is rather no larger than middle sized. Ontario's Harris government got it wrong – all wrong. If it had been studying the evidence, it might have made 20 cities out of six in the Toronto area. But it would not have thrown everything together in a megacity that can only, in the long run, make things worse for the average citizen. Many other governments also got it wrong. Quebec has a chance to get it right.

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