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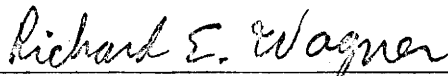
GOVERNMENT CONSOLIDATION

by

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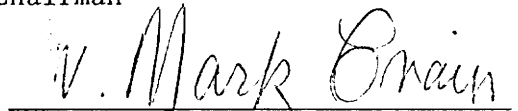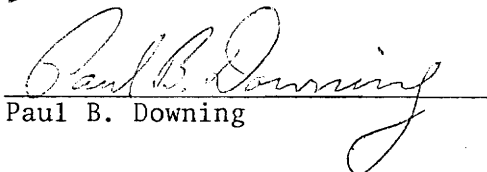
DOCTOR OF PHILOSOPHY

in

Economics

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CHAPTER I

WELFARE ANALYTICS OF CONSOLIDATION

Serious students and casual observers generally acknowledge the
severity of the problems which plague the metropolitan environment.
In many cases these problems are perceived as being acute enough to
warrant the label urban crisis. Popular and academic discussion
commonly attribute the crisis to the fragmented system of U.S. local
governments, where a single metropolitan area may consist of a county,
city, several school districts, along with numerous special districts.
Past proliferation of local governments led the Committee for Economic
Development to recommend that the estimated 80,000 jurisdictions
then in existence (1966) be reduced by approximately 80 percent.[1]

Others have joined the CED in condemning the existing organization
of local government. Indeed, criticism has reached the stage where
it becomes appropriate to speak of a reform tradition.[2] Reformers

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[1]Committee for Economic Development, Modernizing Local Government
(New York: Committee for Economic Development, 1966).

[2]For examples of works in the reform tradition, see: Amos H.
Hawley and Basil G. Zimmer, The Metropolitan Community: Its People
and Government (Beverly Hills, CA: Sage Publications, 1970); H. Paul
Friesema, "The Metropolis and the Maze of Local Government," Urban
Affairs Quarterly 2 (December 1966): 68-90; John C. Bollens and
Henry J. Schmandt, The Metropolis: Its People, Politics and Economic
Life, 2nd ed. (New York: Harper and Row, 1970); Daniel R. Grant,
"Trends in Urban Government and Administration," Journal of Law and
Contemporary Problems 30 (Winter 1965): 35-56. For a general review of
the reform tradition, see, Elinor Ostrom, "Metropolitan Reform:

criticize present local governmental units as being both too independent and too small. Since the metropolis is an interdependent system, it cannot "rationally" be subdivided into independent units. According to this tradition, such a division results in a complex system of interjurisdictional spillovers, where areawide problems remain unresolved. Reformers also claim that this fragmentation has been carried to the point where small jurisdictions are unable to produce goods at the lowest per unit costs. Some products, such as sewage disposal, require huge physical plants before economies of scale are fully exhausted. By eliminating duplication of staff, larger jurisdictions also promise administrative cost saving. In short, proponents of the reform tradition are convinced that bigger means better.

City-county consolidation, which entails the combination of all local governments, is the most revolutionary form of metropolitan reorganization. It comes as no surprise, therefore, that consolidation of small jurisdictions finds many metro reformers as advocates. The enthusiasm of reform advocates seems to be reflected in the number of consolidation attempts which have recently been undertaken. Since 1970, 30 different city-county consolidations have been attempted. Over half of all attempts since 1949 have occurred in this recent period. Currently, almost 100 metropolitan areas are at least considering city-county consolidation as a method of reorganization.

While consolidation proposals have been enthusiastically endorsed by many social scientists, they have encountered difficulty in passing the test of a public referendum. Only about one-fourth of all consolidation proposals ultimately meet the requirements of the community vote. Typically, a consolidation attempt divides the community into two opposing camps. Whether consolidation is eventually adopted then depends, to a large extent, on the rules governing the voting procedure.

Because of the interest and controversy surrounding consolidation, one might suspect that it has been subjected to thorough investigation. Somewhat surprisingly, economists have, for the most part, surrendered the investigation to political scientists. While there are several studies that relate to local government fragmentation, few deal with consolidation directly. Perhaps one of the main reasons for the neglect concerns the belief that consolidation is primarily a political process. However, once it is recognized that the political process is grounded on individual maximizing behavior, consolidation per se becomes a subject for economic investigation. This recognition provides the basis for some of the more recent contributions to the consolidation literature.

Economic Literature Relating to Consolidation

A brief review of the economic literature pertaining both directly and indirectly to consolidation will be helpful in setting the stage for the subsequent model-building chapters. Little emphasis will be given to describing in detail the conclusions of the various

studies; instead, we shall concentrate on how the problem was approached. Early articles tended to be strictly normative in character. At first, the desirability of consolidation was discussed from a purely institutionless perspective. Here consolidation was endorsed if it reduced the per capita cost of producing a given amount of goods. Gradually, however, through a growing recognition that consolidation represents a change in institutions, both the demand and supply sides of the question appeared in the normative literature. Only recently have economists focused on the positive question concerning the circumstances under which consolidation will be forthcoming. The connecting theme between all these articles, both normative and positive, relates to a growing awareness of the importance of perceiving consolidation as an institutional change.

Normative models of consolidation

Early works by Stigler and Ostrom et al. provide a point of contrast to the reform tradition.[1] They were among the first to question the bigness-means-better doctrine; specifically, the assumption that economies of scale are pervasive. Each emphasizes the fact that the superiority of large jurisdictions was assumed by reformers, rather than subjected to systematic investigation. Each calls for a point-by-point comparison of large versus small

[1] George J. Stigler, "The Tenable Range of Functions of Local Government," Fiscal Expenditure Policy for Economic Growth and Stability, 85th Congress, 1st Session, 1957, pp. 213-19; Vincent Ostrom, Charles Tiebout, and Robert Warren, "The Organization of Government in Metropolitan Areas: A Theoretical Inquiry," American Political Science Review 55 (December 1961): 831-42.

jurisdictional institutions. Too often, according to these political economists, the reality of a fragmented system has been compared to a utopian vision of an ideally operating system.

Ostrom et al. characterize the present urban organization as a polycentric political system which has several advantages over the reform alternative of "gargantua." They suggest that the cost of bureaucratic control in large jurisdictions may very well outweigh economy of scale considerations. Stigler supports the notion that scale economies have been overemphasized in the reform literature by pointing to the fact that microeconomics indicates both theoretical and empirical limits to optimal firm size. Since local governments may be construed in terms of an enterprise which provides municipal goods and services, there should plausibly be limits to optimal public enterprise size. That Stigler believes these limits to have been surpassed is confirmed by his concluding statement,

> If we give each governmental activity to the smallest govern-
> mental unit which can efficiently perform it, there will be
> a vast resurgence and revitalization of local government in
> America.[1]

Beginning in the late 1950s, several studies investigated empirically the existence of economies of scale in the provision of municipal goods and services. Werner Hirsch's paper was the first of such studies.[2] Later work tended to confirm Hirsch's conclusion.[3]

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[1] Stigler, "Tenable Range of Functions," 219.

[2] Werner Z. Hirsch, "Expenditure Implications of Metropolitan Growth and Consolidation," Review of Economics and Statistics 41 (August 1959): 232-41.

[3] For example, see, Henry J. Schmandt and G. Ross Stephens, "Measuring Municipal Output," National Tax Journal 13 (December 1960):

The primary objective of the Hirsch paper was to test the popular premise which maintained that consolidation, by increasing population, enabled the exploitation of economies of scale, and thus led to reduced expenditures.[1] The method used by Hirsch in testing this relationship between expenditures and consolidation entailed locating the low point on the average per capita expenditure function of various urban goods and services. In order to incorporate economies of scale into the analysis, the expenditure function was interpreted as an average cost function. On this basis, the familiar U-shaped curve was theoretically derived by taking metropolitan population as the independent variable and average per capita expenditures as the dependent variable. Increasing and then decreasing returns to scale were offered as justification for the relatively high per capita expenditures in small and large jurisdictions.

Next, Hirsch turned to the empirical verification of the U-shaped expenditure functions. Here he concluded that there were few advantages in consolidating small or medium-size jurisdictions. For instance, Hirsch found that the long-run expenditure function for horizontally integrated services, which comprise 85 percent of

369-75; Harvey Shapiro, "Economies of Scale and Local Government Finance," Land Economics 34 (May 1963): 175-86; L. R. Gabler, "Economies and Diseconomies of Scale in the Urban Public Sector," Land Economics 45 (November 1969): 425-34; Ronald G. Bodkin and David W. Conklin, "Scale and Other Determinants of Municipal Government Expenditures in Ontario: A Quantitative Analysis," International Economic Review 12 (October 1971): 465-81.

[1]In this context, economies of scale are present when an increase in population decreases the average per capita tax for providing a given amount of a public good.

municipal goods and services, will be approximately horizontal.[1]

Furthermore, the expenditure function for only a few goods, such as

sewage disposal, decline over a large scale. The remainder of the

municipal services are characterized by the usual U-shaped function,

the low point occurring at a medium-sized unit. In short, economies

of scale play a minor role in the provision of municipal services,

according to this investigation. Hirsch interpreted these empirical

results as evidence that consolidation would not necessarily reduce

expenditures, as reform proponents had suggested, and hence

consolidation may be undesirable.

This conclusion reveals much about Hirsch's approach to the

problem. The analysis is conducted without reference to any real

world institutions pertaining to the political process in general,

or consolidation in particular. Carefully consider Hirsch's

purported refutation of the common belief that consolidation reduces

expenditures. At the heart of this refutation is the finding that

the long-run expenditure function does not decline over large ranges

of population, and hence that economies of scale are relatively

unimportant. Although the correlation is tenuous, concede for the

moment that the long-run expenditure function reflects costs. Hirsch

reasons that since most metropolitan goods are produced at constant

costs (horizontal expenditure function), consolidation, by increasing

population, does not reduce unit costs. While this may be true, it

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[1]Horizontally integrated services are those which require a
number of provision points (schools), each furnishing a single service
(education).

cannot provide the basis for concluding that consolidation will not
reduce expenditures. This latter conclusion depends upon the way
the community demand for the product is assimilated (e.g., majority
voting), as well as the elasticity of the relevant demand schedule
(e.g., elasticity of demand of the median voter). Hirsch's
expenditure conclusion holds only if the per capita amount purchased
of municipal goods remains constant. Then, it is true that the
average per capita expenditure does not increase when average per
capita costs do not increase. Otherwise, the direction of change
of per capita expenditure is influenced by demand.

As was common with many economic studies during this period,
the Hirsch approach lacked an institutional perspective. In order
to provide a mechanism for integrating supply and demand considerations
in the determination of municipal expenditures, an institutional
outlook is imperative. Variations of this theme were developed by
several writers in commenting upon Hirsch's article.[1] Tiebout
criticized Hirsch for deriving economies of scale implications from
the shape of the expenditure function.[2] Per capita expenditures may
vary for reasons other than cost. Albert Breton made a similar point
in a later article.[3] Here he noted that in order to make sense of

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[1]Hirsch, "Expenditure Implications."

[2]Charles M. Tiebout, "Economies of Scale and Metropolitan
Governments," Review of Economics and Statistics 42 (November 1960):
442-44.

[3]Albert Breton, "Scale Effects in Local and Metropolitan
Government Expenditures," Land Economics 41 (November 1965): 370-72.

the Hirsch and related discussions, per capita expenditures must be taken as a proxy for average cost. But, as Breton indicated, the expenditure function may also reflect a benefit relationship. In this case, smaller expenditures in smaller communities need not imply anything about economies of scale and therefore the desirability of consolidation.

The Tiebout and Breton articles exposed the hazards of developing consolidation implications in ignorance of either benefit or cost considerations. Clearly, an alternative to the Hirsch least-cost method of evaluating different size jurisdictions was needed. Costs and benefits must be related in a way that sheds light on the subject of optimal size jurisdictions. James Buchanan's article paved the way for such an investigation.[1,2] Here the individual represented the basic unit of analysis. Not only the quantity of public goods but also the size of the consumption sharing group entered as arguments into the individuals' utility function. Costs of public goods provision were also made to depend on group size. By comparing the costs and benefits of alternative club sizes, the optimal size jurisdiction could be derived from the individual's perspective. Notice that

[1]James M. Buchanan, "An Economic Theory of Clubs," Economica 32 (February 1965): 1-14. Buchanan's article can be interpreted as an extension of the Tiebout model. [See, Charles M. Tiebout, "A Pure Theory of Local Expenditures," Journal of Political Economy 64 (October 1966): 416-24.] We have focused on the Buchanan article since it can be related more easily to the consolidation literature.

[2]See, James M. Litvack and Wallace E. Oates, "Group Size and the Output of Public Goods: Theory and an Application to State-Local Finance in the United States," Public Finance 25 (1970): 42-58, for an empirical application of the Buchanan framework to the subject of fiscal centralization in the U.S.

Buchanan's analysis is not readily generalizable to group formation.
The analysis does indicate that an individual prefers a certain
public goods quantity given a particular group size and cost-sharing
arrangement. But it does not reveal the public goods amount that
will or should result from an alteration in group size.

Using the Buchanan article as a framework, Martin McGuire
extended the argument to the analysis of group formation.[1] Here he
was primarily interested in the relationship between group
heterogeneity and optimal size jurisdictions. A brief sketch of the
approach will indicate how this analysis relates to the consolidation
question. As a starting point, McGuire assumed the existence of
several diverse groups, each of which consists of identical
individuals. The population in each of these groups is posited as
being far greater than the population in any efficient size
jurisdiction. Like the Buchanan article, the cost of the goods
provided by each group is a function of both public goods quantity
and group size. The cost-sharing arrangement is also predetermined.
Conceptually, McGuire forces each of the homogeneous groups to
subdivide into efficient jurisdictions. Then a conceptual experiment
is performed whereby diverse groups are allowed to integrate and
again form efficient jurisdictions. Will individuals be better
off in the newly integrated optimal jurisdictions or in the previously
segregated jurisdictions? McGuire finds that as long as his

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[1]Martin McGuire, "Group Segregation and Optimal Jurisdictions,"
Journal of Political Economy 72 (January/February 1974): 112-32.

assumptions are satisfied, segregation will always be Pareto superior to integration. That is, no one will be worse off, and some will be made better off by segregating individuals according to preferences.

Although the McGuire analysis provides insights, it does not directly answer the question--will or should two or more governmental units consolidate. There are several reasons why this analytical framework is not strictly applicable. As noted earlier, the existence of economies of scale is one of the common rationales of consolidation. Because McGuire assumes that the initial homogeneous groups are very large, any economies of scale in public goods provision are successfully exploited by the original sharing group. Therefore, economies of scale do not provide an inducement to group integration within the McGuire framework. More fundamentally, the way in which segregated units are integrated is not completely analogous to a city-county consolidation. McGuire assumes that the pre- and post-integration jurisdictions will be of optimal size. For the issue of city-county consolidation, whether the post-consolidation jurisdiction is of optimal size must be a conclusion of the analysis and not an assumption. Nevertheless, since consolidation always involves a certain degree of preference integration, the McGuire analysis usefully indicates the advantages of being a member of a homogeneous group.

A direct answer to the normative question of whether two or more units should consolidate was provided in articles by Yoram Barzel

and James Buchanan (BB).[1] Both articles are concerned with setting

forth the conditions under which individuals will be better off in

a larger, more diverse group, rather than the smaller homogeneous

group.[2] Specifically, the Barzel article outlines the conditions

where individuals should choose state rather than local provision

of public goods. Buchanan outlines the circumstances under which

individuals should provide goods collectively rather than privately.

Here private provision of the goods implies that the effective

sharing group size is one. As collectivization proceeds, the sharing

group increases, of course.

Economies of scale play a crucial role in each of these approaches.

If the per capita tax price were not reduced with a larger sharing

group (for example, if economies of scale were nonoperative), then

the McGuire conclusion pertaining to the Pareto superiority of

segregated groups would hold. Because public good provision is

generally characterized by economies of scale, it is possible that a

larger integrated group may be preferable to the segregated group.

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[1]James M. Buchanan, "Notes for an Economic Theory of Socialism,"
Public Choice 8 (Spring 1970): 30-43; Yoram Barzel, "Two Propositions
on the Optimum Level of Producing Collective Goods," Public Choice 6
(Spring 1969): 31-37. The Barzel argument is based upon a earlier
article by Gordon Tullock. See, "Social Cost and Government Action,"
American Economic Review 59 (May 1969): 189-97.

[2]See, Dennis Young, "Consolidation or Diversity: Choices in
Structure of Urban Governance," American Economic Review 66 (May
1976): 378-85, for an analysis of the normative question on the basis
of Albert Hirschman's "voice vs. exit" perspective. See, also,
Herbert J. Kiesling, "A Model for Analyzing the Effects of Governmental
Consolidation in the Presence of Public Goods," Kyklos 26 (1976):
233-55, for an attempt to estimate the welfare and redistribution
effects of consolidation.

Both the Barzel and Buchanan articles imply that jointness

efficiency (economies of scale) is a necessary condition for the

optimality of the larger sharing group. The possible existence

of distributional inefficiencies, which were emphasized by McGuire,

precludes economies of scale from also being a sufficient condition.

Distributional inefficiencies indicate the degree in which the

quantity of the good desired by individuals deviates from the amount

actually supplied. These inefficiencies are exacerbated as the

sharing group grows, since a greater number of individuals must

adjust to a unique goods quantity. The conclusion following from

each of these studies is that the desirability of the more

encompassing sharing group depends upon how jointness and

distributional efficiencies are balanced.

Although neither article dealt directly with consolidation, the

BB models can be translated readily into terms relevant to this

subject. Following Barzel and Buchanan, assume that the individuals

within each jurisdiction are identical in all relevant respects.

In this case, each jurisdiction may be represented by a single

individual. Also assume that each jurisdiction provides a single

government good, fire protection, where all residents in a

jurisdiction must share equally in its cost.[1] In figure 1.1, the

marginal evaluation curves of the representative city (C) and

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[1]The good considered here is not "public" in an important
respect. We assume that except in the limiting case, adding
additional members to the sharing group generally increases the total
(group) cost of providing each individual with a given amount of
the good.

ME,MC

2P

P

S

C

O

D   F   E

Q
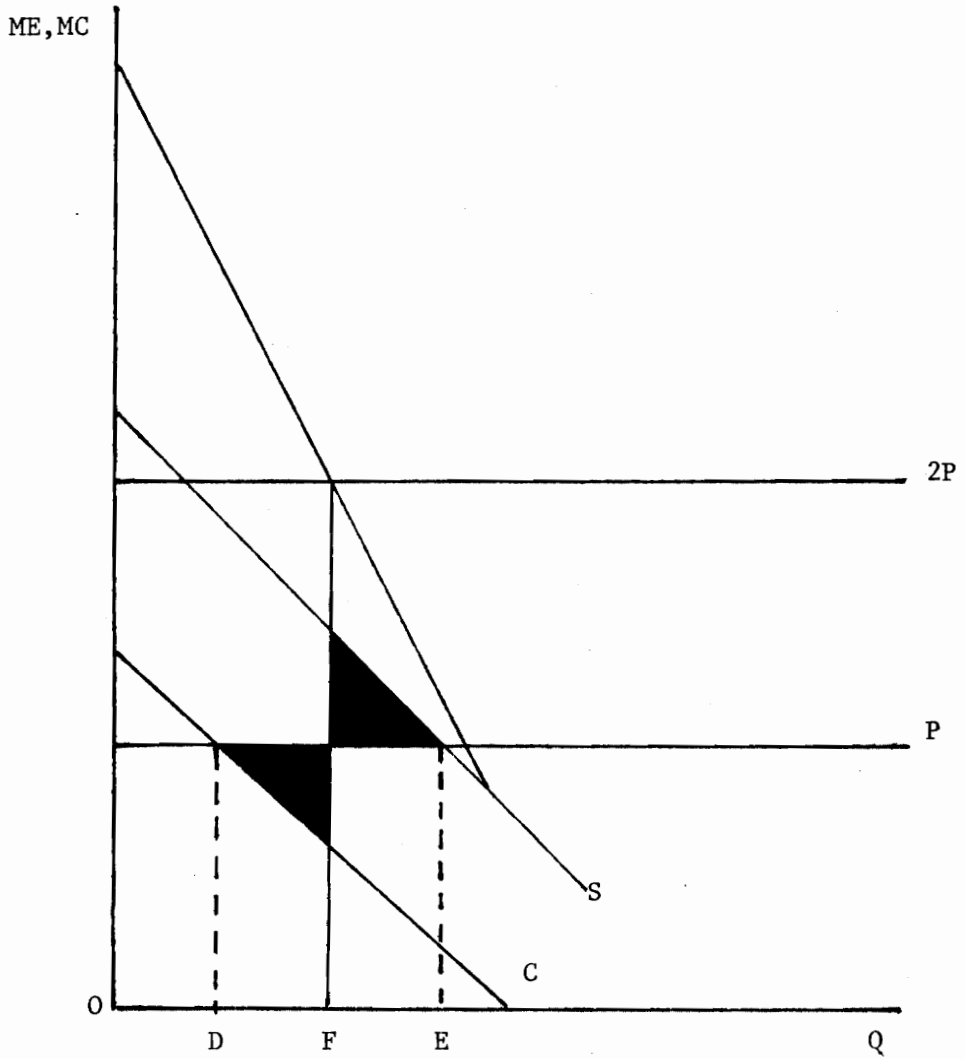
Fig. 1.1. Welfare losses from consolidation

suburban (S) residents are shown. The marginal tax price facing

both the city and suburban residents is given by P. Before

consolidation, the optimal amount of fire protection is OD in the

city and OE in the suburbs.

What happens when the two jurisdictions are forced to consolidate?

First consider the case where scale economies do not characterize the

provision of fire protection. This assumption implies that the

average per capita tax share required to finance a given public good

quantity for each individual does not change with an increase in

jurisdiction size. After consolidation, all individuals face the

same marginal tax price of P.

A main difference between the pre- and post-consolidation

situation is that, in the latter case, a single amount of the public

good must be provided to all city and suburban residents. With this

constraint, the optimal post-consolidation amount of fire protection

is determined by the familiar Samuelsonian condition that $\Sigma MRS = MC$.

The cost of providing the city and suburban resident with each

additional unit of fire protection is 2P. Hence, the optimality

condition is satisfied at an output of OF in the consolidated

jurisdiction.

Notice that both city and suburban residents are made worse off

through consolidation. Because the city resident must adjust to a

higher quantity of fire protection, his welfare is reduced by the

area of the shaded triangle under P. Similarly, the suburbanite is

made worse off as measured by the shaded area above P. No matter

what cost sharing arrangement is assumed, the area of these triangles

remains the relevant measure of individual welfare loss resulting

from consolidation.[1] Furthermore, the triangular areas indicate the

magnitude of distributional inefficiencies, since scale economies

were assumed to be absent. Here, as long as individual preferences

are not identical, distributional losses lead to the conclusion

that consolidation is Pareto inferior to fragmentation.

When economies of scale are introduced into the analysis, all

parties may be made better off by consolidation. In fact, scale

economies are necessary to establish the desirability of consolidation.

The criteria used to determine the desirability or optimality of

consolidation requires that the net gain to the city resident from

consolidation plus the net gain to the suburban resident be greater

than zero. This point is demonstrated in figure 1.2. If scale

economies can be exploited through consolidation, then each individual's

marginal tax price may be reduced below P. Suppose that economies

of scale in the provision of fire protection serve to reduce the

individual marginal tax price to P'. The post-consolidation optimal

output is therefore OB. Here the city resident's consolidation gains

are given by EFGH and the losses by HIJ. Likewise, EFKI and KLM are

the measures of the suburbanite's gains and losses, respectively.

The figure has purposely been drawn so that the city resident's net

gains from consolidation (EFGH - HIJ) plus the suburban resident's

net gains (EFKI - KLM) equal zero. Since there is no welfare gain

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[1]We have assumed equal cost-sharing arrangements in figure 1.1.
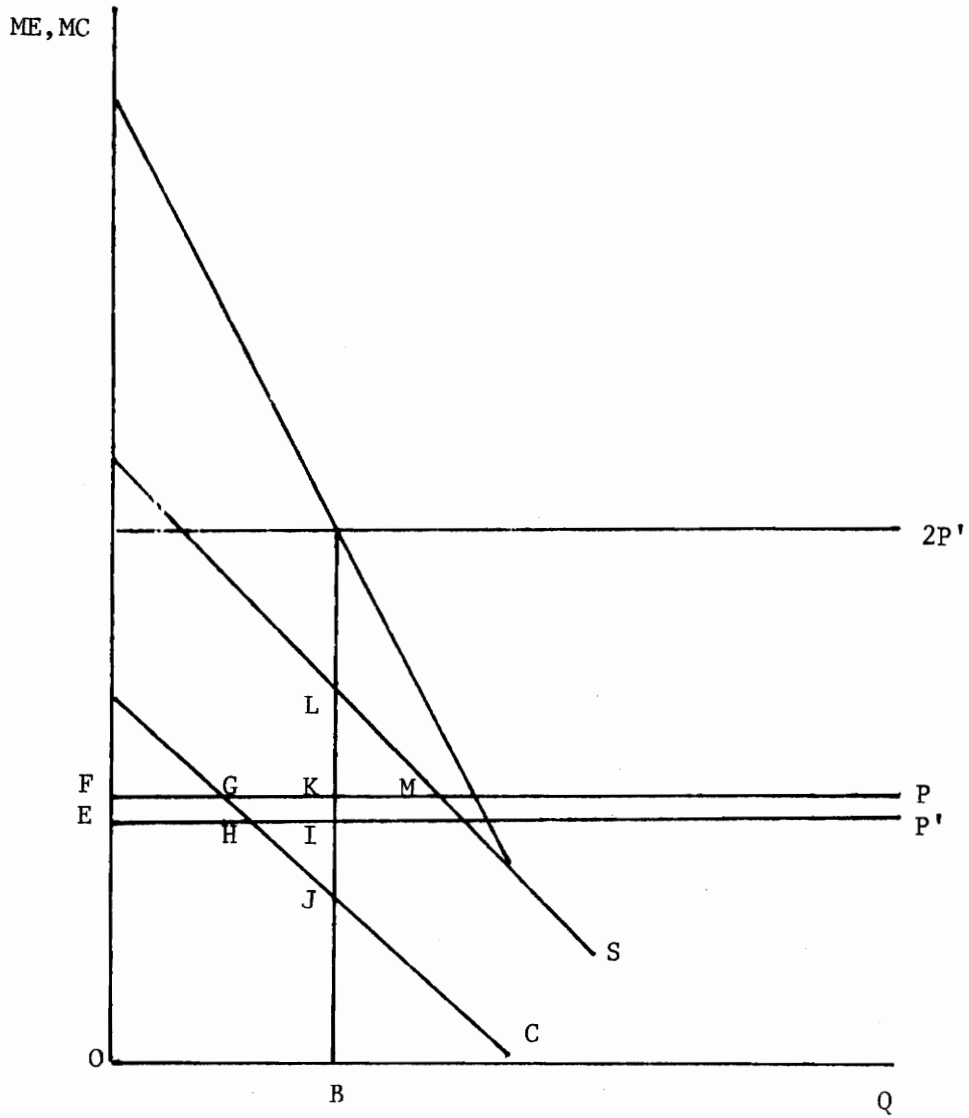
Fig. 1.2. A Pareto optimal consolidation

from consolidation, the welfare economist is unable to choose between consolidation and fragmentation.

P' serves as the benchmark for the welfare economist. When economies of scale reduce the marginal tax price below P' (for instance, P' - ε), then consolidation becomes the optimal institutional structure. Scale economies are of sufficient magnitude to overcome the fact that individuals of diverse preferences must consume identical public good amounts. The BB analysis leads to the conclusion that scale economies are a necessary but not a sufficient condition for consolidation's desirability.

An assumption implicit in the Barzel-Buchanan analysis is that there be no spillovers between jurisdictional units. While a good may be public within a jurisdiction, it must be private between different governmental units. Recall that the reform tradition attributed a part of the urban crisis to the lack of coordination between subunits comprising the metropolitan area. Consolidation was advocated as a means of introducing "rationality" into the system through the internalization of spillovers. Several economists, including Gordon Tullock, Mancur Olson, and Jerome Rothenberg,[1] have explicitly incorporated spillovers into the analysis of optimal jurisdictions.

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[1]Gordon Tullock, "Federalism: Problems of Scale," Public Choice 6 (Spring 1969): 19-30; Mancur Olson, "The Principle of 'Fiscal Equivalence': The Division of Responsibilities Among Different Levels of Government," American Economic Review 59 (May 1969): 479-87; and Jerome Rothenberg, "Local Decentralization and the Theory of Optimal Government," in Analysis of Public Output, ed. by Julius Margolis (New York: National Bureau of Economic Research, 1970), pp. 31-64.

Spillovers in the urban environment occur when the boundaries
of the political jurisdiction do not coincide with that subset of
the population which receives benefits from the provision of a
particular public good. If the collective good boundary lies within
the boundary of the political jurisdiction, then some individuals
who receive no benefits from the good may have a voice in its
allocation. When the collective good boundary circumscribes the
political boundary, then some individuals who are affected by the
public good provision will be unable to express their preferences.
Each of these two external costs give rise to resource misallocation.
Tullock notes that the second lack of correspondence between
boundaries is the relevant one, since the provision of a public good
in a locality generally has a finite probability of affecting any
individual in the world. Given the validity of this observation,
more and more external costs are internalized as a jurisdiction's
political boundaries expand. The costs of noninternalized spillovers,
therefore, decreases as jurisdiction size increases. Because of this
inverse relationship, Tullock concludes that the optimal governmental
unit must always be bigger than the optimal size considered from the
viewpoint of economies of scale only.[1]

Pareto superiority as a foundation
for positive contributions

The papers considered thus far have been strictly normative in
character. For instance, the Buchanan and Barzel papers proceed from

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[1]Tullock further notes that if a service is purchased from a
specialized producer rather than a governmental unit, then economies
of scale will not enter into a determination of the optimal size
jurisdiction.

the abstraction of independent representative individuals and then inquire whether larger sharing groups will be optimal. Several recent articles move a step beyond by asking whether consolidation of smaller groups will in fact take place.[1] An article by Bryan Ellickson was the earliest example of such analysis. It was unique in that it examined the simultaneous interaction of residential locational decisions and the local political process. Individuals were assumed to choose their place of residence on the basis of the relationship between the level of public services provided and the price of land which determined individual tax prices. This choice was constrained by an opportunity set which depended upon the cost of providing public services, assignment of households to jurisdictions, the price of land, and the local political decision-making process. Although the Barzel-Buchanan construct of the representative individual was not directly employed, Ellickson assumed that all individuals have the same utility function and that individuals stratify perfectly by wealth. An additional, rather stringent, assumption stated that the cost of providing public

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[1]See, Bryan Ellickson, "Jurisdictional Fragmentation and Residential Choice," American Economic Review 61 (May 1971): 334-39; Bryan Ellickson, Metropolitan Residential Location and the Local Public Sector (Los Angeles: Institute of Government and Public Affairs, 1970); Michael S. Koleda, "A Public Good Model of Governmental Consolidation," Urban Studies 8 (June 1971): 103-10; Benjamin Chinitz and Thomas G. Cowing, "The Impact of Local Public Service Consolidation on Urban Spatial Structure," in Local Service Pricing Policies and Their Effect on Urban Spatial Structure, ed. by Paul B. Downing (Vancouver: University of British Columbia Press, 1977), pp. 267-85.

services, which depends on the level of services and the number of households in a jurisdiction, exhibits zero economies of scale.

The Ellickson model begins by forcing two different wealth groups to reside in the same jurisdiction. The tax-expenditure decision for each of the groups is designated by a particular point on the opportunity locus. This point does not coincide precisely with the optimum of either wealth group. If the jurisdiction were split into two groups according to wealth, then all households could potentially be made better off. In reality, when the appropriate Pareto optimal compensations are not undertaken, the wealthier individuals will necessarily be better off through fragmentation. However, fragmentation may reduce the utility of the poor because of a loss in tax base (the opportunity locus shifts in an adverse manner). The analysis explains "why low income households in a heterogeneous community may vote against decentralization and why the residents of wealthy jurisdictions will resist annexation to less wealthy communities."[1]

One limitation of Ellickson's analysis, which insured the Pareto superiority of fragmentation, was the zero economies of scale assumption. In Koleda's article, he makes no a priori assumption against the existence of scale economies in community formation.[2] The article is built upon the analysis of Buchanan and Barzel. In fact, Koleda states that Buchanan's general framework

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[1] Ellickson, "Jurisdictional Fragmentation," 338.

[2] Koleda, "Public Good Model."

is being applied to the specific problem of consolidation. Instead of the normative foundations of consolidation, Koleda investigates the conditions under which two jurisdictions will merge. Koleda's criteria for successful consolidation is similar to the one implied by the Ellickson article: consolidation must be Pareto preferable to fragmentation without the need for compensation.

The implementation of this criteria essentially requires that the representatives of two homogeneous groups meet to determine whether they can agree on a post-consolidation output. Koleda takes the reader through a specific set of steps en route to determining whether a certain consolidation proposal will in fact be agreeable to both parties. First, those post-consolidation outputs which may potentially make the city resident better off are specified.[1] Then a similar set of outputs is designated for the suburban resident. Finally, these two output sets must be compared to ascertain whether they have any elements in common. If the intersection of these two sets is not null, then consolidation will be forthcoming, according to Koleda.

A recent article by Benjamin Chinitz and Thomas G. Cowing approaches the topic of consolidation from a slightly different perspective. In their article, the potential Pareto superiority of consolidation stems from the assumption that "local public services provided by the central city generate positive externalities to

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[1]Throughout the article, a fixed cost-sharing arrangement is assumed.

residents of the suburbs."[1] Specifically, the good provided in the
city is assumed to be purely public throughout the entire metropolitan
area.   In contrast, benefits from the suburban good do not spill over
into the city.

The analysis begins by positing identical incomes and preferences
for all suburban and urban residents. Chinitz and Cowing find that
as a consequence of the asymmetrical externalities, consolidation
always benefits city residents. For the suburbs, the beneficial
nature of consolidation depends upon the relative magnitude of a price
and income effect. As a result of the latter effect, consolidation
becomes less attractive to suburbanites, since they no longer receive
a free ride from the city's public goods. The price effect works in
the opposite direction. Because of the larger sharing group,
individual tax contributions are reduced through consolidation. The
article implies that if the income effect dominates, then both city
and county residents will agree to consolidate.

The Institutional Approach to Consolidation

The literature directly and indirectly relating to local
government consolidation appears to have grown in sophistication
over the years. In the late 1950s and early 1960s, the economic
approach, best exemplified by Hirsch, was conducted in an
institutionless vacuum. The desirability of consolidation was
associated with movement toward the least cost point on a municipal
goods expenditure-cost function. Later, the literature on optimal

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[1]Chinitz and Cowing, "Impact of Local Public Service
Consolidation," 268.

jurisdictions was advanced by the explicit inclusion of the benefit as well as the cost side of the calculus.

With this extension of the analysis as a foundation, the positive and normative consolidation articles discussed in the latter half of this survey were among the first to exhibit a rudimentary awareness of the importance of institutional structures. These articles embodied a recognition that consolidation itself entails a change in institutions. This change in perspective had a significant impact on the type of questions pursued in research. The Barzel and Buchanan articles, for instance, were concerned with comparing (at least indirectly) consolidation and fragmentation in order to ascertain which was the optimal institutional structure.

The latest refinements in consolidation literature are developed in recent positive studies, typified by the contributions of Ellickson, Koleda, and Chinitz and Cowing. These works explicitly set as their task the specification of the conditions necessary for the passage of a consolidation proposal. The models of Ellickson and Koleda, and indeed the theoretical framework underlying many contemporary discussions of consolidation, begin by assuming the existence of two groups of like-minded people. Invariably these discussions conclude, after a few qualifications, that consolidation will be forthcoming if economies of scale are sufficiently great and the tastes of the two groups are not too divergent.

As will be argued in the remainder of this dissertation, this framework of recent works does not provide a complete, or even adequate, foundation from which real world consolidations can be

examined.[1] In these formulations, particularly the Koleda model,
the Pareto superiority of consolidation follows from the very
construction of the model. Almost by definition all residents in
the metropolitan area must be benefited by a successful consolidation.
However, as any casual observer of twentieth century consolidations
can attest, mergers many times do not receive support from major
segments of the metropolitan community.

The approach developed in the remainder of this study does not
take the efficiency-generating effects of consolidation for granted.
While some consolidations will benefit residents throughout the
metropolitan area, others will merely redistribute income from one
portion of the population to another, perhaps in the form of a
negative sum game. Laws pertaining to the consolidation procedure
will be instrumental in ascertaining which one of these ends
consolidation serves.

We shall argue in the next chapter that the basic awareness
cited in recent literature of consolidation as a change in institu-
tions needs to be extended another step. The legal structure
surrounding consolidation must be explicitly incorporated into the
analysis. Chapter II assumes two different sets of laws which provide
the foundations for efficiency and redistribution models of
consolidation. In later chapters, the models are extended and
implications derived. The usefulness of the institutional approach

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[1]For a related discussion outlining the shortcomings of the
traditional approach to community formation, see, Richard E. Wagner,
"Institutional Constraints and Local Community Formation," American
Economic Review 66 (May 1976): 110-15.

will be demonstrated by indicating that (1) the conceptual legal
structures underlying the consolidation models are indeed applicable
to real-world consolidation experiences, and (2) theoretically
derived implications correspond to post-consolidation observations.
In order to satisfy the first criteria, an examination of state laws
surrounding the consolidation procedure is undertaken in Chapter III.
The last chapter "tests" the models primarily through a case study
survey of successful consolidations. The theme pervading the entire
dissertation maintains that not until analysts begin investigating
the legal framework surrounding the consolidation process will there
be a proper foundation from which positive implications can be derived.

CHAPTER II

SIGNIFICANCE OF THE LEGAL STRUCTURE

Previous positive models of consolidation have provided little
more than a rationalization for real-world mergers; an efficiency
argument is constructed and offered as an explanation for
consolidation. No attempt is made to ascertain whether the rules
governing the consolidation procedure are actually consistent with
this mental construct. In this chapter, we attempt to make explicit
the influence of different "rules of the game."

The institutional structure, by means of the law, influences
the propensity of communities to consider consolidation proposals.
and the outcomes of these proposals in a number of ways.[1] For
instance, there are a variety of voting rules which govern different
consolidation procedures. As the voting rule becomes more inclusive,
the probability decreases that a proposal promising no overall gains
to trade will be passed. Hence, we expect more consolidations to
be forthcoming when simple majority, as opposed to two-thirds
majority, rules are in effect. Many other relevant differences in
consolidation law could be listed. Most state constitutions

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[1]Following the definition developed by Davis and North, the
institutional environment is a set of fundamental political, social,
and legal ground rules that govern economic and political activity.
See, Lance Davis and Douglass North, Institutional Change and
American Economic Growth (Cambridge: University Press, 1971).

describe in some detail the types of charters required for metro incorporation, and the extent to which tax rates may vary within a single district. The specifics of these community formation provisions vary considerably from one state constitution to the next.

Property Rights and Consolidation

Generally a particular set of property rights are implied by the specification of a legal structure. However, the precise nature of consolidation property rights seems unclear. Exactly what rights are distributed when consolidation laws are defined? In this study, property rights refer to the power of an individual, or a group of individuals, to initiate and consummate the consolidation process. Consider a potential city-county consolidation from the viewpoint of the city. There are three different degrees of power the law may grant the city in the consolidation process. First, the city may be given no right to influence the consolidation outcome. In this case, the county has the power unilaterally to mandate consolidation. Secondly, a successful consolidation may depend upon the consent of both the city and county. Here the city (county) possesses the power to declare consolidation upon the condition that the county (city) also agrees. Finally, exclusive authority to mandate consolidation may reside with the city. This property right specification is unconditional and represents the flip side of the first type of property right structure.

At this point the reader may be puzzled over the amount of attention devoted to property rights. Usually economists focus on

individual interaction in an institutionless vacuum where property rights are never explicitly stated. Assuming away transaction costs partially justifies this procedure, for in the absence of transaction costs, one well-defined system of property rights will do just as well as any other in terms of specifying the properties of the final allocation. However, once we move away from the rarefied assumption of costlessly transacting maximizers, the specification of the property rights structure becomes an important analytical step.

A simple example relating to consolidation will help illustrate this point. Imagine two communities, city and county, which are confronted with a proposal to consolidate into a single jurisdictional unit. Does the success of the consolidation attempt depend in any way on which unit(s) is given the right to participate in the decision? According to the Coase theorem, the answer is no. Whether the city and/or county or some third party (the state) is given the authority, the outcome will be optimal as long as units can bargain costlessly. For example, suppose that a specific consolidation proposal promises net aggregate benefits of $10,000 to the city and (-$5,000) to the county. Furthermore, assume the dollar value of the benefits are to be distributed equally among the residents of respective areas after consolidation. Whether consolidation requires the consent of only the city, or both the city and county, does not affect the success of consolidation. In the former case, consolidation will be approved since the city acquires $10,000 worth of benefits. When approval is required by both units, consolidation will also be forthcoming since the city may bribe the county with $5,001 and

still have $4,999 worth of extra benefits for itself. Neoclassical
economists, in examining predominantly market relations where
transaction costs are negligible, use this Coasean type of reasoning
to rationalize their neglect of property rights.

Real world consolidation attempts cannot be conceptualized
accurately in terms of costless market relations between different
units.[1] In contrast to the procedure described above, attempts to
bribe neighboring units into or out of consolidation involve non-
trivial costs. Ordinary sources of transaction costs are supplemented
in most cases by legal obstacles that directly prohibit side payments
which influence the consolidation procedure. Both legal and nonlegal
sources of transaction costs limit the applicability of the Coase
theorem to the consolidation procedure. In order to illustrate the
importance of the legal framework in the presence of transaction
costs, imagine the extreme case where transaction costs between
jurisdictional units are prohibitive. Here the outcome will be
critically dependent on which party is given the power to approve
consolidation. When the city resident obtains exclusive authority,
consolidation will be forthcoming as long as city residents obtain
some advantage, e.g., lower taxes. This remains true no matter

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[1]For a discussion pertaining to the sources of imperfection in
intergovernmental negotiation, see, Richard E. Wagner, The Fiscal
Organization of American Federalism (Chicago: Markham Publishing Co.,
1971), pp. 51-54. Other works dealing with limitations on the Coase
theorem's applicability are: Bruno Contini, "The Value of Time in
Bargaining Negotiations," American Economic Review 58 (June 1968):
374-93; and, John G. Cross, "A Theory of the Bargaining Process,"
American Economic Review 55 (March 1965): 67-94.

how much county residents are willing to pay the city as a means of blocking consolidation.[1]

So far consolidation rights have been defined in general terms. We have referred to the rights of a jurisdiction, as if the jurisdiction itself could exercise such rights. No effort has been made to designate which individuals actually possess the power granted in the name of a jurisdiction. A number of intradistrict allocation of rights seems possible. For instance, suppose the city has the right to declare consolidation, either conditionally or unconditionally. One conceivable implementation of this right within the city might give each city resident the power to call for consolidation at any time. Such a property right specification would be analogous to the communal ownership of a resource, where individuals are unable to exclude others from its use. In this particular consolidation case, residents are unable to prevent other residents from calling for a consolidation. The consequences of this property rights structure are quite predictable. From the city's perspective, consolidation will be forthcoming as long as it proves beneficial to only one individual in the community. Relatively large jurisdictions will result from an overuse of the right to declare consolidations under these circumstances.

Other property rights structures are certainly conceivable. For example, the right to declare consolidation might be subdivided

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[1] In the more general case where transaction costs are finite, consolidation will be approved by the city as long as the benefits to city residents are greater than the direct costs consolidation imposes on county residents minus the indirect transaction costs of bribing the city.

and apportioned among all residents of the city. This might be accomplished by giving every person a veto over any attempted consolidation. The veto property rights structure represents the polar extreme of the communal property rights specification. In fact, the veto case resembles a private property rights assignment of resources, where owners are able to exclude potential users of the resource. Notice that a unanimity voting rule among city residents captures the essence of this property rights structure. Each city resident may exclude any other resident from exercising the consolidation right by withholding his consent from a consolidation attempt.

Other types of voting procedures also can be cast within a property rights framework. A rule that enables the city to exercise its consolidation right only when a majority of residents favor consolidation may be interpreted as a form of private property rights (without transferability). In order to illuminate this point, consider a consolidation proposal that passes by a single vote. Given a certain set of preferences, the median voter possesses the right to determine the consolidation outcome. Under these circumstances, all other city residents are effectively prevented from exercising this right. Of course, as preferences change, the person assuming the role of median voter will also change. Generally, the allocational implications of the unanimity and majority voting rules will differ. Only when individual (median voter) rights in the voting procedure are transferable through the buying and selling of votes, will

consolidation outcomes under majority and unanimity voting rules be identical.[1]

As previous paragraphs indicate, the legal framework implies certain intra- and interjurisdictional property right structures which have predictable consequences on consolidation outcomes. The focus on property rights suggests that consolidation attempts might be divided into two categories. When property rights grant one jurisdiction--e.g., the city--exclusive authority over the consolidation outcome, the act of consolidation becomes primarily a means of redistributing income from the suburbs to the city. If instead suburban residents have a stake in the consolidation decision along with the city, any move away from the status quo toward consolidation could be accomplished only when mutually beneficial to the relevant parties. These two particular right specifications provide the basis for the development of efficiency and redistribution models of consolidation.

Generally, consolidation procedures do not conform to a strict interpretation of either the efficiency or redistributive explanation. It is possible to envision a continuum of procedures embodying degrees of redistribution varying from 0 to 100 percent.

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[1]Although in this section we are primarily interested in positive analysis, the normative implications of different voting rules prove interesting. Assuming that the costs of reaching agreement are negligible, a property rights structure embodying the unanimity rule results in an optimal consolidation outcome even though rights may not be transferable. In contrast, a majority rule property rights structure, as with most other "private" structures, results in an optimal outcome only when rights are transferable.

A Lindahl-type procedure for determining consolidation would be located at the extreme zero redistribution end of the spectrum. Each relevant jurisdictional unit might be presented with a consolidation proposal which designates the expenditure and tax prices pertaining to each individual in the jurisdiction. Consolidation would become operational only if every person voluntarily consented to the detailed proposal. In this case, individuals in the city and county possess a "private" consolidation right through a rule of unanimity.

A consolidation procedure which gives the majority in each jurisdiction the right to veto consolidation falls somewhere in the middle of the continuum. In its simplest form, this procedure implies that decisions in each jurisdictional unit are made by the median voter. There is no market in voting so a consolidation proposal will be passed only when the median voters in each jurisdiction agree. Although this model requires consent by the primary units in the metro areas, the possibility of redistributive transfers from some individuals to others should be obvious. Generally, some individuals will be made worse off by the successful consolidation, as indicated by the positive number of "no" votes in most referendums. Still, separate majority voting does prevent gross confiscatory transfers from residents of one jurisdiction to another and does insure that most residents in the metro area will be better off through consolidation.

A consolidation procedure which gives only one jurisdiction (city) the right to determine the outcome, perhaps through a majority

vote in the city, falls closer to the 100 percent mark of the continuum. In this case, consolidation is, by its very nature, redistributive. The redistribution model developed subsequently predicts that the city uses its advantageous position to exact transfers of income from county residents.

Consolidations associated with the redistribution end of the continuum may actually involve diseconomies of scale. Here, consolidation may take the form of a negative sum game. This raises a question about the consistency of positing a pure redistribution model of consolidation within a democratic superstructure. Why do not all consolidation attempts fall within the scope of the efficiency explanation? In a frictionless democratic world, laws which do not take account of one sector's preferences will instantaneously lead these individuals to change their actions in a way that modifies the law. The fact that legal change in reality is not instantaneous, but is discontinuous and time consuming, provides the key to solving the dilemma posed above. The law modification process is fully consummated only in the long run. Barriers to state constitutional change, for example, are much more burdensome than changes wrought in the context of everyday decisionmaking. In Kentucky, several attempts to rewrite the state constitution were initiated in the 1960s and 1970s. One of the main reasons none of these attempts were successful concerns the arduous procedure of calling a constitutional convention, which

requires affirmative action by two consecutive General Assemblies in addition to a state referendum.[1]

In contrast to the long-run nature of constitutional decision-making, postconstitutional decisions involve a continuously changing process. While over the long run the legal framework (e.g., state constitutions) may reflect the interests of all constituents, at any specific point in time this framework may be misrepresentative. The consolidation procedure is part of the postconstitutional stage and thus represents a snapshot within the framework of the broader lawmaking (constitutional) process. Redistribution consolidations, accompanied by diseconomies of scale, become meaningful in a democratic society only within the context of a disequilibrium constitutional setting.

Models of Consolidation

In the remainder of the chapter, efficiency and redistribution models of consolidation will be constructed. One of the key conclusions which emerges from the following exercise is that economies of scale in public good provision are not necessary for a successful consolidation. This is contrary to many studies (Koleda) where the existence of economies of scale provides the basis for consolidation. The following models demonstrate that the public good package must

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[1]This is not to suggest that the arduous process of calling a convention is undesirable. We are merely indicating that the lawmaking process is different in nature from the postconstitutional decision-making process.

be characterized by net economies of scale only in the efficiency case.[1] The redistribution model of consolidation is consistent with economies as well as diseconomies of scale. Diseconomies of scale may arise because of the inefficiencies inherent in a local government bureaucracy of larger size or because of higher transportation costs.

Efficiency model

We shall demonstrate these points with respect to the efficiency model first. For illustrative purposes, assume that two jurisdictions, city and county, are contemplating consolidation. Within each unit residents have equal incomes and identical preferences, whereas incomes between jurisdictions differ. Furthermore, we shall assume that the same structure of taxes need not apply across the entire metropolitan area.[2] After consolidation, the area may be divided into two zones, conforming to the boundaries of the previously existing city and county (outside the city). Each zone may have a completely different system of taxes. For instance, a tax rate of 10 percent may be imposed on all city incomes, whereas 20 percent may apply to

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[1]In the previous chapter, internalization of spillovers was also mentioned as a rationale for consolidation. For simplicity, we shall focus only on scale economies in this chapter.

[2]This assumption derives its motivation from the fact that most real-world consolidation proposals contain a clause outlining zones of differential taxation. The next chapter will examine this assumption from a legal perspective. In the graphical section we shall, for the sake of convenience, interpret the legality of different tax structures to mean the same thing as the legality of different tax rates between the city and county.

any income in the county.[1] Within each zone, however, taxes must be uniformly applied according to income.

Figure 2.1 depicts the status of metropolitan area residents before consolidation. Suburban residents, who have the higher income (OS), obtain OA of a single public good, fire protection. Their average rate of tax is given by SR/OS. Similarly, a city resident contributes at the rate of UT/OU for an amount of fire protection equal to OB units (see figures 2.1(a) and (b)). The budget lines SV and UW imply that suburban and city residents confront individual marginal tax prices of MTP_s and MTP_c, respectively. Notice that as long as the city and county possess the same technological know-how and produce in the least-cost manner, MTP_s must equal MTP_c when zero scale economies characterize the public goods package, or, alternatively, when the populations in the city and county are equal.

The distinguishing feature of the efficiency model is that both the city and county possess veto power over any attempted consolidation. Since preferences are homogeneous within a jurisdiction, this condition implies that all individuals must agree before consolidation will be forthcoming. Gains to trade must accompany consolidation.

Given this institutional setting, a successful consolidation attempt requires, as a matter of logic, that marginal tax prices confronting at least one resident be lower, while the tax prices of

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[1] In the development of the two models, we shall refer to income instead of property tax rates.
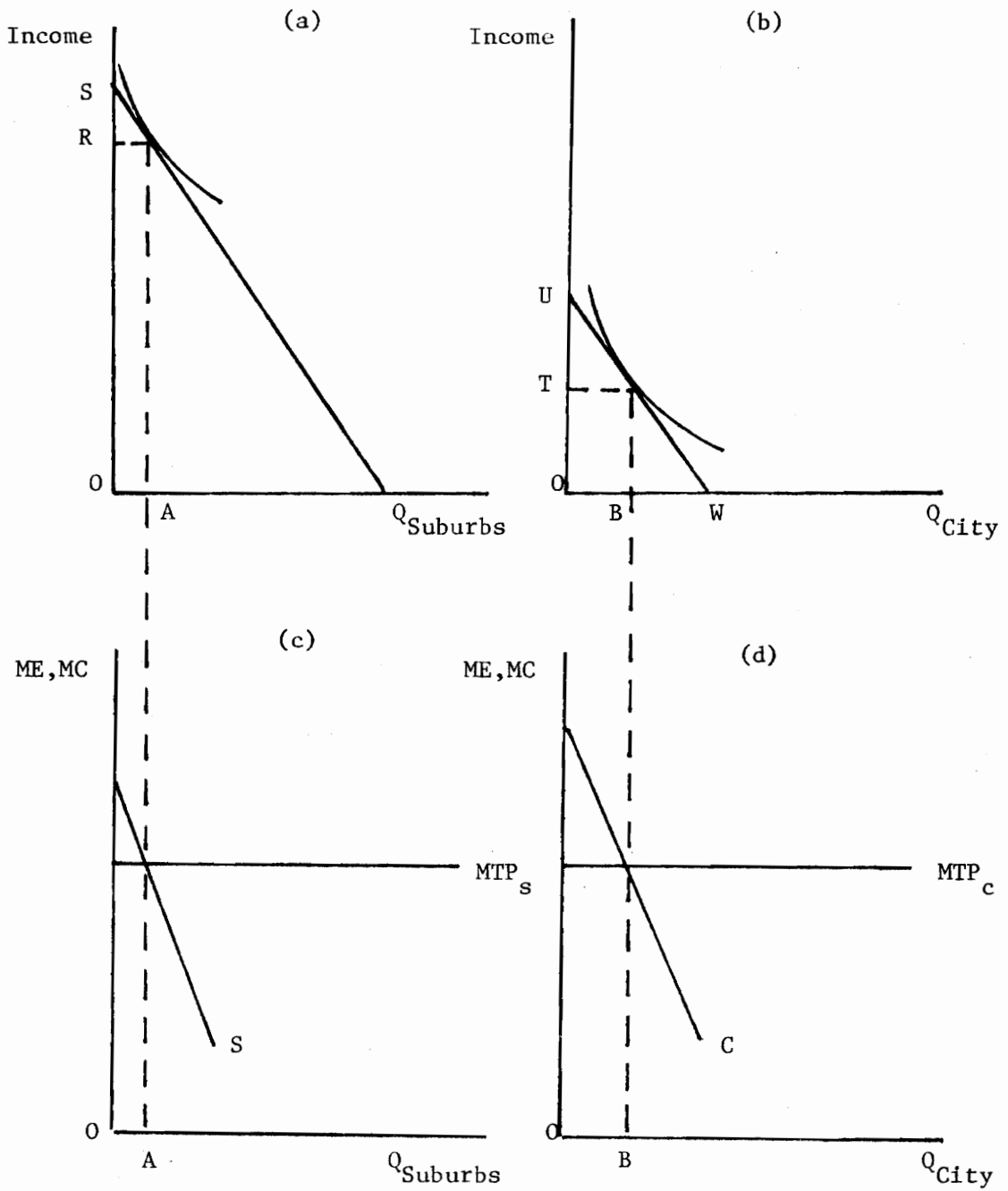
Fig. 2.1. Pre-consolidation situation

the remaining population be maintained. Consider a contrary

situation, namely, no economies of scale in public good provision.[1]

If the total tax burden were equally shared by residents, then

individual marginal tax prices would be unchanged after consolidation.

In this case, the amount of fire protection provided through a

majority rule process depends on which jurisdiction is more populous.

OB will be chosen if the city has the greater population (see

figure 2.1). Here urban residents are confronted with the same

output and tax price data as before. Naturally they will be

indifferent to the prospects of consolidation. However, while

suburban residents face the same marginal tax price, they must

consume more fire protection after consolidation. Compared to the

preferred output obtained under the fragmented system, suburban

residents must be made worse off through consolidation. The joint

agreement requirement of the efficiency model insures that

consolidation will not be forthcoming under these circumstances.

One might object that this conclusion follows only because of

the stipulation that tax shares be equal after consolidation. But

even if this restriction is dropped so that marginal tax prices can

assume any configuration, consolidation will not occur in the zero

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[1]The definition of scale economies employed in this study was
outlined in the last chapter. To reiterate, in the zero scale economy
case, the cost of providing a given amount of a good to a single
individual does not change with an increase in the size of the sharing
group. When economies (diseconomies) of scale characterize public
good supply, the above mentioned cost declines (increases) with the
larger sharing group. In general, a consolidation accompanied by
scale economies (diseconomies) results in an overall decrease
(increase) in individual marginal tax prices.

scale economy case. Suppose that a consolidation proposal embodies lower marginal tax prices for one jurisdiction, say the city. Because of the zero scale economy assumption, the marginal tax price of every resident in the metropolitan area cannot decrease. While city residents may be made better off through consolidation, suburban residents, who confront higher marginal tax prices, will not favor merger. This holds true even when the county has the greater population. For in this case, suburban residents can at best move up along their marginal evaluation curve, thereby reducing their consumer surplus form participating in local government.[1]

Now consider the case where diseconomies of scale characterize public goods provision. Here, the impossibility of an efficiency-type consolidation is even more striking. In this case, all individuals cannot face their old marginal tax prices after consolidation. Either tax prices in the city or in the county must increase. Hence, the logic of the previous paragraph applies fully.

With economies of scale in public goods provision, the possibility that consolidation benefits all residents of the metropolitan area clearly exists. Suppose that consolidation promises to lower the mean marginal tax price from $MTP_{s,c}$ to MTP^* in figure 2.2. For the moment, relax the assumption that allows tax rate differentials between the city and county, and instead imagine that tax rate uniformity is required initially. Under these

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[1]For simplicity, we assume there are no income effects, so that the marginal evaluation curves do not shift with changes in marginal tax price.
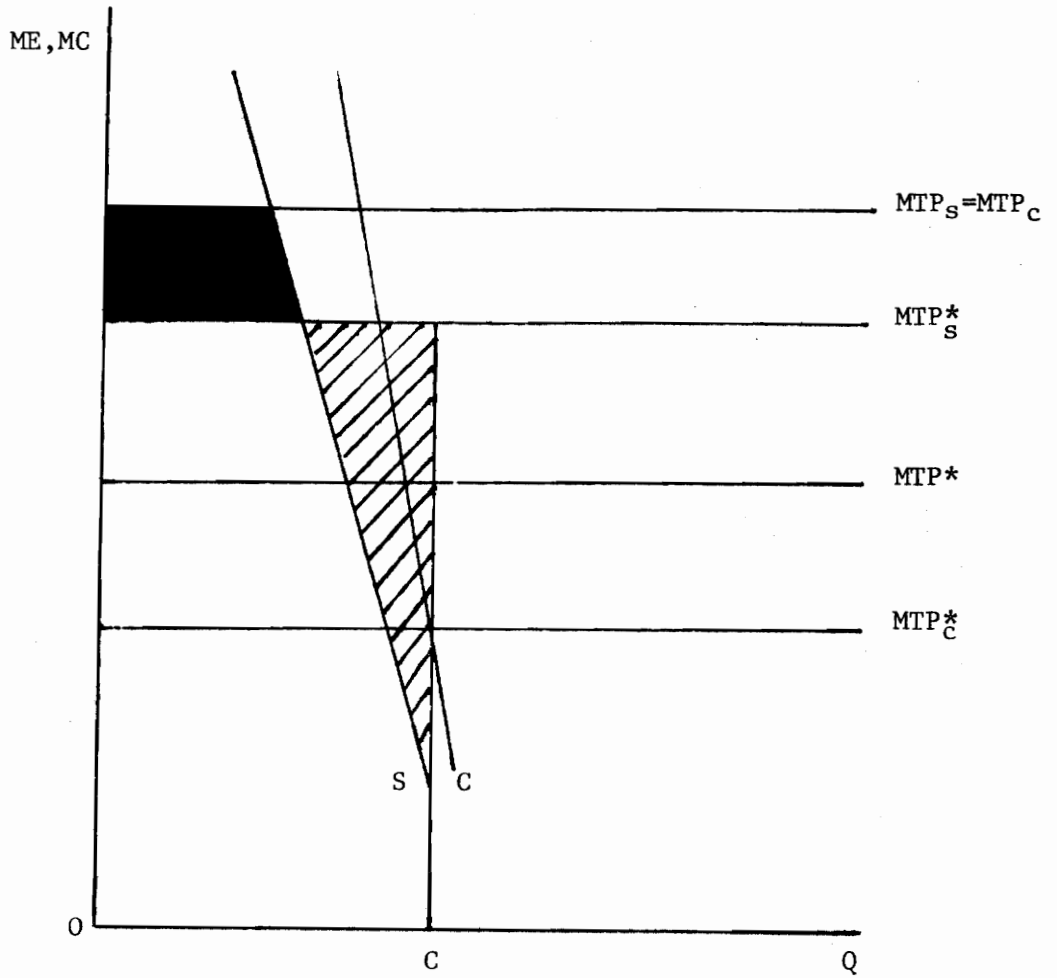
Fig. 2.2. Efficiency consolidation

circumstances, S and C must confront different marginal tax prices. In figure 2.2, MTP^*_s is twice the height of MTP^*_c, indicating that suburban residents have twice the income of city residents. Assuming the city to be more populous, OC amount of fire protection will be provided. Since this tax price-output combination allows a movement down along his marginal evaluation curve, C is made better off through consolidation. The suburban resident's attitude toward consolidation proves more difficult to ascertain. As a result of the decrease in tax price from MTP_s to MTP^*_s, consolidation tends to increase the welfare of S by the area of the shaded trapezoid. Counteracting this tendency is the fact that S must now consume a greater amount of fire protection. The resultant welfare loss from this second factor is indicated by the slanted line triangle.

Figure 2.2 has been constructed so that the area of the triangle is greater than the trapezoid. In this case, consolidation will not be forthcoming. However, given the same degree of scale economies, consolidation will succeed if tax rate differentials between jurisdictions are legal. For instance, if the suburban residents faced a tax price lower than MTP^*_s and the city confronted an incrementally higher marginal tax price, then all residents in the metropolitan area would favor consolidation.

In the efficiency model, the allowance of different tax rates between jurisdictions serves the interest of city and county residents. A law mandating uniform tax rates enables only a subset of potentially beneficial mergers to succeed. In contrast, when tax rate differentials between different subsections of the metropolitan

area are allowed, residents can implement successfully all those consolidations which provide gains to trade. Here tax rate differentials are an instrument whereby mutual gains can be exploited.

Redistribution model

The role of tax rate differentials changes radically within the context of a redistribution consolidation. One of the key attributes of this model maintains that only one segment of the metropolitan population has a right to vote in the consolidation procedure. If we assume that the city possesses ultimate veto power, then urban residents can dictate the contents of a successful consolidation proposal. Under such an institutional structure, the legality of tax rate differentials becomes a means of coercion. As a result of the added flexibility, city residents face a strategic problem of discovering those suburban and city marginal tax prices which maximize their well-being, and in the process reduce suburban welfare. Once discovered, the tax structure implied by these prices will be incorporated into the proposal.

The degree to which the marginal tax prices need to decline before a redistribution consolidation becomes beneficial to city residents depends, to a large extent, on the relative populations in the two jurisdictions. Two different scenarios can be constructed. In one case, city population exceeds that in the county. If public good output is determined by majority vote after consolidation, then the preferred output of the city resident will prevail. Here, any

proposal which reduces city marginal tax prices will benefit urban residents, since consolidation serves to move them down along their marginal evaluation curves.

Alternatively, the county may be more populous than the city. Not just any marginal tax price reduction benefits urban residents under these circumstances. The reduction must be of sufficient magnitude to outweigh the fact that the suburbs will be able to designate the amount of fire protection through majority rule. Figure 2.3 indicates the extent by which marginal tax prices to city residents must be reduced with zero economies of scale. Equal tax rates would imply tax prices of MTP^*_s and MTP^*_c. The output arrived at through majority rule would in this case be OD. Here, consolidation results in a welfare loss of EFG and a gain of EHIJ for urban residents. The figure is constructed so that EFG is just greater than EHIJ; therefore, the city rejects consolidation.

In this case, consolidation fails because only equal tax rates between city and county were considered. Generally, the imposition of a tax uniformity requirement serves to reduce the number of redistribution consolidations. In the above example, variability in tax rates enables the construction of a proposal which would win city support. In figure 2.3, the city favors any consolidation proposal which lowers their tax price below MTP^*_c, implying a suburban tax rate which is greater than the city rate.

Although zero scale economies were assumed, it should be evident that redistribution consolidations may be forthcoming in the presence of diseconomies of scale. The only difference is that with
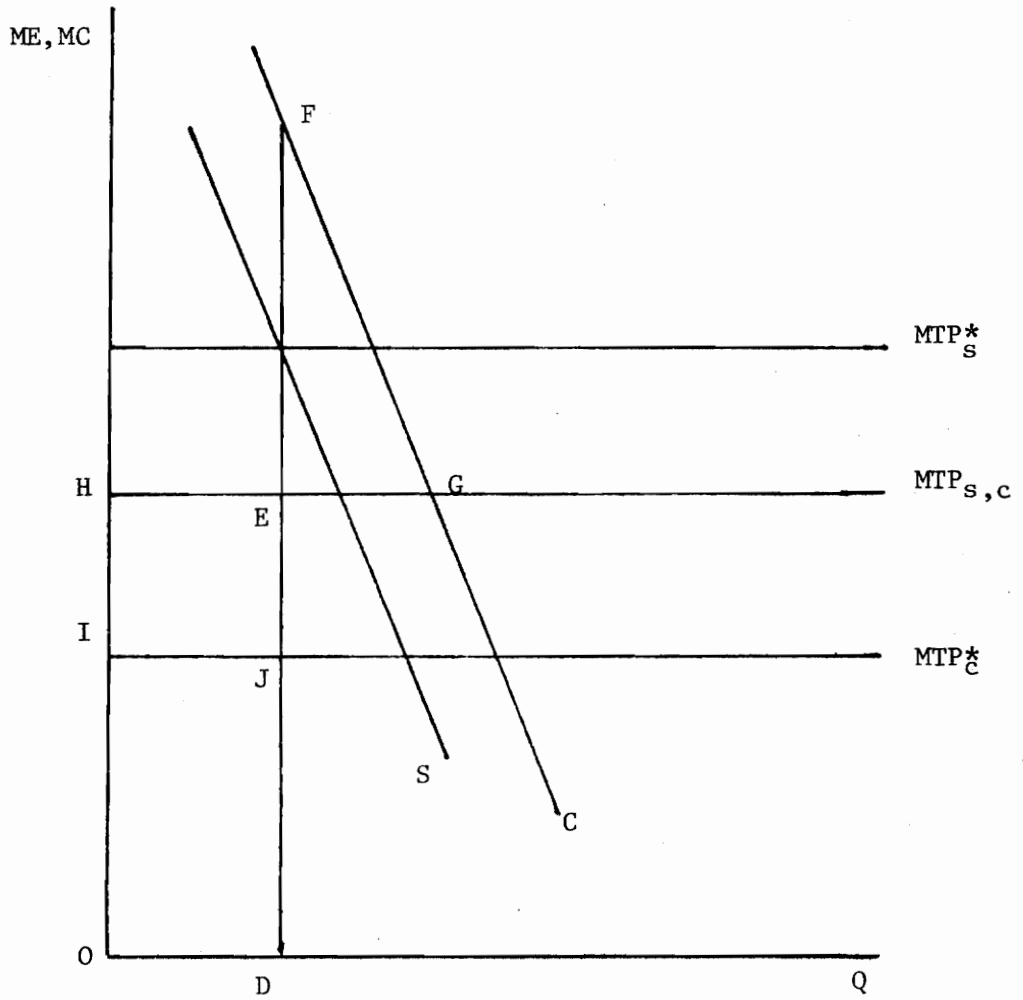
Fig. 2.3. Redistribution consolidation

diseconomies of scale, a given consolidation public good package

requires a greater total tax expenditure. Hence, for jurisdictions

of equal population, any decrease in the marginal tax price facing

city residents must be accompanied by a greater increase in tax

price facing the county.

Notice that with either zero or diseconomies of scale, any

successful consolidation must make residents in the county worse off.

In each case, only a proposal that reduces the marginal tax price

to city residents, and thus increases county tax prices, stands a

chance of winning approval in the city. Suburban residents'

consumer surplus from participating in local government must, for

this reason, be reduced through consolidation.

To this point we have neglected to specify the extent to which

the city can reduce suburban welfare in designing a proposal. This

issue has been postponed purposely until the economies of scale case

was introduced. For in this case, consolidation provides the

greatest potential gains to city residents, if only they carefully

and strategically weigh the effects of alternative tax assignments.

At first glance, it might appear that a redistribution

consolidation, accompanied by scale economies, would not reduce

suburban welfare. In the presence of scale economies, the city

conceptually could design a consolidation proposal that benefits both

city and county residents alike. However, the institutional structure

surrounding this type of consolidation insures that the city need not

be so motivated. Since only city residents possess veto power,

consolidation provides the city with the opportunity of transferring

as much of the tax burden as possible to the county. As more fully elaborated below, we would expect city residents to design a consolidation proposal which, at the very least, makes county residents incrementally worse off after consolidation.[1]

The extent to which suburban welfare decreases through consolidation depends crucially on the costs of migration. Assume, for the moment, that county residents are prohibited from moving out of the suburbs. In this case, the degree of tax shifting is limited only by suburban income or wealth. More generally, a limit to the shifting will be imposed by the ability and willingness of county residents to move to a similar suburban location.[2]

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[1]While the redistribution label seems appropriate in this case, notice that it might have been possible to reach consensus under a Wicksellian arrangement.

[2]Here we assume that county residents' primary option involves moving to another location similar to the previous one. Of course, suburban residents also have the opportunity to move to the city after consolidation. Superficially, it would seem that county residents could and would neutralize city confiscatory strategy by moving to the city after consolidation. However, in reality county residents would never make such a move. For one thing, the costs of moving to the city are likely to be prohibitive for a large segment of suburban residents, since they will have to consume a significantly different private goods package, e.g., smaller lot size, etc. Also, before-consolidation tax rates are generally lower in the suburbs than in the city. Here consolidation serves to at most equalize tax rates in the city and county. Under these circumstances, there is no advantage for suburban residents to move to the central city. More fundamentally, in the absence of such considerations, a strategy can always be developed by urban residents to prevent migration. As long as there is a systematic difference between incomes in the city and county, the consolidation proposal can be designed by city residents so that the tax rate on the income of formerly suburban residents would be prohibitively high if they moved into the city. For instance, if suburban income is higher than urban, then the city can plan a proposal which incorporates an extremely progressive tax structure within the city. The legality of different tax structures between the geographical areas of the city and county (outside the city) enables the city to pursue such a strategy.

The fact that migration costs are positive gives the city leeway in plotting its confiscatory strategy. In designing a proposal, the city must be careful not to induce a mass exit out of the county. City residents must weigh the benefits of lower taxes accruing immediately from a shift in the tax burden against the potential costs of suburban migration in the form of a lower metropolitan-wide tax base. The strategic problem facing the city can be illustrated by assuming that before and after consolidation, suburban residents have the option of moving to a different location which is identical to the present one in all relevant respects. A move, at any time, to this similar jurisdiction would make suburban residents worse off by the extent of migration costs. The city can turn these costs to their advantage by designing a proposal that extracts consumer surplus up to the point where county residents are indifferent between remaining in the consolidated area and moving out. Such a strategy requires that county tax rates be raised beyond the point where the suburbs prefer consolidation to fragmentation.

These results are perfectly generalizable. Whether economies or diseconomies of scale accompany consolidation, the city will act upon its motivation to design a consolidation proposal which makes individuals in the county worse off. In every case, this welfare reduction will continue to the point where county residents just choose to remain within the consolidated jurisdiction. In the diseconomies case, the fact that suburban residents are made worse off is required by the negative sum character of the institutional change. While not required in a technical sense, the same outcome

will be forthcoming with economies of scale as a result of utility maximizing behavior of city residents.

Summary

The simple models developed in this chapter have served to highlight the effects of two different institutional structures surrounding the consolidation procedure. The analysis follows directly from the basic observation that when there are barriers to exchange, rights assignments do make a difference in the specification of the properties of a final allocation. Instead of allocations, this chapter has focused on institutional change. We have concluded that when only one jurisdiction (instead of two) has veto power, the institutional change of consolidation will be more likely to occur. The analysis has been taken a step further by demonstrating how redistribution and efficiency type consolidations systematically affect individuals or groups of individuals in the metropolitan area. Given the rights assignments used in the examples, the group of individuals which comprise the city always benefit from consolidation. In contrast, suburban residents will always benefit from efficiency consolidations and will always be made worse off through redistribution-type consolidations.

In the next chapter, we shall begin to give substance to the rights assignments which have been discussed only in abstract form thus far. The way in which veto power over consolidation becomes embodied in state law will be examined in some detail.

APPENDIX, CHAPTER II

EFFICIENCY AND REDISTRIBUTION MODELS IN A WORLD

OF "PRIVATE" GOVERNMENT GOODS

To this point in the analysis, we have assumed that all residents consume an equal amount of the local government good after consolidation. Uniformity in consumption may be required by the technological attributes of the good in question. As an example, a pure Samuelsonian public good is commonly characterized by its indivisibility among individuals. In the absence of any technological requirement, uniformity in collective provision may be politically imposed. Adherence to some external norm of fairness may provide the rationale for equality in consumption shares.

In this appendix, we analyze the case where consumption uniformity across all residents of the metropolitan area is neither technologically required nor politically imposed. Some municipal services may be partitioned and divided unequally among city and county residents after consolidation. For instance, garbage may be picked up two times a week in the city and only once a week in the suburbs.

Consider, first, a possible efficiency consolidation in this world of partitionable municipal goods. For illustrative purposes only, we shall assume that suburban and city residents have identical

preferences and incomes.[1] Also, city residents outnumber their suburban

counterparts. Figures 2.4(a) and (b) depict the individual

preferences and cost conditions. Before consolidation, OA of garbage

collection is provided in the city and county. Suppose that

consolidation promises to reduce the mean marginal tax price to MTP*

(see figure 2.4(a)). It would appear that all metropolitan residents

could be made better off through a consolidation embodying a suburban

and city tax price of MTP* and output OB. Indeed, this would be the

solution as derived in the earlier consumption uniformity models.

Without the uniformity requirement, however, OB will not

necessarily be provided in both areas. In figure 2.4(b), DE represents

the preconsolidation individual budget line and DF is the line

corresponding to MTP*. Suppose that city and county residents agree,

by means of a charter provision, that taxes are to be levied

proportionately. Given the fact that C can obtain garbage collection

at a marginal cost of MTP*, OB units will (initially) be chosen in

the city. Since city residents are in the majority, they will also

be able to designate the suburban output. The proportional tax

structure implies that suburban residents must contribute DH of their

income (as do city residents), regardless of the output received.

There will be one constraint in the city's output decision for the

county--the amount chosen must not reduce suburban preconsolidation

welfare. Otherwise, consolidation would be revoked by the county.

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[1]This assumption is made for graphical simplicity. The results
derived here can be generalized to the case where incomes and
preferences differ.
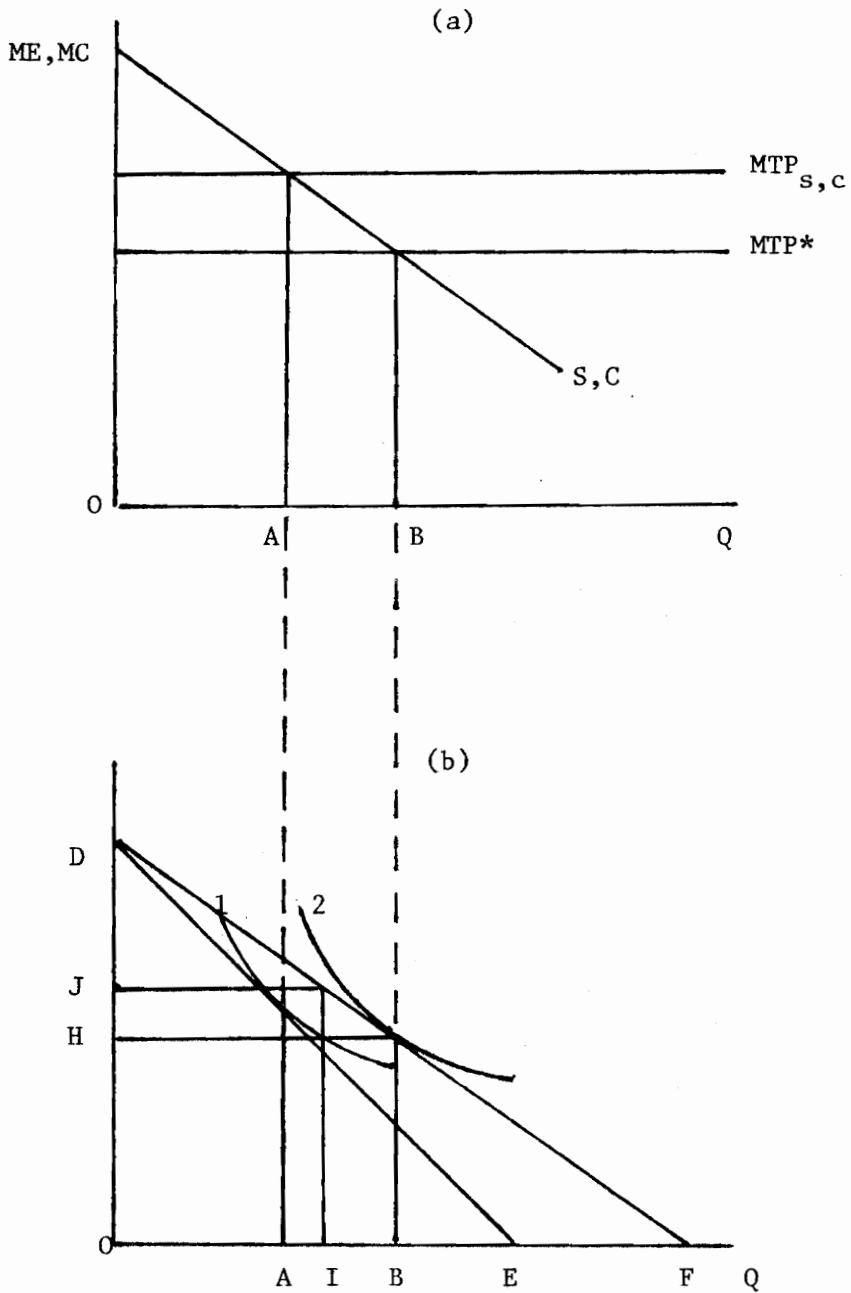
Fig. 2.4. Efficiency consolidation with "private" goods

On this basis, the city will select a suburban output of OI so that S is on his former indifference curve. While S contributes DH income into the general tax fund, the OI units cost only DJ dollars to produce.[1] Hence, there is JH surplus revenue which city residents may use to purchase even more garbage pickups in the city.

In the context of this example, suburban residents are made indifferent to the pre- and postconsolidation environments. This conclusion holds only because the city is able, through the majority vote process, to differentially select city and county outputs. Notice that if the suburbs are somehow able to artificially impose a uniform consumption requirement, then given the proportional tax structure the city will choose a suburban and city output of OB. Both S and C would be made better off through consolidation. In fact, this type of requirement is occasionally attempted in real-world consolidations. Some merger proposals require that additional services (i.e., AB units) be extended to the county within a given time period (year) after consolidation.

Now consider a potential redistribution consolidation. As in the previous example, city residents outnumber suburban residents. In figure 2.5, the preconsolidation outputs in the city and county are DH and DF, respectively. Recall that in the uniform consumption redistribution model, the city was able to specify a tax structure in the charter which implied certain city and county marginal tax

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[1]As figure 2.4(b) is constructed, JH is the largest surplus possible; that is, the vertical distance between indifference curve 1 and DF is greatest at OI. If JH was not the maximum surplus, then originally the city may have been better off to pick an individual tax contribution other than DH.
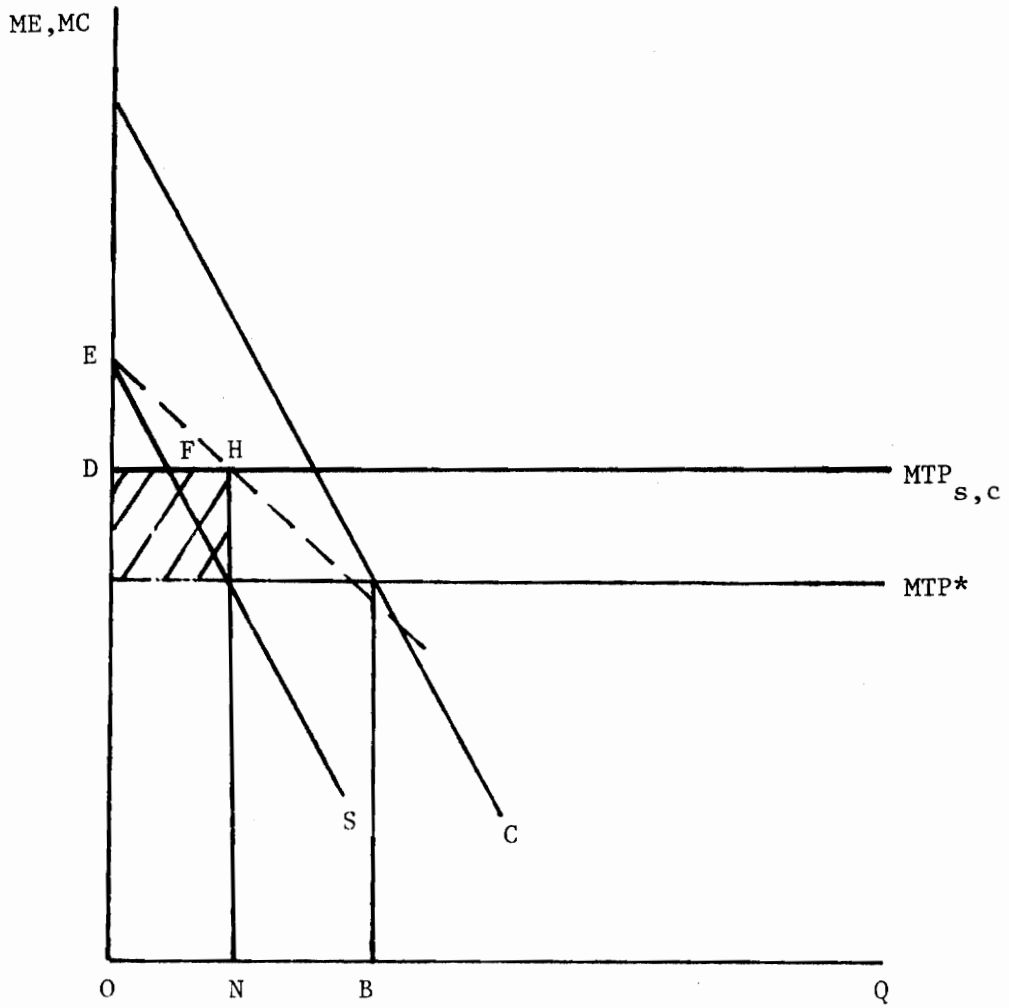
Fig. 2.5. Redistribution consolidation with "private" goods

prices. Now when plotting its confiscatory strategy, the city controls an additional variable--outputs can be differentially adjusted.

As in the uniform consumption case, the city will design a strategy that extracts consumer surplus from suburban residents up to the point where suburbanites are on the margin of indifference concerning migration out of the consolidated jurisdiction. Assume, for illustrative purposes, that costs of migration are such that the suburban resident is indifferent between (1) living in the present location while obtaining no consumer surplus from local government participation, versus (2) moving to a similar location while enjoying a surplus equal to area DEF (see figure 2.5). Under these circumstances, the city will be induced to incorporate into the charter those tax prices which lead to the extraction of all the surplus from suburban residents. The city will want to do so in a way that maximizes the difference between the contributions of the county to the general tax fund, and the actual cost of providing the suburbs with services.[1]

The city can accomplish this last objective by deriving the county marginal tax price based upon an all-or-nothing demand curve. In figure 2.5, the suburban all-or-nothing curve is given by the

[1]For a related discussion regarding pricing rules for central cities which sell private goods to the suburbs, see, Gene F. Mumy and Steve H. Hanke, "Optimal Departures from Marginal Cost Prices for Local Public Services," in Local Service Pricing Policies and Their Effect on Urban Spatial Structure, ed. by Paul B. Downing (Vancouver: University of British Columbia Press, 1977), pp. 309-38.

broken line segment. The suburban tax price and output solution implied by this curve is $MTP_{s,c}$ and ON. As planned, with this tax price-output configuration, suburban residents are indifferent to moving out of the consolidated jurisdiction. Also, the surplus revenue (slanted line rectangle) generated by suburban contributions is maximized. This extra revenue may be devoted to extending city output beyond the amount OB.

Notice that while the story differs in its particulars, the general conclusions evolving from the consumption uniformity and "private" good models are generally the same. In both cases, an efficiency consolidation cannot make either suburban or urban residents worse off. Under the differential output assumption, suburban residents will have an incentive to enact a charter clause specifying that additional services will be extended to the county after consolidation. The earlier derived conclusions pertaining to redistribution consolidation also hold. Whether municipal goods embody equal or differential consumption shares, the city will still have an incentive to design a consolidation proposal that makes county residents worse off according to the extent of migration costs.

CHAPTER III

STATE CONSOLIDATION LAWS

The previous chapter developed the consequences evolving from
two different sets of consolidation laws. We maintained that under
some legal structures consolidation conceivably could serve merely
to redistribute income from one jurisdiction to the next. So far,
only a logical correspondence between designated sets of laws and
particular outcomes has been established. The model-building stage
of the dissertation is useful, in itself, only as a form of
intellectual gymnastics. To provide operational content to the
theoretical section, the applicability of the models must be
indicated. Demonstrating that the laws surrounding many
consolidation procedures are inconsistent with the efficiency
explanation may be interpreted as a preliminary test of the models.

The task of this chapter entails categorizing state laws
according to their compatibility with the efficiency or redistribution
interpretation of consolidation. Assumptions embodied in the basic
models suggested two aspects of consolidation which are particularly
significant. One aspect, voting procedures, was shown to be the
single most important determinant of the inter- and intrajurisdictional
specification of rights in the consolidation process. A second area
of importance, only indirectly related to rights in the procedure,

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pertains to the constitutional and judicial attitudes toward the

legality of property tax rate differentials within a single

municipality. Each of these elements of the consolidation legal

structure will be examined as the discussion proceeds.

Constitutional and Legislative Involvement in the Consolidation Procedure

Within the context of real-world consolidation attempts, there

is a third legal area of significance which was not revealed in the

model-building stages of the last chapter. An assumption, implicit

in the redistribution and efficiency models, required the absence

of state legislative interference in city-county consolidation

attempts. Given a particular voting procedure and tax rate

differential assumption, the consolidation procedure was entirely

local in nature. Within this framework, residents outside the city

and/or county did not have any input into the process.

In reality, the degree of participation by outside residents

varies greatly. Generally, this involvement is expressed through

the state legislature. The nature of the outside influence has

changed dramatically throughout the nineteenth and twentieth centuries.

Originally, consolidation was purely a state legislative matter.

Nineteenth century city-county consolidations were always the product

of state mandate. Such procedures were informed by the application

of the legal ruling known as Dillon's Rule, which maintained that

local governments have no inherent authority and could exercise only

those powers specifically granted by the state.[1] Application of this rule meant that local governmental units could be created, dissolved, and altered at the whim of the state.

The first city-county consolidation in the U.S. occurred in 1805 with the merger of New Orleans and the County of Orleans. Subsequent legislative consolidations of a similar type occurred in 1822 in Boston and Suffolk County and in 1854 with Philadelphia and its county. Consolidation in Philadelphia, however, was not completed at that time. Consummation of the process awaited a state constitutional amendment in 1951, which eliminated the county council. The most comprehensive city-county consolidation of this era took place in the late nineteenth century with a series of mergers in New York. In 1874, the City and County of New York were consolidated by legislative act. A similar consolidation between the City of Brooklyn and Kings County was accomplished 20 years later. Finally, in 1898 the cities of Brooklyn and New York were merged with the counties of Queens and Richmond. The last city and county to merge in this age of legislative dominance occurred in Hawaii. In 1907, the Territorial Legislature mandated the consolidation of the city and county of Honolulu.

Around the turn of the century, there was a definite shift away from state-mandated consolidations. Increasingly, consolidation proposals were being submitted to the localities affected for

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[1] *City of Clinton vs. Cedar Rapids and Mo. R.R.R.*, 24 Iowa 455 (1868).

rejection or acceptance. Even though there were numerous consolidation attempts in the early part of this century, no referendums were successful. After the Honolulu success, the next city-county consolidation did not occur until 1947, when Baton Rouge and East Baton Rough Parish merged.

Since this time, consolidation has met with scattered success. There have been a total of 58 consolidation attempts from 1947 to the present. Of these efforts, 13 have been successful. Over the last few years, the number of consolidations attempted has increased dramatically. Approximately 60 percent (36) of all consolidation attempts have occurred since 1969. The rate of success has not increased, however, since only six proposals passed during this period. Table 3.1 provides a complete list of successful consolidations from 1947 to the present.

While the consolidation procedure shifted toward this more local basis, the legal status of municipalities was in the process of change. Throughout the twentieth century, the home rule movement was to revolutionize the relationship between states and their municipalities. In fact, the increasing use of local referendums in consolidation procedures was made possible by the home rule movement. The 1876 charter of St. Louis was the first constitutional home rule charter in the U.S. Gradually more and more states made provisions through which municipalities could adopt home rule charters.

This trend represented a significant departure from Dillon's Rule which maintained that a locality could only exercise those powers

TABLE 3.1

SUCCESSFUL CITY-COUNTY MERGERS, 1947-1975

Units Involved	Date of Passage
Baton Rouge-East Baton Rouge Parish, LA	1947
Hampton-Elizabeth City County, VA	1952
Miami-Dade County, FL	1957
Nashville-Davidson County, TN	1962
Virginia Beach-Princess Anne County, VA	1962
South Norfolk-Norfolk County, VA	1962
Jacksonville-Duval County, FL	1967
Indianapolis-Marion County, IN	1969
Carson City-Ormsby County, NV	1969
Juneau-Juneau Borough, AK	1970
Columbus-Muscogee County, GA	1970
Lexington-Fayette County, KY	1972
Anchorage-Anchorage Borough, AK	1975

SOURCE: Various issues of National Civic Review.

specifically granted by the state. Under home rule law, the state shares power with the municipality by designating those affairs which a municipality could manage without obtaining specific state authorization.[1] Only those affairs which do not affect residents outside a locality's sphere of influence fall into this category.[2] Today there are 33 states which have some type of home rule provision in their constitutions.

A state can provide home rule status for its municipalities through constitutional amendment or legislative action. The constitutional approach appears to be more common. Constitutional home rule may be of three types: (1) self-executing, where no legislative action is required for the implementation of home rule, (2) mandatory, where the constitution provides that the legislature shall enact implementing legislation for home rule's adoption, and (3) permissive, where the constitution states that the legislature may, at its discretion, enact home rule legislation.

In the absence of any constitutional amendment, states may provide for home rule entirely through legislative action. This method, so far, has seldom been used. Of course, a number of states have neither constitutional nor legislative provisions allowing home rule municipalities.

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[1]Significantly, many legal observers maintain that the state still retains the power to reclaim the authority exercised under Dillon's Rule. Under this interpretation, the sharing of powers, implied by home rule provisions, is subject to the state's will.

[2]See, K. E. Vanlandingham, "Municipal Home Rule in the United States," William and Mary Law Review 10 (Winter 1968): 269.

Since home rule provisions indicate the degree of autonomy
granted to localities, the probable participation of the state in
metropolitan reorganization attempts may be gauged by these provisions.
With constitutional self-executing or mandatory home rule, the state
legislature's involvement in the affairs of a locality is usually
minimized. Under these types of home rule procedures, the states
typically will be unable to merge local governmental units without
the consent of the electorate. Alternatively, in those states with
no home rule provisions, or where home rule is authorized either
through constitutionally permissive amendments or by way of the state
legislature, state involvement in local affairs is pervasive. Such
provisions are conducive to a strong role by the legislature in local
government reorganization.[1]

With respect to city-county consolidations, authorization of
merger usually originates in the state constitution. In these cases,
the constitutional amendment may be either general or special in
nature. Special constitutional amendments pertain to a particular
locality, instead of all (or a class of) localities in the state.
Although this form of consolidation authorization was common in the
state-mandated era, today special amendments are enacted relatively
infrequently. When special amendments are proposed, they generally
take two forms--self-executing and local discretion. Self-executing

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[1]For a more detailed discussion of how home rule provisions
relate to city-county consolidations, see, William M. Lear, Jr.,
"Urban County: Kentucky's New Structure for Local Government,"
Kentucky Law Journal 62 (1973/74): 568-89.

provisions "delineate both the particular city and county that are to be merged and the method for doing so."[1] A modern-day example of this type of special amendment is exemplified by a 1968 Nevada constitutional provision which states that,

> The legislature may by law consolidate into one municipal government, with one set of officers, the city designated as the seat of government of this state and the county in which such city is situated. . . . The legislature may create two or more separate taxing districts within such consolidated municipality.[2]

In 1969, the Nevada legislature consolidated Carson City (the seat of state government) and Ormsby County.

In contrast, a local discretion constitutional amendment delegates the power of consolidation to the residents of the affected localities. Again, because the amendment is special in nature, the constitution must designate a specific city and county. The constitutional amendment governing the Baton Rouge consolidation (1947) offers one of the rare examples of this type of provision. Article 14, section 3(a) of the Louisiana Constitution states that "the people of East Baton Rouge Parish shall have power to establish, in the manner hereinafter provided, government for the Parish and the several municipal corporations, and other political subdivisions and districts situated therein."[3] The manner subsequently outlined, in keeping with the local discretion nature of the amendment, provided for a referendum on merger in East Baton Rouge Parish.

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[1] Ibid., 582.

[2] Nevada, Constitution, article 4, section 37.

[3] Louisiana, Constitution, article 14, section 3(a).

A more common approach to consolidation authorization entails passage of a general, instead of a special, constitutional amendment. Such an amendment may refer either to all cities in the state or to a particular class of cities. Furthermore, the amendment usually requires implementing or enabling legislation by the state legislature, which may be by way of special or general acts. The general constitutional amendment authorizing special legislative acts is aptly illustrated by article VIII, section 3 of the Florida Constitution:

> Government of county and government of one or more municipality located therein may be consolidated into a single government which may exercise any and all powers of county and municipalities. Consolidation plan may be proposed only by special law, which shall be effective if approved by the electors of county, or of the county and municipality affected, as may be provided in plan.[1]

As stated here, consolidation can be implemented only through special legislative statute.

To appreciate more fully the mechanics of implementing a typical consolidation, consider the Jacksonville-Duval experience which derived its authorization from article VIII, section 3. The first phase of the preconsolidation constitutional and legislative struggle began on 21 April 1965, when Duval County state legislators initiated a bill which authorized the study of local government in Duval County. The bill, eventually approved by the Florida legislature, called for the creation of a Local Government Commission of Duval County. In addition to evaluating the

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[1] Florida, _Constitution_, article VIII, section 3.

"functions and operations of all governmental units," it was "the further function and duty of the commission to draft a plan or plans for the solution of any problem disclosed as a result of such research and study . . . and to submit such plans to the members of the Florida legislature from Duval County."[1]

In the aftermath of the Commission's study, a consolidation charter was proposed and submitted to the Duval state legislative delegation for further consideration. The original charter was revised by these delegates and on Monday, 20 June 1967, the final consolidation bill was introduced in the Florida legislature. After passing in both the Senate and House, only the local referendum stood in the way of consolidation's success.

One aspect of the Jacksonville case was not typical. Contrary to Florida law, most general constitutional authorizations entail general acts as the implementing mechanism. In some states, these general acts are enacted in response to pressures from specific localities which would like to initiate a consolidation procedure. States in which localities have attempted consolidations under general law statutes include Alaska, California, Georgia, New Mexico, North Carolina, Ohio, Oregon, South Carolina, Tennessee, and Virginia. The general implementation statutes in Montana, Washington, Illinois, and Minnesota did not arise from any specific consolidation initiative. To this date, no consolidations have been attempted in these four states.

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[1] Florida Senate Bill 1522 (1965).

In Tennessee, the original authorization amendment and subsequent enabling act were in direct response to pressure from Nashville-Davidson County citizens to consolidate. In fact, the struggle for constitutional authorization and legislative implementation can be construed as an element of the actual Nashville consolidation attempt. The struggle began in 1953 with the constitutional authorization that,

> The General Assembly may provide for the consolidation of any or all of the governmental and corporate functions now or hereafter vested in municipal corporations with the governmental and corporate functions now or hereafter vested in the counties in which such municipal corporations are located; provided, such consolidation shall not become effective until submitted to the qualified voters residing within the municipal corporation and in the county outside thereof, and approved by a majority of those voting in the county outside the municipal corporation.[1]

The next step in the consolidation process required the state legislature to pass an enabling act designating the method of consolidation. By Tennessee law this implementing legislation had to be general in character. In February 1957, such an act passed in the Tennessee legislature providing for consolidation only in those counties having populations of 200,000 or more. Under this enabling act, the initial step in any proposed consolidation entailed the creation of a charter commission. Unlike the Duval procedure, once the commission drafted a consolidation charter, the approval of the state legislature need not be obtained. Instead, the plan proposed by the charter commission could be directly submitted to the people in the local area for approval or rejection.

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[1]Tennessee, _Constitution_, article 11, section 9.

Not all authorizations of consolidation originate in state
constitutions. As mentioned before, 33 states have constitutional
home rule amendments and, of these, even fewer authorize city-county
consolidations. In the absence of constitutional amendments
pertaining to consolidation, two states, Indiana and Kentucky, have
provided authorization through the state legislature. In these
latter two states, the legislature has enacted general statutes which
are applicable to all cities meeting the specifications. For
instance, the Kentucky legislature authorizes that "the voters in
any county except a county containing a city of the first class may
merge all units of city and county government into an urban county
form of government."[1] However, in Indiana, the consolidation statute
in effect is special legislation since only Indianapolis falls under
the scope of the law. The Indianapolis case proves particularly
interesting in that consolidation, requiring neither the city's nor
county's approval, was an outcome of the state legislative process.

In this survey of state involvement in the consolidation
process we have outlined several modes of legislative and
constitutional participation. Consolidation may be preceded by
(1) special constitutional authorization which is self-executing,
(2) special constitutional authorization subject to local discretion,
(3) general constitutional authorization entailing special
implementing acts, (4) general constitutional authorization
entailing general implementing acts, and, finally, (5) legislative

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[1]Kentucky, Revised Statutes, chapter 64A.

authorization and implementation. City-county consolidations are
mentioned by 24 states in their constitutions or legislative
statutes. In the majority of these states, category (4) captures
the essence of the authorization and implementation procedure.

Tax Rate Differentials

Having surveyed the states' participation in the consolidation
procedure, we may now turn to an investigation of the areas of legal
interest suggested by the model building chapter. In that chapter
we noted that tax rate differentials incorporated into a
consolidation charter may be a way of exploiting gains to trade in
the efficiency model, and a mechanism of confiscatory transfer
within the context of the redistribution model. To test the
relevance of these conclusions, an examination of the legal status
of tax rate differentials must be undertaken. Both the U.S.
Constitution and the privileges and immunities clause of most
state constitutions have been used as supporting evidence by those
who argue that tax rate uniformity within any governmental
jurisdiction is required by law.

Furthermore, most state constitutions contain a clause which
specifically requires equality in (property) taxation within
subordinate jurisdictions. State constitutional prohibitions against
tax rate differentials have been operative in seven of nine states
where modern-day consolidations have occurred.[1] Typical of such

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[1]The two exceptions are Alaska and Virginia.

clauses are the ones contained in the Oregon and Tennessee

Constitutions. The Oregon Constitution states that "all taxation

shall be uniform on the same class of subjects within the

territorial limits of the authority levying the tax."[1] More to

the point, article II, section 24 of the Tennessee Constitution

states, "All property shall be taxed according to its value . . .

so that taxes shall be equal and uniform. . . . No one species of

property from which a tax may be collected, shall be taxed higher

than any other species of property of the same value."[2]

In spite of constitutional provisions requiring tax uniformity,

differentials in property tax millage rates have been incorporated

into 12 consolidation charters. The pioneering effort was

Dr. Thomas H. Reed's plan for the consolidation of Baton Rouge and

East Baton Rouge Parish. The entire consolidated area was divided

into three zones--rural, urban, and industrial--where the millage

rate in each area differed. In this case, the charter also provided

a means for altering the boundaries of the three tax zones in the

future. For instance, the urban zone could be expanded by (1) the

petition of a majority of property holders in the proposed annexed

area, and (2) the approval of the city council. Table 3.2 lists the

number of tax zones which were specified in nine other consolidation

cases. Notice the various number of tax districts incorporated into

the different charters. Subsequent to the Baton Rouge case, three

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[1] Oregon, Constitution, article 1, section 32.

[2] Tennessee, Constitution, article II, section 24.

TABLE 3.2

DIFFERENTIAL TAX ZONES

City-County	Number of Tax Zones	Service Basis of Zones
Baton Rouge	3	Fire, sewers, streets
Nashville	2	Fire, sewers, streets, water
Chesapeake	2	Sewers, public works
Virginia Beach	9	Fire, sewers, vector control
Jacksonville	6	Fire, sewers, streets, water
Carson City	2	Fire, public works
Indianapolis	2	Fire, police
Juneau	8	Fire, public works
Columbus	3	Fire, sewers, public works
Lexington	2	Fire, sewers, streets, police

SOURCE: Anthony G. White, "Differential Property Taxation in Consolidated City-Counties," National Civic Review 63 (June 1974): 304.

other charters have included more than five zones of differential

taxation. The Virginia Beach charter specified a record of nine

different districts.

Consolidations which entail differential zones of taxation

have met the test of court action. In State v. City of Baton Rouge,

Frazer v. Carr, Jackson v. Consolidation Government of City of

Jacksonville, Dortch v. Lugar, and Hart v. Columbus,[1] the courts

interpreted the state constitutional uniform tax clause as not

relevant to city-county consolidations. For instance, the Tennessee

Supreme Court attacked the relevance of the Tennessee Constitution's

uniform taxation clause by attempting to demonstrate that properties

in the city and county were different in nature. To support this

contention, the court quoted the decision from the Chancery Court:

> To argue that the farmer in the outlying area of Davidson County,
> without benefit of urban services, must be taxed at the same
> rate as the property owner residing within the Urban Service
> District, with benefit of urban services, actually ignores the
> principle of equal and uniform taxation, Section 28 and 29 of
> Article II.[2]

Having disposed of the uniform taxation clause in this manner,

the court next turned to the task of interpreting the constitutional

amendment authorizing consolidation in Tennessee. A large part of

the court's interpretation hinged upon the insight, developed in the

last chapter, that the legality of tax rate differentials enables more

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[1]State v. City of Baton Rouge, 40 So2d477; Frazer v. Carr, 360
SW2d 499; Jackson v. Consolidated Government of City of Jacksonville,
225 So2d 497; Dortch v. Lugar, 266 NE2d 25; Hart v. Columbus,
188 SE2d 422.

[2]Frazer v. Carr, 360 SW2d 499.

consolidations to be consummated. The court argued that the drafters

of the constitutional authorization did not construe their amendment

to require a tax of equal amounts between the two districts.

> These sensible members of the Constitutional Convention knew
> such a construction would mean the infliction by the people
> of the county of a death blow to the amendment when it should
> be submitted to them for ratification. Surely these busy men
> would not have so wasted their time . . . it is required that
> the 8th Amendment authorized a different tax in the county
> from that to be levied in the urban (municipal) area. And to
> the contrary, to otherwise construe it, would have been to
> destroy it at the hands of the voters.[1]

Thus, differential zones of taxation were upheld by the Tennessee

court.

More recently, a similar decision was rendered for the

Consolidated City of Indianapolis when in Dortch v. Lugar, the court

maintained that

> the legislature may create such special taxing districts for
> local public improvements and provide for the levy of special
> ad valorem taxes throughout the district based upon the
> benefit accruing to the property holders therein situated.[2]

In this case, the court cited "benefits accruing to property holders"

as the basis of classifying property for the imposition of different

tax rates. As Table 3.2 reveals, the boundaries of the tax districts

were drawn on the basis of service (fire and police) development areas

in Indianapolis. Generally, consolidation tax districts are based

upon a similar type of service criteria. In related (annexation)

cases, the courts have found other classifications as a valid basis.

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[1]Ibid.

[2]Dortch v. Lugar, 266 NE2d 25.

Differential property taxation schemes may be based on the prior
indebtedness of the localities, the use or kind of land. the ability
of residents to pay, and public policy which reconciles urban needs
and urban powers. Interestingly, by itself the fact that groups of
residents live in different parts (i.e., county versus city) of the
metropolitan area has been deemed an insufficient basis for
classifying property.[1]

Voting Rules

The most important legal aspect of the consolidation procedure
pertains to the voting rules governing consolidation. Currently,
voting rule requirements vary widely from state to state.
Table 3.3 lists those states which require certain consolidation
voting rules through constitutional or legislative provisions.
According to the information depicted, an equal number of states
adhere to an areawide as opposed to a separate majority rule. Under
the areawide rule, consolidation requires simple majority consent
of residents in the city and county taken together. In contrast,
the separate majority rule entails at least 51 percent consent in
the county and in the city.

Voting rules specifying separate majorities of greater than
51 percent or in other cases a double count majority are somewhat
atypical. In modern times, two state constitutions have included
provisions explicitly allowing or designating rules of the former

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[1]Orval Etter, "Municipal Tax Differentials," Oregon Law Review
37 (December 1957), 1.

TABLE 3.3

STATES REQUIRING SPECIFIC VOTING PROCEDURES AT THE LOCAL LEVEL

Two-thirds Majority	Separate Majority	Areawide Majority	Double Count
Minnesota	Alaska	South Carolina	Oregon
Texas[1]	Florida	Florida	New Mexico
	Ohio	Kentucky	
	Tennessee	Montana	
	Virginia	Washington	

[1]The Texas consolidation law was repealed in 1969.

type. The Minnesota Constitution is strictly permissive in this
respect. Here consolidation "shall not be effective without approval
of the voters both in the city and in the remainder of the county by
the majority required by law."[1]

A Texas constitutional provision, repealed in 1969, actually
required a complex version of a (greater than 51 percent) separate
majority rule. Article 9, section 3, paragraph 6 of the Texas
Constitution, entitled Transfer of control of (all) functions from
city to county, states,

> Consolidation cannot be effected, unless the proposal is
> submitted to vote of people and unless provided by a 2/3
> vote of each House of the Legislature. The vote within and
> without any such government entity shall be separately cast
> and counted, and unless 2/3 of qualified votes cast within
> the yielding entity, and a majority of votes cast in remainder
> of county, favor the proposed merger, it shall not be effected.[2]

Hence, in the city (yielding entity) two-thirds of the residents must
favor consolidation; in the county outside the city only a simple
majority is required. In the pre-1969 era, consolidation in Texas
could pass only when receiving broad support from the community.

Turning to the last column of Table 3.3, we find that Oregon
and New Mexico have constitutional or legislative double count
provisions. Conceptually, this rule provides that either the city
or the county can veto consolidation through a majority vote in the
respective jurisdictions. However, the votes of residents in one
jurisdiction are given more weight than those of the other jurisdiction.

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[1]Minnesota, Constitution, article 12, section 4.

[2]Texas, Constitution, article 9, section 3.

Specifically, the double count majority rule allows residents in the
city (county) to vote in the county (city) election as well as in
its own election.

The double count rule may be designed to favor the city or
county. In Oregon, for instance, consolidation formally requires a
separate majority consensus in the city and county. However,
legislative act 199.735 further states that

> if a qualified voter is a resident in both the county and
> the most populous city, then his vote (is) tallied both
> as a voter resident in the county and as a voter resident
> in the most populous city in the county.[1]

Thus, the city resident in effect enjoys the benefits of the double
count tabulation. In New Mexico, the roles are exactly reversed.

While Table 3.3 usefully outlines broad categories of rules, it
proves deceptive in several important respects. First, notice that
there is no column representing those cases where consolidation
occurs without a local referendum. Strictly speaking, this omission
is appropriate. In no case does a state constitution or legislature
establish a general consolidation procedure which prohibits a local
referendum. However, the possibility of a state-mandated consolidation
exists in those states where there are (1) no home rule provisions,
and (2) no general authorization for a specific type (referendum)
consolidation. In these states, given the appropriate legislative
bill, a mandated consolidation can originate at any time. In Indiana,
for example, the state legislature mandated the consolidation of

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[1]Oregon, Revised Statutes, section 199.735.

Indianapolis and Marion County without explicit prior constitutional provision. When considered with this qualification in mind, the catalogue of voting rules in Table 3.3 does not depict fully the universe of legal consolidation procedures.

Additionally, some states authorize consolidation, but do not specify a particular type of rule. In Georgia, for instance, in the absence of explicit constitutional restriction, consolidation attempts have embodied separate as well as double count majority rules. Hence, those states which delegate the voting rule selection authority to localities do not appear in the table.

The table requires qualification in one final respect. Formally, Table 3.3 reveals that in five states (Alaska, Florida, Ohio, Tennessee, and Virginia) separate majority voting is authorized. One might conclude on this basis that all of these cases embody efficiency generating elements. However, the annexation procedures in Virginia and Tennessee preclude the separate voting rule from an efficiency interpretation. For in these states, the central city can annex surrounding areas without a referendum in the proposed annexed area.[1] Under these circumstances, the city may threaten annexation if the county does not support consolidation. Instead of reverting to the status quo with consolidation's failure, the reversion point may, through a redistributive-type annexation, be less desirable for suburban residents. The city will take

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[1] In Virginia, the final annexation decision is made by the courts; Kentucky law also entails a redistributive annexation procedure.

advantage of this situation by designing a consolidation proposal that reduces the welfare of suburbanites. In this way, a voting rule, which seemingly belongs to the efficiency model, actually has the effect of a redistribution-type rule.

It may be useful to categorize the different consolidation voting rules under the efficiency or redistribution models developed in Chapter II. The material below illustrates such a ranking.

	Separate 2/3 Majorities
Efficiency Model	Separate Majorities
	Areawide Majority - Equal Population
	Areawide Majority - Unequal Population
Redistribution Model	Double Count Majority
	No Referendum

The voting rule at the top of the list is most consistent with the efficiency model. Descending down the column, each rule more appropriately belongs within the context of a redistribution model.

While a rule requiring a two-thirds majority vote in the city and county is obviously most consistent with the efficiency explanation, such a rule has never been used in a consolidation attempt. Its inclusion in the list is only for the sake of completeness. The rationale for including the separate majority rule in this category was suggested in the last chapter. Adherence to this rule prevents confiscatory transfers from being implemented on a jurisdiction-wide

basis. As the list reveals, the classification of the areawide rule proves more troublesome. Depending upon the circumstances, a rule requiring a single metropolitan-wide vote may meet the specifications of either model. For instance, when population in each of the jurisdictions is approximately equal, an areawide voting rule seems more consistent with the efficiency model. Here, a jurisdiction which is strongly opposed to consolidation will be less likely to be forced into the merger. Notice that all of the above-mentioned efficiency rules will shift to the redistribution end of the spectrum in the presence of a redistributive annexation procedure.

In contrast to the equal population scenario, when the population of one jurisdiction is much larger than the other, an areawide vote will more likely be decided in favor of the dominant jurisdiction. Here the redistribution model more adequately captures the essence of the consolidation procedure. The double count rule is even more redistributive in nature. Under the areawide rule with unequal populations, the city will probably be able to impose or block consolidation; however, there is still a (slim) possibility that the vote in the smaller county area will be decisive on either of these counts. The double count rule differs from the areawide rule in requiring a separate vote in the city (see earlier discussion). Accordingly, merger can never be passed against the will of a majority of urban residents. Still, the ability of the city to impose a solution depends crucially on a population distribution weighted in favor of the city.

Strictly speaking, the no-referendum case qualifies for neither of the simple models. However, this procedure has been placed at the bottom of the list, since the likely result of these consolidations entails redistributive transfers to bureaucrats from residents of both the city and county. This theme will be developed fully in the next chapter.

Summary

A primary purpose of this chapter entailed familiarizing the reader with the consolidation procedure. As a first step in this process, constitutional and legislative prerequisites to consolidation were reviewed. We found that the extent of state involvement in consolidation varies widely. Some states leave the mechanics of consolidation to the affected localities, whereas in other states merger may be mandated by the legislature.

Other features of the legal structure were also discussed. With respect to tax rate laws, most charters designate differential zones of taxation even though state constitutions generally contain a uniform taxation clause. To this date, specific tax rate differential provisions have been upheld by the courts. An even more significant feature of the legal environment pertains to the voting rule required to consummate consolidation. Areawide and separate majority rules are most commonly authorized by state constitutions or legislatures. Mandated consolidations may occur in those states where the law does not explicitly require proposals to be submitted to a local referendum.

In the next chapter, we shall investigate a heretofore unmentioned element in the consolidation procedure--the local government bureaucracy. As the analysis proceeds, a state-mandated model of consolidation will be developed to supplement the two basic models.

CHAPTER IV

MODELS OF GOVERNMENTAL CONSOLIDATION

In this chapter we have the twin goals of introducing supply
aspects into the analysis and deriving testable implications of the
models. The analysis will proceed in essentially three stages.
First, the basic efficiency and redistribution models are modified
by incorporating the bureau into the theory. Next, we shall show
how the focus on the supply side suggests a predominantly bureaucratic
explanation for some state-mandated consolidations. Finally, the
implications of the three models (redistribution, efficiency, and
state-mandated) are outlined.

The Role of Bureaus in Consolidation

Previous chapters ignored supply-side aspects of public goods
provision. At that elementary stage of analysis, the interactions
of citizens as demanders of goods was isolated. Abstraction from the
supply side was justified as a means of illustrating more forcefully
the manner in which the legal structure affects consolidation
outcomes. Having accomplished this task, the unrealistic condition
that a public bureau is merely a passive agent in the consolidation
procedure may be relaxed. Generally a bureau does not react
spontaneously to the preferences of median voters. Its role is
conditioned by the constraints placed on bureaucratic behavior by the

particular local government organization in existence. Only under

special conditions, to be developed more fully below, will the

price-output policy of the bureau conform to the now-familiar

properties of the competitive solution.[1]

The bureau differs from a competitive firm, since in the former

case an output is exchanged for a lump-sum budget. This method of

supplying goods, coupled with the fact that the bureau is usually able

to conceal cost information from the potential buyer (sponsor),

enables the bureau to enjoy a certain degree of monopoly power

vis-à-vis its relationship with the public. Although accumulation

of profits is formally prohibited, the bureau may use its monopoly

power to increase the budget which is in turn related to the

bureaucrats' prestige, status, and salary.[2] Complementary to their

desire of budget maximization, bureaucrats have an incentive to raise

the marginal cost of supplying goods above the least-cost figure.

This allows the bureaucrat to "share," through shirking, in what

otherwise would have been profits. The bureaucrats' ability to pursue

the twin goals of budget maximization and shirking will be related

directly to the monopoly power of the bureau.

Consolidation alters the organization of local government in a

manner that enhances a bureau's monopoly position. In shifting from

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[1]For the purpose of this section, the competitive solution is
characterized by the intersection of the marginal tax price and
marginal evaluation curves of the median voter.

[2]For an elaboration of this theme, see, William A. Niskanen, Jr.,
Bureaucracy and Representative Government (Chicago: Aldine-Atherton
Publishing Co., 1971).

a fragmented to a consolidated system of local government, the cost

of migrating out of the jurisdiction increases. This influences

bureaucrats' behavior in two important respects. Obviously, higher

migration costs mean that the bureau has a more "captive audience."

After consolidation, the bureau can enact price-output policies

which deviate more and more from the competitive solution before

residents will be induced to leave the jurisdiction. Each resident's

option to exit in response to unsatisfactory service is thus

rendered less potent through consolidation. A second related effect

of the increased migration costs pertains to individuals' ability

to voice discontent with their local government. As will be

indicated subsequently, consolidation reduces the strength of

signals through which residents are able to judge the performance of

the bureau.

In contrasting the operation of the bureau in a fragmented as

opposed to a consolidated system, some extreme assumptions will be

made for the sake of illustration. The extremity of these assumptions

serves to highlight the different implications evolving from

bureaucratic supply under the two organizations of local government.

A fragmented system of local government will be characterized by

trivial costs of migrating from one jurisdiction to the next.[1] This

condition insures that the bureau must satisfy the preferences of the

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[1] In Chapter II, the preconsolidation system of government consisted of only two units, city and county. This was merely a simplification. Actually, most metropolitan areas contain a number of local governments. Thus, it does seem appropriate to characterize the cost of migrating from one jurisdiction to the next as being radically different in the pre- and postconsolidation environments.

citizen-voter and do so in the least-cost fashion. When the bureau is only one among many potential suppliers of the good, it will supply output to the point where the marginal benefit of an additional unit equals the marginal cost.

To emphasize the fact that the bureau has no choice but to act in this passive manner, consider the case where the bureau attempts either to extend output beyond the competitive solution or artificially to raise cost. This latter circumstance would provide residents with an incentive to migrate out of the jurisdiction as individuals searched for the identical public goods package at lower cost.[1] As information about this situation spreads, property values in the jurisdiction would decline as a result of the reduced demand for housing. The reduced property values serve as a signal providing residing individuals with an incentive to replace the present managers of public good supply with individuals who promise to reduce the cost of production.[2] Once the inefficient managers are replaced, property values will rise to their former levels. The combined effects of migrating and discontented residents insure that a bureau which supplies other than a competitive output will not long survive.

The influence of the bureau as a supplier of public goods increases as the organization of local government shifts to a

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[1]One of the advantages of a fragmented system concerns the ability of citizens to easily compare the cost conditions of its bureau with those of a nearby bureau.

[2]See, Richard E. Wagner, "Supply-Side Aspects of the Theory of Local Government: Owners, Managers, and Take-Over Bids" (Blacksburg: Virginia Polytechnic Institute and State University, Research Paper #527056-33-311).

consolidated form. Migration costs, which are the primary source of
the bureau's altered status, arise from the fact that there are fewer
alternative public good suppliers in proximity of residents in the
new consolidated jurisdiction. In order to dramatize the situation,
imagine that the costs of moving from (or into) the larger
jurisdiction are prohibitive. Residents' inability to exit reduces
the means by which bureaucratic performance can be judged.
Bureaucratic shirking, for instance, will not produce information,
through property value depreciation, signaling the need for change
in public managers. Also, since consolidation reduces the number of
local governments in an area, individuals will have fewer points of
comparison by which to judge the cost effectiveness of bureaucratic
supply. Because of the absence of alternatives, bureaucrats will
find themselves in a position analogous to a perfectly discriminating
monopolist. With respect to the budget maximization goal, bureaucrats
will attempt to present the public with an all-or-nothing offer.[1]

The monopoly power exercised by the bureau in the high
(prohibitive) migration cost case can be illustrated most simply
within the context of an efficiency consolidation. Following the
precedent established in Chapter II, assume that preferences within
the city and county are homogeneous. As depicted in figure 4.1, C and
S happen to have identical marginal evaluation schedules. Initially,

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[1]Bureaucracies behave like discriminating monopolies in the
sense that they attempt to extract all the consumer surplus from
the buyers. However, since bureaucrats cannot earn monetary profits,
they will not price according to an all-or-nothing demand curve,
unless marginal costs are constant.
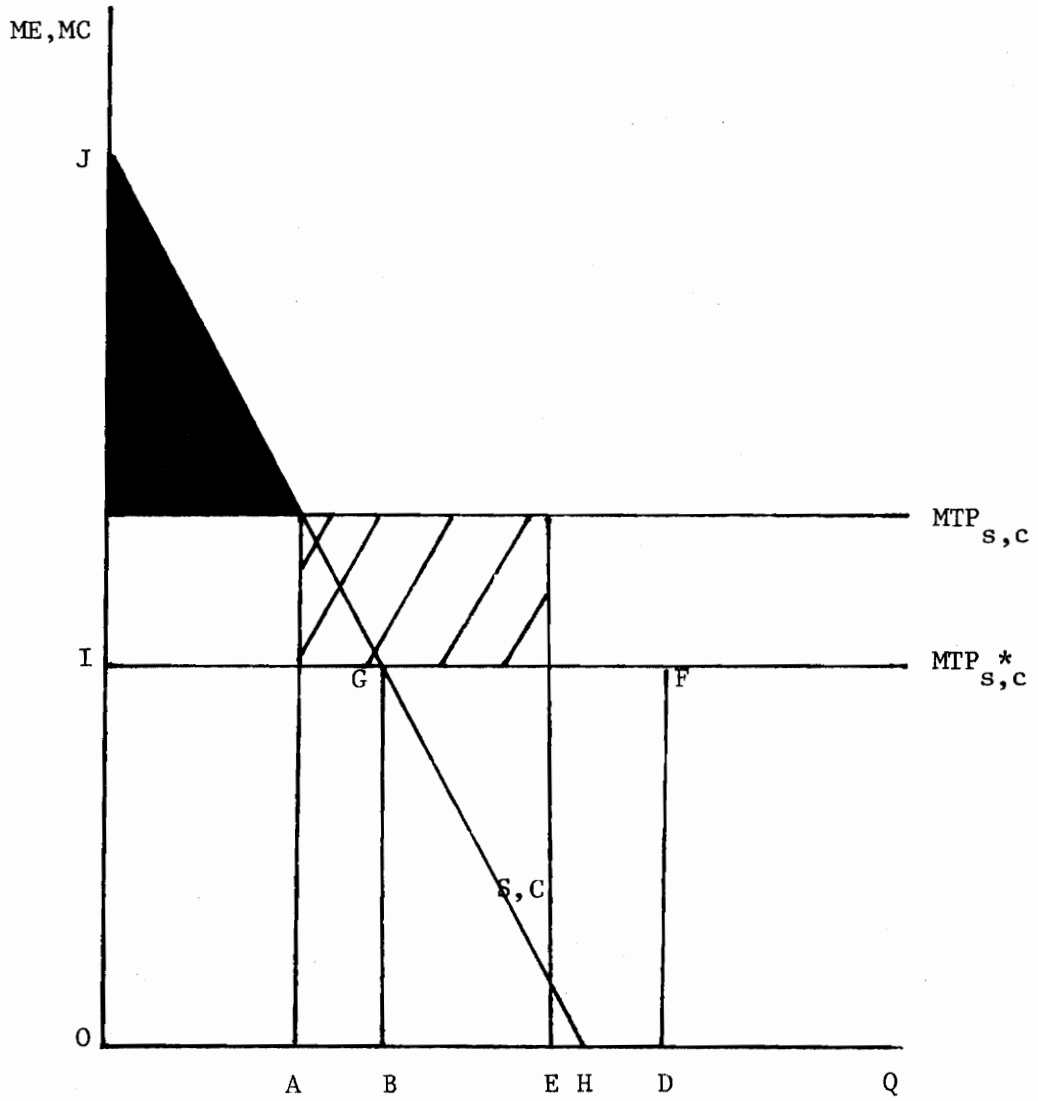
Fig. 4.1. The bureau solution

when city and county governments are distinct, OA of fire protection is provided in the suburbs and also in the city. Local government provision of public goods approximates the competitive solution.

Now consider the prospects of a city-county consolidation which promises scale economies. Suppose that marginal tax prices of MTP^*_s and MTP^*_c are to be incorporated into the charter. If public goods could still be competitively supplied under a consolidated form of government, then OB of fire protection would be provided. This is essentially the solution derived in Chapter II--before the bureau was formally introduced into the analysis. Now, however, this solution is untenable. Consolidation provides bureaucrats with an opportunity to exercise monopoly power through budget expansion and shirking. If bureaucrats were concerned only with maximizing the budget, then output would be extended until citizens were indifferent between that output and no public good supply. In figure 4.1, this budget maximization output is given by OD. Here the area of trapezoid DFGH equals the area of triangle GIJ. Bureaucrats will also have an incentive to increase the marginal cost above $MTP^*_{s,c}$ in an effort to take the excess of the budget over true total costs in the form of nonpecuniary benefits (e.g., shirking).[1]

It would appear that the bureau could raise marginal cost to any extent along the all-or-nothing demand curve in order to satisfy the

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[1]For more detailed discussions relating to bureaucratic shirking, see, Jean-Luc Migué and Gérard Bélanger, "Toward a General Theory of Managerial Discretion," Public Choice 17 (Spring 1974): 27-43; Gary J. Miller, "Bureaucratic Compliance as a Game on the Unit Square," Public Choice 29 (Spring 1977): 37-51; William Niskanen, "Bureaucrats and Politicians," Journal of Law and Economics 18 (December 1975): 617-43.

twin goals of budget maximization and shirking. Although residents would have an incentive to alter the bureau's price-output policy, they would be powerless to do so while still maintaining a consolidated form of government. Suppose the residents of the consolidated jurisdiction sensed that the bureau's policy did not equate their marginal evaluation with the (least-cost) marginal tax price. In this case, the public would vote for those officials who promised to change the situation. However, as long as the consolidated organization of local government is maintained, the newly elected officials will be ineffective because the bureau is able to conceal cost information.[1]

Nevertheless, the public can escape from the information trap imposed by consolidation. Residents will be able to compare the pre- and postconsolidation situations. If residents' surplus from participation in local government has been reduced by consolidation, they will have the option of voting for those officials who promise a return to the status quo, i.e., fragmentation. Once consolidation is revoked, the public will be able to monitor the bureau more effectively.

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[1]The assumption underlying the argument of this paragraph maintains that the bureau will be very adept at concealing cost information. In general, this assumption is too strong. While consolidation will make it more difficult for the sponsor to obtain information, some resources will be devoted to learning more about the bureau's cost function (see, Albert Breton and Ronald Wintrobe, "The Equilibrium Size of a Budget-Maximizing Bureau," Journal of Political Economy 83 (February 1975): 195-207.) Even when migration costs are prohibitive, the sponsor still has alternative sources of information. However, at this point we adhere to the "strong" cost-concealing assumption as a means of indicating the boundaries of the bureaucratic solution. Later, when the more general consolidation case is considered, this unduly restrictive assumption will be relaxed.

Thus, in designing its postconsolidation policy, the bureau must be careful not to reduce the consumer surplus of the voter below the preconsolidation level. With this constraint in mind, the bureau can no longer take advantage of its monopolistic position to extract the entire consumer surplus from residents. In figure 4.1, the shaded area indicates the point below which the bureau cannot reduce the voter's consumer surplus.[1] There is a wide range of (marginal cost, output) options available to the bureau which satisfies the minimum consumer surplus condition. In figure 4.1, the limits of these options are illustrated. Obviously the bureau will not produce at a marginal cost corresponding to an amount below $MTP^*_{s,c}$ since this is technically impossible.[2] The bureau will also not raise the marginal cost above $MTP_{s,c}$. Why? Before consolidation, residents received an optimal output (OA) at a marginal cost of $MTP_{s,c}$. Any increase in cost above $MTP_{s,c}$ must, therefore, reduce the consumer surplus of residents.

In terms of the output decision, the bureau will not increase the consolidation output beyond OE. At $(MTP^*_{s,c}, OE)$ the consumer surplus of the resident equals its preconsolidation level. With respect to the lower end of the scale, the bureau can always improve upon any policy which entails an output below OA. By extending output to OA, the bureau can at least maintain the residents' surplus for any given marginal cost between $MTP_{s,c}$ and $MTP^*_{s,c}$. Such an extension will

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[1]Throughout this section we assume that income effects are zero.

[2]Actually $MTP_{s,c}$ multiplied times the population represents the minimum marginal cost for each additional unit of the public good.

be in the bureau's interest, since it increases budget size. In short, in order to win and maintain consolidation's approval, the bureau's price-output option must lie somewhere in the slanted-line rectangle.[1] The exact policy chosen depends on how shirking and budget size enter the utility function of bureaucrats.

So far the analysis has been cast in black and white terms. This type of approach serves only to establish the boundaries of possible outcomes. With the admittedly unrealistic assumption of prohibitive migration costs, bureaucrats are the only winners from consolidation; bureaucrats extract consumer surplus until city and suburban residents are indifferent to consolidation. More realistically, we would expect the monopoly power of the bureau to be less pervasive. In the more general case where migration costs are significant but not prohibitive, residents will receive some signals of bureaucratic inefficiency. More importantly here, they have the power to act upon these signals. Under these more competitive conditions, the bureau will not face the marginal evaluation curve of C or S.

The availability of the good from an alternative source and residents' information about its cost determines the exact position of the demand curve from the bureau's perspective. Knowledge of the demand curve's parameters would allow determination of the bureau's specific cost-output policy in this world of moderate migration costs. However, little is to be gained for our purposes by specifying

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[1] While any policy must be a member of this set, not all price-output combinations in the rectangle will maintain the consumer surplus of the median voter.

particular parameter values, thereby adding considerably to the
graphical complexity of the simple monopoly bureau model. An
understanding of the general nature of demand shifts, subsequent to
consolidation, provides a sufficient basis for indicating in which
direction the earlier (high migration cost) conclusions must be
modified.

Under moderate migration cost conditions, the conclusion that
only bureaucrats gain from consolidation will be altered in some
cases. Generally, the demand curve facing the bureau will be of
greater elasticity and closer to the origin than that implied by the
simple bureau model. The ability of the bureau to increase cost or
output will be inversely related to the elasticity of this curve.
For purposes of exposition, assume that the bureau is concerned
primarily with maximization of the budget and that residents, again,
specify in the charter marginal tax prices of $MTP^*_{s,c}$ (see figure 4.1).
An unfettered monopoly bureau could produce an output of OD which is
double the competitive solution. However, in the case considered
here, there are two constraining influences on the bureau's output
decision. First, because migration costs are not prohibitive, the
demand curve facing the bureau is more inward and elastic than S's
and C's schedule depicted in the figure. For this reason, the output
consistent with budget maximization must be less than OD. We shall
label this output the constrained budget maximization (CBM) solution.

Secondly, as mentioned before, the bureau, regardless of the
costs of migration, must provide an output that at least maintains the

consumer surplus of city and county residents after consolidation.
The output satisfying this condition will be somewhere between OA and
OD. In figure 4.1, OE is the surplus-maintaining output. Although
the CBM and surplus maintenance solutions both result in an output
less than OD, generally they will differ. The bureau will be motivated
to choose the lesser of these two solutions.[1] If the output which
maintains the consumer surplus of C and S proves less, then the high
and moderate migration cost solutions are identical. Suburban and
city residents will be indifferent to consolidation. However, if the
CBM solution is less, then citizens' welfare will be improved with
consolidation. In this case, unlike the prohibitive migration cost
situation, bureaucrats are not the only winners from consolidation.

The analysis is not modified in any essential respect when
suburban and city preferences differ. Still, the bureau must arrive
at a cost-output policy which at the very least makes suburban and city
residents indifferent to consolidation. Otherwise, residents in one
(or both) of the jurisdictions would not vote for consolidation in the
first place, or else would eventually revoke consolidation.

With the principles of bureaucratic supply having been
established, the bureau can readily be introduced into the redistri-
bution model. Here city residents and bureaucrats stand to benefit
from consolidation. The city's potential gain originates from this

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[1] If CBM solution is less, then the bureau cannot provide an
output greater than this solution, or else residents would choose an
alternative source of provision. Output cannot be extended beyond
the surplus maintenance solution if it proves less; otherwise
residents' consumer surplus from participation in local government is
reduced by consolidation.

jurisdiction's exclusive franchise in the consolidation procedure.[1]
Similarly, bureaucrats benefit because of an increase in the bureau's
monopoly power after consolidation. In order for both parties'
interests to be promoted, the marginal tax price designation by the
city and the output-marginal cost decision of the bureau must somehow
be coordinated. In the general case of moderate migration costs, the
city will attempt to anticipate the oversupply reaction of the bureau.
Assuming the city knows accurately the bureau's response,
specification of city and county marginal tax prices will be a
mechanical process. Knowing the bureau's specific cost-output reaction,
the city will select those city and county tax prices which leave
county residents on the margin of indifference concerning migration out
of the consolidated jurisdiction.

We have found that while not altering the basic nature of the
efficiency-redistribution distinction, consideration of the bureau
does introduce a new element into the analysis. Consolidation
increases the monopoly power of the bureau, primarily through an
increase in migration costs. Information flows to residents are also
impaired. As a consequence, the cost conditions of bureaucratic supply
become more difficult for residents to identify after merger. These
monopoly-enhancing factors enable the bureau to share either in the

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[1]Recall that in the last chapter we noted that one jurisdiction
need not be disenfranchised in order for the consolidation procedure
to assume the attributes of the redistribution model. If county
residents are threatened by annexation without their consent, then
a consolidation charter can be proposed by the city as if the county
had no vote. For if the county were to reject such a redistribution
proposal, the same effect could be accomplished through annexation.

gains (efficiency model) or spoils (redistribution model) of consolidation. Within the context of redistribution (efficiency) consolidations, the bureau will arrive at an output policy that satisfies its two goals of budget maximization and shirking, subject to the constraint that city (metro) residents' welfare must at least be maintained through consolidation. The extent to which the franchised portions of the metropolitan area still benefit from consolidation depends largely on the alternatives available to them. As before, any disenfranchised group must be made worse off by consolidation.

State-Mandated Model

Introduction of supply-side aspects into the analysis suggests another form of the redistribution model. In earlier discussions, redistributive consolidations served to transfer income from one section of the metro area (county) to those individuals whose rights were represented in the voting procedure (city).[1] However, several recent consolidations have come about without a referendum in either the city or the county. In Indianapolis and Toronto, consolidation was mandated by the state or provincial legislature. Since local political representatives will make up only a fraction of the state legislature, neither the city nor county have clearly defined rights in the procedure. As will be developed, state-mandated consolidations

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[1] We have already noted how the bureau will share with the city in the surplus generated by consolidation.

serve to transfer benefits from all citizens of the area to the metropolitan bureau.

The fact that consolidation is decided by the state legislature represents the distinctive feature of this procedure. The only influence citizens of the metropolitan area have on the outcome is through their elected state representatives. There are several reasons which suggest that this influence will be weak. By themselves, local representatives can neither pass nor reject a consolidation proposal. Unlike most issues of a local nature, the state legislature does not automatically accept the views of the local delegation with respect to a proposed mandated consolidation.[1] Consequently, consolidation will be to a large extent determined by those factors most influential on the votes of representatives throughout the state. There are two parties most likely to bring their influence to bear on the state representatives--local bureaucrats and citizens of the metropolitan area. Because of their position in government, bureaucrats are likely to have closer and more frequent contact with officials throughout the state. Also, we should expect bureaucratic efforts to be more intense. While the costs of consolidation are spread over the entire metropolitan area, the benefits are concentrated in the smaller set of public employees.

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[1] For documentation of how the mandated consolidation in Indianapolis split the entire legislature, see, York Wilbern, "Unigov: Local Government Reorganization in Indianapolis," in Regional Governance: Promise and Reform, ed. by Advisory Commission on Inter-governmental Relations (Washington: U.S. Government Printing Office, 1973), pp. 57-58.

So far we have only stated, and not demonstrated, the different parties' interest in consolidation. Building upon the analysis of the last section, the winners and losers of consolidation can be identified. In figure 4.2, the preconsolidation situation is depicted. Public goods output in the city is OG and OH in the county before consolidation. Although individuals in the area will have an indirect influence on the outcome, it will be useful to characterize consolidation as being determined by a third party, completely distinct from the city or county.[1] The above discussion indicates that the bureau's interests will carry the most weight in the third party's deliberations.

Under the assumption that city population is larger than county, the median voter after consolidation will be a city resident. As outlined before, consolidation increases the monopoly power of the bureau. If migration costs are sufficiently high (i.e., prohibitive), the bureau will face the demand curve of the city resident in the consolidated jurisdiction. The bureau will be in a position to present the voters with an all-or-nothing offer of an output for a budget. Recall that in the basic redistribution model, the bureau was limited in the amount of consumer surplus it could extract from

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[1]The explanatory power of this assumption depends upon the size of the local delegation to the state legislature in proportion to total membership. If the local delegation is relatively large, then the legislative consolidation decision will more closely reflect the interests of city and county residents. But even as the local delegate/state legislature ratio approaches one, the outcome still will not reproduce the results of a local referendum. For a local representative is chosen on the basis of a number of issues. The connecting link between his vote on consolidation and his chances for reelection will be indirect and complex.
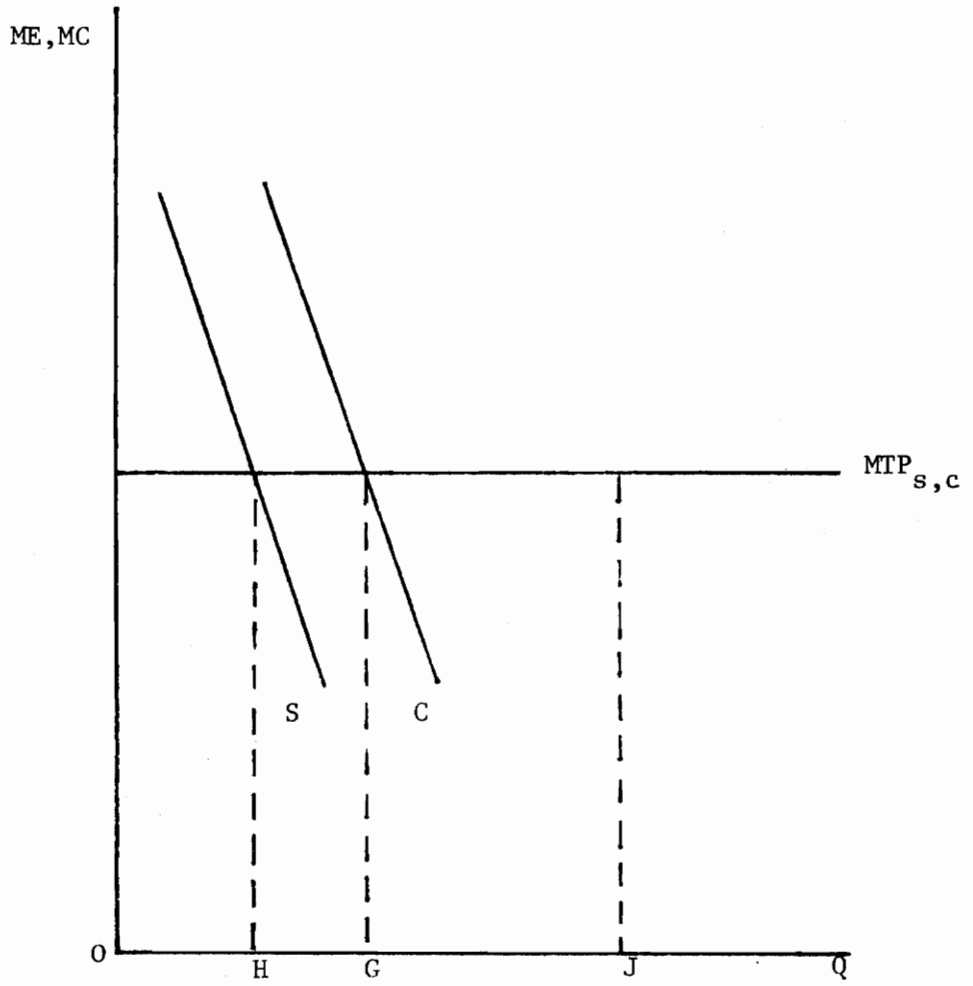
Fig. 4.2. State-mandated model

the sponsor (city) by the condition that the city had to be at least as well off after consolidation as before. In this state-mandated model, no such limitation applies. The median voter in the city does not determine consolidation's enactment. Hence, the bureau can supply that output, and partake in that amount of shirking, which truly leaves the median voter of the consolidated jurisdiction indifferent between that output or nothing at all.

Consider the case where consolidation promises no economies or diseconomies of scale, and where the bureau is concerned only with budget maximization.[1] In figure 4.2, the bureau, keying on the demand schedule of the city resident, will provide an output of OJ which is double the output of OG. With this output, the bureau successfully extracts all of the consumer surplus of the city constituency, whereas the suburban resident would actually prefer none of the public good to the amount provided. Clearly, both the suburban and city residents were better off without consolidation, where they enjoyed a consumer surplus from participation in local government. The bureau turns out to be the only beneficiary of consolidation, since a budget over twice that of the combined old budgets is obtained.

What recourse do citizens have to consolidation? We have already noted that residents' lobbying power in the state legislature will be inferior to that of bureaucrats. It might appear that a threat to

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[1]Of course, consolidation may be associated with diseconomies or economies of scale. The implications of this paragraph are the same, however. The bureau will select that output which completely extracts the consumer surplus of the median voter of the consolidated jurisdiction.

revoke consolidation through a referendum would prevent the bureau from exercising the full extent of its monopoly power. But under the auspices of general state legislation, a local referendum is of doubtful significance. In the Indianapolis case, the legal status of a local referendum was questioned. The general consensus was that a referendum could at most be interpreted as advising the state legislature. In effect, the people were powerless to revoke consolidation through a referendum.

Again the extremity of the assumptions must be acknowledged. Although migration costs will increase significantly with consolidation, they generally will not be prohibitive. In the more general case, the bureau will face a demand curve somewhat more elastic than that of the median voter. Accordingly, the output of the bureau will be less than double the output, OG.[1] While C and S will prefer fragmentation to consolidation, C will not be indifferent to the bureaucratic output as compared to no output whatsoever. The city resident will derive some consumer surplus from the public goods output, even after consolidation.

Since citizen rights are not defined in the state-mandated procedure, the fact that they have nothing to gain through consolidation should not be surprising.[2] Even after consolidation,

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[1] The bureau cannot select that output which causes movement out of the area. But as long as migration costs are positive, the bureau's output must make residents worse off after consolidation.

[2] Implicit in this analysis is the supposition that the bureau has the greatest influence in determining the specifics of the tax structure implied by the state-mandated charter.

there is no effective mechanism through which citizens can act to change

the organization of government. Hence, in the state-mandated model

(unlike the efficiency and redistribution cases) the bureau need not

be concerned that citizens express some dissatisfaction with merger.

Implications of the Models

In this chapter we have outlined the circumstances under which

different parties in the metropolitan area experience welfare

increases or reductions as a consequence of consolidation. Only in

the most general sense can the specification of these gains and

losses be interpreted as implications of the models. The basic

problem with this interpretation stems from the fact that the

so-called implications, when stated in such an abstract form, are not

amenable to verification. A person-by-person opinion poll designed

to reveal residents' perceptions of personal gains or losses from

consolidation is both impracticable and likely to result in misleading

conclusions. Instead, implications, in order to be of some aid in

the confirmation of a theory, must be stated in more concrete terms.

As the first step in this development, consider the general

implication that bureaucrats benefit from every type of consolidation.

There are several direct and potentially verifiable indications that

the monopoly power of bureaucrats does in fact increase with

consolidation. This chapter has argued that bureaucrats generally

take advantage of their position through two methods: (1) by

expanding the size of their budget, and (2) by raising the cost of

public goods output above the least-cost figure. The former

expression of monopoly power should create pressures for increased public employment, since budget size and the number of staff under upper-level bureaucrats should be directly related. Accordingly, governmental employment (spending) in the consolidated jurisdiction will be greater than the combined employment (spending) in the previously existing city and county.

Bureaucrats can exercise the second form of monopoly power either through shirking or by obtaining a salary greater than that forthcoming under a competitive system of local government. In actual practice, employee shirking would be extremely difficult for an external observer to identify. Hence, a more promising approach, for verification purposes, involves focusing on salary increases after consolidation. We would expect salary increases to be more frequent and of greater magnitude in the unified governmental jurisdiction.

Spending, employment, and salary increases represent very direct measures of the bureau's monopoly status. However, these obvious indicators of bureaucratic welfare are not the only sources of confirmation for the theory. Other indicators, perhaps one step removed from the interests of the bureaucrat, may serve as verifiable implications.

One such implication stems from the basic observation that in moving from a fragmented to a consolidated system, the bureau's output becomes more difficult to monitor. Consider, first, the case of many competing local governments within a fragmented setting. Each government provides a single public good, say libraries. Furthermore, imagine that there are only two attributes which comprise the good:

(1) the number of books in the library, and (2) the courtesy and helpfulness of the librarians.[1] Residents in each jurisdiction are alike in their preferences for the number of books and the specific level of courtesy and helpfulness embodied in each unit of the good. The question we are interested in addressing pertains to whether there is something about a fragmented, as opposed to a consolidated, system which insures that those quantities of attributes preferred by residents are actually embodied in each so-called unit of library provision.

Imagine that at first all localities but one in the fragmented system are providing attributes of the good in the mix desired by residents. The exceptional government provides a mix of books and helpful librarians which is weighted in favor of the former attribute. The monitoring agency (city council) possesses essentially two means through which control over the libraries' output can be exercised. One method relies on feedback from citizens and the other depends upon what the councilmen can observe (without actually consuming the output) about the libraries' operation. This latter type of monitoring process may involve periodic reports to the councilmen on the library's performance. Such reports can only convey those attributes which are highly visible or concrete. Hence, on this basis, the success of the library will be measured by the number of books in stock.

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[1]See, Cotton M. Lindsay, "A Theory of Government Enterprise," *Journal of Political Economy* 84 (October 1976): 1061-78, for the development of this point with respect to private versus public provision of goods.

Feedback from citizens, perhaps through letters or city council meetings, provides the basis for the other monitoring mechanism. In a fragmented system, citizen awareness of the possibility of different attribute mixtures proves especially acute. Residents in the exceptional jurisdiction of the above example will have a number of other libraries in the vicinity for points of comparison. Visits to these other sites provide readily available evidence that a greater proportion of helpful librarians is conducive to a more satisfying library experience.

The problem of feedback assumes greater complexity when we acknowledge the fact that uneasiness with respect to the attributes embodied in a locality's library does not, in itself, generate citizen feedback. Conceivably, citizens could be trapped into inaction by the feeling that their response (letter) has no perceptible influence on the monitoring agency. In a large-number situation, citizens could be caught in a prisoner's dilemma. However, in a system of competing local governments, this dilemma is opposed by the smaller populations of each jurisdiction.

In short, feedback from residents does provide the city council with some information through which to modify the activities of the bureau. When citizens complain, the once invisible attribute of helpful librarians now turns into a visible one from the monitor's perspective. The bureau must respond to the council's pressure for increasing the mix of helpful librarians, or the complaints will continue and the bureau's performance will thereby be judged inadequate.

Within a consolidated governmental unit, the situation differs radically. Imagine that in this case one large library serves the entire metropolitan area.[1] As before, when the (consolidated) city council monitors the library directly, the number of books will be used as the indicator of performance. Indeed, this method represents the only effective means of control the council has over the bureau. For the operation of the feedback mechanism will be greatly, if not totally, impaired. In the consolidated jurisdiction, residents will be unable to compare the nature of their library provision with that offered in neighboring districts. If residents cannot observe helpful librarians, then the feasibility and desirability of acquiring such attributes for their library will not be at all obvious.

Furthermore, even if residents were somehow aware that an alternative attribute mix was available, this information would not be communicated to the city council. In a large consolidated jurisdiction, an individual legitimately feels that his complaint is of no significance. For this reason, the library bureau (in a consolidated as compared to a fragmented environment) will devote a disproportionate amount of resources to increasing the stock of books; after all, this attribute represents the council's only measuring rod of success.

This implication can easily be generalized to the case where government provides more than one public good. Usually residents do

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[1] It does not matter whether we assume one large library or a number of similar libraries scattered throughout the metropolitan area.

not have the opportunity of voting on the specific product components
of the governmental budget. Hence, just as the bureau selects
(within limits) the attributes comprising a single public good, in
the many-goods case bureaucrats will have the ultimate responsibility
of determining which goods to produce. The monitoring agency serves
as the final check on the bureau's decisions. In a consolidated
jurisdiction, information concerning the outcome of these decisions
comes via the reports mechanism. Outlays on building, firetrucks,
and streets can be readily translated into identifiable quantities
(16 new public tennis centers, 6 new firetrucks, 1,000 square yards
of pavement) that serve as approximate measures of bureau performance.
Consolidation, thereby, provides the local government bureau with
incentives to produce goods which are tangible and concrete. On this
basis, we would expect aggregates such as capital expenditures to
comprise a larger portion of the total budget after consolidation.

A second set of implications pertain to the welfare of
suburban and city residents in each of the models. We have already
indicated the direction of welfare change for each of these
participants in the three models. The remaining task entails
indicating the manner in which these welfare implications could be
verified, at least conceptually.

Recently, several economic studies have linked changes in a
community's tax-output package with changes in local property values.[1]

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[1] One of the earliest articles was, Wallace Oates, "The Effects
of Property Taxes and Local Public Spending on Property Values: An
Empirical Study of Tax Capitalization and the Tiebout Hypothesis,"

These two variables are related by the fact that an individual must purchase housing in order to participate in the affairs of the local government. The attractiveness of the public goods package will therefore influence the demand for housing. Consider consolidation within the efficiency model. A successful consolidation requires that the marginal tax price facing city and county residents be reduced. Naturally, this tax price reduction makes living in this locality more attractive to potential entrants. The demand for housing will increase, thereby raising property values over the entire metropolitan area. Furthermore, there should be no substantial relative property value effects as between the city and suburbs.

A similar chain of events can be traced in redistribution and state-mandated consolidations. Property values in the city will increase after a redistribution consolidation for the reasons outlined above. However, for county residents in a redistribution consolidation, and for city and county residents in a state-mandated consolidation, the derivation of property value implications is not so straightforward. Each of these groups experience welfare reductions as a consequence of consolidation. Although marginal tax prices are likely to rise for these parties with merger, they will not necessarily do so. These individuals could instead be made

Journal of Political Economy 77 (December 1969): 957-71. See, also, M. Edel and E. Sclar, "Taxes, Spending and Property Values: Supply Adjustment in a Tiebout-Oates Model," Journal of Political Economy 82 (September/October 1974): 941-53; and Bruce Hamilton, "Capitalization of Intrajurisdictional Differences in Local Tax Prices," American Economic Review 66 (December 1976): 743-53.

worse off solely as a result of the inherent oversupply of bureaucratic output. Hence, outsiders will necessarily find these sites less attractive, only if they are like those people presently residing in the area. Such a condition may be approximated through a particular set of zoning restrictions. Under these circumstances, property values in the county must decrease after a redistribution consolidation, and property values throughout the metropolitan area must decline with a governmental consolidation.

In this section, absolute property value implications have been derived. Assuming only consolidation-related changes in the metropolitan environment, these absolute effects should be identifiable. However, in the real world there are a multitude of changes taking place continuously. Not all of these variables are quantifiable. On this basis, the welfare losses and gains may reveal themselves through relative rather than absolute property value changes. The empirically relevant implication maintains that a redistribution consolidation increases city property values in relation to suburban values.[1]

Summary

In this chapter, the consequences of introducing supply-side aspects into the analysis have been investigated. We found that bureaucrats have an interest in promoting any type of consolidation.

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[1]The derivation of property value implications, whether absolute or relative, is made more problematic by the difficulty of measuring the bureau's performance in a consolidated form of government. Still, potential entrants can use their experience with the previous local bureau as a means of ascertaining the attractiveness of the tax price-output option in the consolidated jurisdiction.

Recognition of this fact leads to a slight modification of the conclusions derived in Chapter II. The earlier conclusion that city and county residents benefit from an efficiency consolidation must be modified to include the pecuniary and nonpecuniary gains of local bureaucrats. Similarly, the analysis of this chapter indicates that city residents and bureaucrats benefit through the implementation of a redistribution consolidation. Of course, the rest of the metropolitan community (suburbs) will be made worse off by merger.

In attempting to transform these general welfare changes into empirically identifiable terms, we concluded that all consolidations lead to an increase in bureaucratic salaries, public employment, local government spending, and the ratio of capital expenditures to total budget. With a few qualifications, the city and county welfare changes implied by the redistribution, efficiency, and governmental models translate into property value changes of the same sign.

CHAPTER V

VERIFICATION OF THE MODELS

In the previous chapter, we derived implications based on each of the three models of consolidation. This exercise proved straightforward. For once the assumptions have been formulated and stated, the consequences of the models should follow as a matter of logic. The internal consistency of a model can be objectively confirmed by showing that successive links in the model do not contradict each other.

Demonstrating that the theory does have some applicability to the real world must be, by its very nature, a less certain task. The primary source of this uncertainty stems from the complexity of reality. In attempting to isolate the effect of one factor on another, we must assume that all other variables are unchanging. Strictly speaking, this procedure is untenable. Any single variable is related to a multitude of others in a variety of ways. Since the casual relationship between any two variables can never be completely isolated, the most we can obtain from evidence is a suggestion that the theory possesses explanatory power.

The investigation conducted in this chapter is made more difficult by the relatively few successful consolidations with which we have to work. This fact forces an abandonment of a regression-type

analysis, in favor of a more discursive approach. On the other hand, the analysis is more amenable to investigation since the relationship between more than just a simple independent and dependent variable is being examined. The "independent variable" under consideration in this case is actually an institutional structure--consolidation. A change in structure involves a change in the whole network of interrelationships among variables. As such, consolidation should have a more clear-cut and dominant effect because the entire framework within which individuals interact is altered.

Verification of the models will take essentially two forms. In one approach, the implications which are implied by the institution of consolidation will be confirmed or rejected by examining the aftermath of successful mergers. Here the procedure is quite in keeping with traditional economic empirical studies. Real-world data are compared with predicted results, and the explanatory power of the models is judged by the exactness of correspondence between data and implications. A second testing procedure involves a radically different approach. Unlike the previous method, this approach does not focus on the implications of the model. Instead the model's applicability is the primary center of interest. A theory passes the test of applicability if the circumstances surrounding consolidation attempts can be related meaningfully to the particular model under consideration. For instance, the redistribution model requires that only one jurisdiction possess the right to determine the consolidation outcome. To test the redistribution explanation, under the criteria of applicability, entails the demonstration that one jurisdiction is

disenfranchised in the consolidation procedure. Even in those cases where implications cannot be verified readily, this second approach gives some indication of the potential explanatory power of a theory.

In the remainder of this chapter, we shall (1) classify all consolidations according to the efficiency-redistribution distinction, (2) investigate several successful mergers from a case study perspective, and (3) test the proposition that bureaucrats benefit from any type of consolidation. Both the positivist and applicability approaches will be employed throughout the three sections.

General Classification of Real-World Consolidations

The legal structure surrounding consolidation efforts varies significantly from state to state. As indicated in Chapter III, for instance, state consolidation laws authorize several different referendum-voting procedures. Mergers may be consummated by voters through a separate, area-wide, or double-count majority rule. In practice, most consolidation attempts involve one of the first two voting procedures. The double-count majority rule actually has been used in only five cases. With respect to the remaining referendum attempts (51), an approximately equal number have fallen under the scope of the separate and area-wide majority rules. Finally, there have been only sporadic attempts by state legislatures to mandate consolidation without the consent of local residents.

In Table 5.1, all consolidations since 1947 have been classified according to their adaptability to one of the three models developed

TABLE 5.1

CLASSIFICATION OF SUCCESSFUL CONSOLIDATIONS

Efficiency	Redistribution	State-Mandated
Jacksonville-Duval Co., 1967	Baton Rouge-EBR Parish, 1947	Carson City-Ormsby Co., 1969[a]
Anchorage-Anchorage Brgh., 1975	Hampton-Elizabeth City Co., 1952	Indianapolis-Marion Co., 1969
	Miami-Dade Co., 1957	
	Chesapeake, 1962	
	Virginia Beach-Princess Anne Co., 1962	
	Nashville-Davidson Co., 1962	
	Juneau-Juneau Borough, 1970	
	Columbus-Muscogee Co., 1970	
	Lexington-Fayette Co., 1972	

[a]The Carson City consolidation is actually a special case. Although consolidation was eventually enacted through legislative statute, Carson City and Ormsby County residents endorsed the concept of consolidation before any constitutional or legislative activity.

in Chapters II and IV. The most striking aspect of the table concerns the preponderance of redistribution types of consolidation. According to the table, only the Jacksonville and Alaska consolidations admit of efficiency interpretations. The remaining nine referendum cases have been included in the redistributive column on the basis of either the consolidation voting rule or the annexation procedure. In two cases, consolidation has been mandated by a state government.

Focusing first on the redistribution column, we find that in the absence of annexation considerations the Miami-Dade County, Baton Rouge, and Columbus cases conform to this category. Three Dade County consideration attempts (1948, 1953, and 1957) were all governed by an area-wide voting rule. In the context of the Miami-Dade County environment, the area-wide voting rule was redistributive in nature. For instance, before the successful 1957 consolidation, 26 municipalities existed in Dade County. Here an area-wide voting rule presents the likelihood of consolidation's passage even with the opoosition of many incorporated and unincorporated areas. Significant opposition did materialize in 1957 when a large majority of the municipalities voted against consolidation. In spite of this negative vote, the consolidation proposal passed by a narrow margin of 44,404 to 42,620. Consolidation's success was insured by the favorable reaction of two large municipalities. In the city of Miami, 57 percent favored consolidation and in Coral Gables 66 percent voted "yes."

Unlike the Dade County case, the Baton Rouge and Columbus consolidations involved only a few local governmental units. An area-wide vote governed the consolidation attempt in Baton Rouge.

Since the city population, as determined by the consolidation plan, was much larger than the county population, the area-wide voting rule assumed all the attributes of a redistribution procedure. The Columbus outcome depended upon a double-count rule which was biased in favor of city residents. The redistributive nature of this rule was strengthened by the fact that city population overwhelmed county population. Because the redistribution features of the Columbus and Baton Rouge consolidations are predominant, these cases will be subjected to a detailed investigation in the next section.

All but one of the remaining redistribution cases are classified according to the (threatened) annexation activity prior to merger, rather than on the basis of the consolidation voting rule. As Table 5.1 reveals, three consolidations (Hampton, Virginia Beach, and Chesapeake) occurred in the Tidewater area of Virginia in the 1950s and 1960s. David Temple, who conducted a comprehensive survey of each case, concluded that, "annexation or the threat of annexation by a core city caused the counties to seek immunity via merger and incorporation with a lesser municipality."[1] The outcomes of annexation procedures in Virginia are ultimately decided by court order.

The impetus to the first Virginia consolidation (1952) involving Elizabeth City County, the town of Phoebus, and the city of Hampton, can be traced directly to the annexation-related activity of the General Assembly. In the 1938 session of the General Assembly, the

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[1]David Temple, The Tidewater Mergers: The Politics of Local Government Consolidation in Virginia (Ann Arbor: University Microfilms, Inc., 1966), p. 2.

legislature enacted a law (Massenburg Act) which prohibited the reduction of any county area below 60 square miles through annexation. Among many other counties, this general law protected Elizabeth City County whose land area was above the 60-mile limit. A provision to reduce the protected limit to 30 square miles was introduced into the General Assembly 11 years after the passage of the Massenburg Act. Although the measure lost in both the House and Senate, the narrow margin of defeat proved to be of great concern to Elizabeth City County residents. Anticipating future adverse legislation, Elizabeth City County, Phoebus, and Hampton quickly arrived at an agreeable consolidation proposal.

In 1962, Virginia Beach and Princess Anne County consolidated into the city of Virginia Beach, and South Norfolk and Norfolk County combined to form the new city of Chesapeake. Again, annexation or the threat of annexation was an important factor in both of these mergers. However, this time the threat did not emanate from the General Assembly. The above-mentioned counties experienced the effects of annexation firsthand. Between 1950 and 1960, Princess Anne County lost 13.5 square miles to the city of Norfolk. During the same period, Norfolk County lost territory to the cities of Norfolk, Portsmouth, and South Norfolk. For each of these counties, consolidation was the only effective means through which they could be protected from the expansionary tendencies of larger cities.

Temple summarizes the role of annexation in the three Virginia consolidations by stating,

If the Massenburg provision had not suffered such a close
call in 1950, there is some probability that Elizabeth City
County . . . might exist today. Or, if the General Assembly
had uncovered some formula to protect metropolitan area
counties from annexation between 1950 and 1960, it is doubtful
that the consolidated cities of Virginia Beach and Chesapeake
would have been created.[1]

The issue of annexation was also instrumental in the Nashville-

Davidson County consolidation. In 1958, residents in the county

outside of Nashville defeated a consolidation attempt by a margin

of 19,235 to 13,794. A similar consolidation, requiring the

identical separate majority criteria for implementation, was proposed

in 1962. However, in the period between 1958 and 1962 an unplanned

annexation of the area immediately surrounding the city had taken

place. This annexation occurred in spite of opposition from a majority

of residents in the annexed area. In addition to bringing people into

the city who were resentful of such a move, the annexation instilled

within remaining county residents a fear of future annexation

attempts. The advocates of consolidation played upon this apprehension.

Beverly Briley, then Davidson County Judge and the first mayor of

Metropolitan Nashville, reviewed the consolidationists' strategy:

In our particular case the catalyst that was greatest . . .
was when the City of Nashville performed an unplanned
annexation of a large number of people. . . . Those other
people who were outside of the area annexed were concerned
that they might be next. And this was the catalyst that
finally brought it about. And we took full advantage of it
to make that very clear.[2]

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[1]Ibid., p. 78.

[2]National Association of Counties, City-County Consolidation
(Greenwich, CT: Johnson Associates, Inc., 1970), p. 48.

A breakdown of the 1962 consolidation vote is revealing.
Table 5.2 gives the election outcome by subgroups. As might be
expected, support for consolidation proved greatest in the recently
annexed areas. Outside the core city, consolidation's approval rate
varied directly with the probability of future annexation to the
city. For instance, in the unincorporated suburban areas on the
fringe of the central city, support registered 62.6 percent, whereas
in the distant rural area only 34 percent favored consolidation.

The postconsolidation property tax rates in the urban and
general service districts also indicate the redistributive nature of
merger. The urban and general service districts (USD and GSD)
correspond, respectively, to the boundaries of the city and county
before consolidation. In the first year after consolidation, the USD
property tax rate increased $.38 to $5.70 (per $1,000) and the GSD
rate increased by $.94 to $3.70.[1] Tax rates observed over a longer
time span exhibit the same trend. For instance, the property tax
rate in the old city was $5.33 in 1960. Later (1968), the tax rate
actually dropped to $5.30. In contrast, the rate increased by
26 percent in Davidson County over the period from 1960 to 1968,
although few new services were extended to the county.[2]

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[1]Daniel R. Grant, "A Comparison of Predictions and Experience
with Nashville Metro," Urban Affairs Quarterly 1 (September 1965):
48.

[2]One Nashville banker notes, "the metropolitan government is
responsible for some of this higher tax burden outside the old city
because it forces those taxpayers to pay a part of county-wide
services like the auditorium, the airport, and the parks which were
formerly paid for entirely by city taxpayers. Many taxpayers outside
Nashville therefore complain that they are now paying more taxes and

TABLE 5.2

1962 NASHVILLE CONSOLIDATION VOTE

Area	Percent in Favor
Old city	45%
1960 annexed area	72%
Unincorporated suburbs	63%
Incorporated suburbs	47%
Rural area	34%

SOURCE: Brett Hawkins, Nashville Metro (Nashville, TN: Vanderbilt University Press, 1966), p. 130.

Thus, the Nashville-Davidson County consolidation appears to be redistributive both in its process and effects. A coercive annexation procedure enabled the city to transfer much of the tax burden to county residents after merger. Brett Hawkins, a political scientist, made a similar point when he concluded,

> Annexation, one can argue, made it possible for the proponents of change to stigmatize successfully the status quo and to champion Metro as a device for eliminating . . . future annexations. . . . In a word, most county residents perhaps voted for consolidation to fend off being annexed involuntarily.[1]

The Lexington-Fayette County experience again bears testimony to the influence of a redistribution-type annexation procedure. In this case, the consolidation voting rule, in itself, lends credence to neither the efficiency nor redistribution model. The interpretation of the area-wide rule, required by Kentucky statute,[2] proves ambiguous since population in Lexington and Fayette County are of the same order of magnitude. Here consolidation must be classified according to the premerger annexation record. Prior to the merger referendum, a large portion of the county faced an unappealable court-ordered annexation. A segment of this area was scheduled for annexation in 1975 and the remainder in 1980. Moreover, for this fringe area, annexation would mean an immediate 63 percent increase

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receiving no new services. Actually they are paying for services which they formerly received free." Robert E. MacArthur, "Metropolitan Government of Nashville and Davidson," Regional Governance: Promise and Performance, Advisory Commission on Intergovernmental Relations (Washington: U.S. Government Printing Office, 1973), p. 31.

[1] Brett Hawkins, "Public Opinion and Metropolitan Reorganization in Nashville," Journal of Politics 28 (May 1966): 417.

[2] Kentucky, Revised Statutes, chapter 67A.20.

in property taxes with no guarantees of when additional city services would be extended. County residents viewed merger as the only means of avoiding annexation.

After consolidation, a demerger effort was initiated by a group known as the Lexington Citizens Council. They claimed voters had been misled on two counts. First, the demerger proponents maintained that the court-ordered annexation which precipitated consolidation was not mandatory and, second, that the planned annexation did not necessarily entail an automatic increase in property tax rates in the county. Although the group submitted a petition to place a demerger referendum on the 4 November 1975 ballot, the county clerk reported that there were not enough signatures from registered voters. To this date, the antimerger movement continues in Lexington.

A similarly motivated demerger was attempted in the aftermath of the Juneau, Douglas, and Juneau Borough consolidation. Under certain conditions, the voting rule surrounding Alaska consolidation attempts may admit of an efficiency interpretation. Alaska statute 29.68.330 requires that "the votes on unification shall be tabulated in two separate classifications. One classification shall consist of all votes cast in the first class and home rule cities of the borough. The other classification shall consist of all votes cast in the remaining areas of the borough."[1] Hence, consolidation necessarily will exhibit the attributes of the efficiency model when there is only one (major) city in the borough.

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[1]Alaska, Statutes, section 29.68.330.

The Juneau case does not satisfy automatically these efficiency conditions since there were two small cities in Juneau Borough. In fact, the relative population advantage the city of Juneau possessed over the city of Douglas was conducive to a redistribution-type consolidation.[1] In 1970, consolidation passed in the (combined) cities and the borough, even though a majority of Douglas residents voted against consolidation. After the consolidation vote, Douglas unsuccessfully sought state legislative approval to secede from the unified municipality.

Of course, the Alaska voting rule need not be redistributive when applied in a different setting. The 1975 Anchorage-Anchorage Borough consolidation, for instance, approximates an efficiency outcome since Anchorage was the only major municipality in the borough. The final vote totaled 4,708 to 2,388 for merger in Anchorage and 6,084 to 4,809 in favor outside Anchorage.

The other case listed under the efficiency column in Table 5.1 is the 1967 Jacksonville consolidation. Here merger required an area-wide majority, where the populations in the city and county outside the city were approximately equal. The circumstances surrounding the Jacksonville case will be reviewed in a later section of this chapter.

The two remaining consolidations, listed in the state-mandated column, involve Indianapolis and Carson City.[2] The population in the

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[1] The 1970 populations of Juneau and Douglas were 6,050 and 1,243, respectively.

[2] Another province-mandated consolidation occurred in Toronto in 1954. The new Toronto government was actually a two-tiered federation

city and county before the Indianapolis consolidation totaled

793,590. Of these residents, 61 percent lived in Indianapolis.

Traditionally, all structures, powers, and processes of local

government in Indiana are prescribed by state law. As York Wilbern

has commented, "home rule is a subject only for wistful discussion

by local officials."[1] Given this background, it should not be

surprising that consolidation in Marion County was the sole product

of state legislative activity. In 1969, a bill establishing Unigov

passed in both the House and Senate. The Democratic opposition to

Unigov attempted to add an amendment to the basic bill in the Senate

which would have required a local referendum. The final tally fell

two votes short of the necessary majority required to pass the

amendment. Thus, Unigov went into effect on 1 January 1970 without

the consent of Marion County residents.

The Carson City-Ormsby County consolidation does not represent

a state-mandated merger in the same sense as Unigov. For one thing,

the total population of Carson City after consolidation was only

15,000. Also, as a prelude to the enactment of consolidation by the

Nevada legislature, Ormsby County residents endorsed the idea of merger

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of local governments. On the higher tier, one metropolitan government
bore responsibility for area-wide services, and a network of semi-
autonomous municipalities, comprising the lower tier, provided
services local in nature. One aspect of the Toronto experience will
be discussed later in the chapter.

[1]York Wilbern, "Unigov: Local Government Reorganization in
Indianapolis," Regional Governance: Promise and Performance,
Advisory Commission on Intergovernmental Relations (Washington:
U.S. Government Printing Office, 1973), p. 49.

through a referendum. On this basis, the Carson City experience represents a state-mandated consolidation only in a formal sense.

Although state-mandated consolidations were attempted only infrequently from 1947 to the mid-1960s, recent experience suggests that they will play a more prominent role in the future. In addition to the Indianapolis and Carson City examples, the Nevada state legislature passed a law in 1975 merging Las Vegas and Clark County. The Las Vegas merger was scheduled to take effect on 1 January 1977. However, near the end of 1976, the consolidation law was overturned by the Nevada Supreme Court.[1]

Case Study Approach

In this section, several consolidations will be surveyed on the basis of their conformity to the framework underlying either the efficiency or redistribution models. The particular consolidations described in this section were chosen for basically two reasons. First, each of the following cases clearly exhibits the qualities of one of the two models. Also, each consolidation occurred long enough ago that some evidence pertaining to the aftermath of merger may be compiled.

Redistribution case studies

The cases which are used as prototypes in this section are the Baton Rouge-East Baton Rouge Parish and Columbus-Muscogee County consolidations. Each of these mergers clearly, and sometimes

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[1] See, 92 Nevada Advanced Opinion 104.

dramatically, embody the major components of the redistribution model. The consolidations are similar in that both involved a redistribution of benefits from the county outside the city to the central city. However, there are basic differences between the two cases. The preliminary redistribution model, as developed in Chapter II, captures the essence of the Columbus consolidation. Of the two jurisdictions involved, one (city) was relatively large and the other (county) very small. Accordingly, consolidation did not serve to greatly enhance the monopoly power of the bureau. The analysis developed before the introduction of the bureau is thus relevant.

Consolidation in metropolitan Baton Rouge proved somewhat unusual in that, at least legally, the parish and city retained separate governments. Still, governmental decision-making power was concentrated in one unit--the Parish Council. This body was comprised of 11 members, 9 of whom were from the city and 2 from the county. In addition to the form of local government, for our purposes there are other more theoretically fundamental differences between the Baton Rouge and Columbus cases. Before merger, Baton Rouge and East Baton Rouge Parish were of substantial size in terms of population and square miles. For this reason, consolidation was at heart monopoly enhancing. Unlike the Columbus case, where the bureau's interest proved minor, in the Baton Rouge consolidation procedure, bureaucrats competed with the city for any gains which might be obtained.

In the following discussion, we are primarily interested in isolating the major features of the redistribution model and then

demonstrating how the circumstances surrounding real-world consolidations reproduce these features. As the previous chapters indicate, the distinguishing features of the redistribution model are (1) the voting procedure which in effect gives the city veto power over consolidation, and (2) the way tax rate differentials within the consolidated jurisdiction enable the city to exact confiscatory transfers from the county.

Attention will be directed first toward the type of voting rules embodied in each consolidation. Apart from the actual circumstances surrounding the two cases, the Columbus and Baton Rouge rules differ in a formal sense. The voting rule implemented in Baton Rouge was a fairly typical one. Consolidation's success depended upon simple majority consent throughout the entire metropolitan area. Without additional information, there is no reason to conclude that an area-wide majority rule gives either the city or county a predominant voice in the proceedings.

In contrast, the Columbus voting rule introduces a definite bias into the procedure, even when considered in abstract terms. On the surface, the rule appears like many others--consolidation does not pass unless a majority of residents in the city and a majority in the county are in favor. Strictly on this basis, the rule appears to be a candidate for an efficiency explanation of consolidation. However, the Columbus method also involves a peculiar way of tabulating votes. For the purposes of this consolidation referendum, city residents, of course, were counted in the city

election, and, significantly, their votes also were recorded in the county election.

While not granting exclusive veto power, this procedure, aptly labeled the double-count majority rule, does enable the city to exercise a modified form of this authority. For under no circumstances will consolidation pass without majority consent in the city. More importantly, consolidation may pass if a majority, or even all, of the residents in the county outside the city are against consolidation. To reiterate, this situation may occur because the city is allowed to participate in the county election.

When the circumstances surrounding consolidation are introduced, the redistributive nature of these voting rules becomes much more evident. Consider, again, the Columbus case. Knowledge of population differences between jurisdictions is crucial to understanding the nature of the voting procedure here. In 1962 when a consolidation proposal was presented to the voters, the populations in the city and county were approximately equal. While the conjunction of this population distribution along with the double-count majority rule allows city residents to prevent an unwanted consolidation, it does not empower them to impose consolidation. As might be expected, the 1962 referendum failed in both the city and countywide elections. The vote in the city election was 5,563 in favor and 6,032 against. In the countywide poll 6,612 favored and 9,102 opposed consolidation. This last outcome translates into only 1,049 residents outside the city favoring and 3,070 opposing consolidation.

Between 1962 and the next consolidation attempt (1970), there were violent shifts in the relative populations of the city and county. Almost all of this shift can be accounted for by the annexation which occurred in this intervening period. In 1969, approximately 42.5 square miles, containing over 50,000 people, were annexed to the city. This move left about 3,500 nonmilitary people in Muscogee County beyond the city limits. In contrast, the population in the city of Columbus grew to over 150,000 as a result of annexation.

After such a massive annexation program by the city, the time was ripe for another consolidation attempt. With the population distribution now city-oriented, the double-count majority rule in effect gives the city exclusive power to dictate the consolidation outcome. For even mild support of merger in the city would overwhelm the most adamant opposition in the county. In the Columbus case, urban residents strongly supported merger. On 27 May 1970, consolidation passed in the city by a vote of 12,379 to 2,788. The countywide election resulted in 12,500 favorable and 2,989 unfavorable votes. In percentage terms, 82 percent of the city favored consolidation, whereas 62 percent of the people in the county outside the city opposed merger. Clearly, even if the opposition rate in the county had been 100 percent, consolidation would still have passed because of the initial population distribution.

The Baton Rouge consolidation also provides an example where the distribution of population plays a crucial role in interpreting the nature of the voting rule. Before consolidation, the

distribution was weighted heavily in favor of the county. In 1948, the population in the city was 34,263 and in the outlying area 113,358. Recall that the city and parish governments were to be maintained after consolidation. The Baton Rouge consolidation charter was unusual in that it proposed to expand the boundaries of the city to include areas formerly on the urban fringe. In effect, the area of the city was to increase from 5 to 30 square miles. The city would serve as one zone of taxation, and the remainder of East Baton Rouge Parish (except for a small industrial tax zone) as another.

With consolidation, residents in the newly established city would outnumber other residents by 124,091 to 30,646. By extending the boundaries of the city, and establishing it as a separate tax area, the stage was set for a redistribution consolidation. Most residents who were destined to become new members of the city were now on the same side of the fence as old city residents. Since the boundaries of the expanded city served to demarcate areas of differential tax treatment, old and new city residents could use consolidation as a method of shifting the tax burden from themselves. This strategy promised success because of the shift in population distribution inherent in the consolidation charter. In short, the circumstances surrounding the Baton Rouge case permit the area-wide majority rule to be used as a tool of redistribution. The population in the old city and urban fringe is so great that, to a large extent, any opposition can be overcome.

As the above passage suggests, the redistributive transfers which voting rules facilitate are interwoven inextricably with the

question of tax rate flexibility. Common to all real-world consolidation charters is the specification of differential zones of taxation. For any given voting rule, creation of these tax zones increases the likelihood that redistribution consolidations will in fact occur.

The nature of the tax burden shift subsequent to the Baton Rouge consolidation was more complex than a direct redistribution of income from all county to all city residents. Although expansion of the city limits in principle allowed all affected individuals to participate in the extraction of transfers, residents in Ward 3 of East Baton Rouge Parish opposed consolidation. Unlike residents in the other wards surrounding the city, the inhabitants of Ward 3 consisted of a closely knit working class group. The rationale for their opposition stems from a Louisiana constitutional provision known as the homestead exemption law. This provision exempted the first $2,000 of assessed property value in Louisiana parishes from any taxes. Since property values in East Baton Rouge Parish were generally underassessed, this meant that many residents of the low income Ward 3 did not have to pay any taxes before consolidation. With merger, those residents of Ward 3 who lived on the fringe of the old city would be brought into the urban tax district. No longer would they qualify for the $2,000 homestead exemption. Overnight their tax share threatened to increase from literally nothing to a substantial amount.

Figure 5.1 reveals how the consolidation vote in the metropolitan area was actually split. Notice that voters in the old city (W1 and

East Baton Rouge Parish
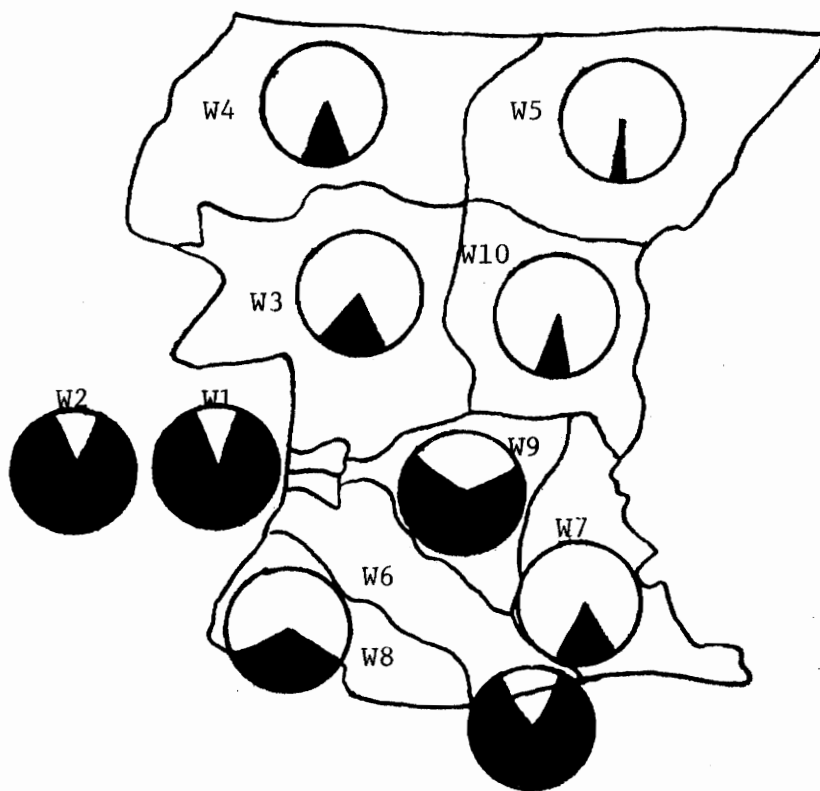
● Vote for consolidation

Source: William C. Harvard, Jr. and Floyd L. Cortz,
         Rural-Urban Consolidation: the merger of
         governments in the Baton Rouge Area (Shreveport:
         Louisiana State University Press, 1964), p. 31.

Fig. 5.1. Votes for Consolidation
           in Baton Rouge

W2) heavily favored consolidation by a ratio of approximately 3 to 1.
Wards 6 and 9, which were to become part of the city, favored
consolidation, although by rather modest margins. Opposition
immediately north of the city did materialize as suggested above.
Out of a total of 4,000 votes cast, residents in Ward 3 were against
consolidation by 3 to 1. Keep in mind that one portion of this ward
was to become a part of the urban tax district and the other portion
part of the rural tax district. The most forceful response emanated
from the five wards which ultimately comprised the rural tax zone.
Without exception, these wards opposed consolidation. Wards 4, 5,
and 10 taken together voted against consolidation by an overwhelming
ratio of 5 to 1. Clearly, the rural sections of the metropolitan
area perceived consolidation to be inimical to their interests.

Although remnants of the city and county governments did not
remain, the Columbus merger resembled the Baton Rouge case in that
the consolidated jurisdiction was apportioned into zones of taxation.
In the Columbus case, there were three urban service districts. The
boundaries of the first district traced the pre-1969 city. The
second service district contained the residents annexed in 1969.
Finally, the third district included all the territory outside of the
city before consolidation.

Some indications of consolidation's redistributive effects can
be obtained in the Columbus case by examining millage rates before
and after consolidation. The millage rates eventually selected for
the three districts proved to the clear detriment of rural residents
outside the original city limits. Before consolidation, a city tax

of 17 mills and a county tax of 10 mills was levied on all city residents. Outside the city limits, residents were only subject to the 10 mill county tax. The redistribution theory developed in Chapter II should give some indication of the change in millage rates to be expected after consolidation. This analysis suggests that residents of the preconsolidation city of Columbus will attempt, through merger, to (implicitly) reduce their marginal tax prices and increase the tax price confronting county residents. Recall that the city can increase the marginal tax price to the point where suburban residents are just willing to remain in the consolidated jurisdiction. As long as city and county preferences are not too divergent (more specifically, as long as the postconsolidation output is not significantly less than the output consumed in the county before consolidation), then the relative shifts in marginal tax prices implied by the redistribution model result in an increased tax bill for suburban residents. The higher tax bill translates into higher suburban millage rates. Whether the millage rate confronting urban residents increases or decreases depends largely on their elasticity of demand for public goods.

Table 5.3 shows what in fact happened to millage rates the year after the Columbus consolidation. The highest rate of 26.9 mills was levied on property in the old city. The next rate of 24.8 mills applied to all property annexed after 1969 (district 2). Notice that both of these rates are slightly lower than before. Turning to the third urban service district, the table indicates that millage rates changed significantly. With consolidation the millage rate

TABLE 5.3

COLUMBUS-MUSCOGEE MILLAGE RATES

District	Before Consolidation	After Consolidation
1	27 mills	26.9 mills
2	27 mills	24.8 mills
3	10 mills	20.5 mills

SOURCE: Urban Action Clearinghouse, City/County Consolidation: Columbus, Georgia: Case Study Number 18 (Washington: Chamber of Commerce of the U.S., 1971).

in the rural area increased from 10 to 20.5 mills. These changes are consistent with the redistribution theory of consolidation. While urban residents' tax bills remained approximately constant, rural area contributions more than doubled after consolidation.

The huge tax increase in the third urban service district induced four citizens who owned property in the district to file a suit challenging the taxing district and millage ordinances adopted by the council. However, a Superior Court judge and the Georgia Court of Appeals ruled in favor of the government.[1]

Indications of rural citizen unrest can also be observed in the aftermath of the Baton Rouge consolidation. One commentator, sympathetic to the cause of consolidation, attempted to rationalize this dissatisfaction:

> The attention accorded the city during the earliest period of the plan's operation was not simply a matter of the city's having made a better bargain in moving toward consolidation than the rural areas; the city was the area of most urgent need insofar as public services were concerned.[2]

In Baton Rouge, as in Columbus, court cases were initiated by those residents not adequately represented in the consolidation procedure. Again, these cases proved to be only an instrument of expression and not a means of remedying the burdens inflicted by merger. In State ex. rel. Kemp v. City of Baton Rouge, the plaintiffs argued that the process leading to consolidation did not protect their

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[1] See Hart v. Columbus, 188 SE2d 422, for documentation of the disparity in services between the rural and urban areas.

[2] William C. Havard and Floyd L. Cortz, Rural-Urban Consolidation: The Merger of Governments in the Baton Rouge Area (Shreveport: Louisiana University Press, 1964), p. 144.

rights. The court cited a previous annexation case to refute the
plaintiff's contention that higher taxes were unjustly and illegally
forced upon them. The precedent-setting case maintained that
annexation is not

> unconstitutional as depriving the people of the annexed
> territory of their property without due process of law
> through the imposition of taxes or additional taxes, as
> where, by the method of voting prescribed by the annexing
> statute, the voters of the lesser municipality are over-
> powered by the voters of the larger and the annexation
> compelled without their consent and against their protest.[1]

Not only did the court uphold the redistributive form of the
Baton Rouge case, but, in discounting the rural area's rights in the
consolidation procedure, the court also implicitly acknowledged the
redistributive consequences of the merger. The court stated that

> although citizens and property holders may by such changes
> suffer inconvenience and their property may be lessened
> in value by the burden of increased taxes, or for any other
> reason, they have no right by contract or otherwise, in the
> unaltered or continued existence of the corporation or its
> powers, and there is nothing in the Federal Constitution
> which protects them from these injurious consequences.[2]

The abstract theory of Chapter II, which implied property value
depreciation in the county, has come to life in the court's
pronouncement justifying the aftermath of the Baton Rouge
consolidation.

Since the court ruled that property value depreciation was not
adequate grounds to revoke consolidation, residents turned to the
city legislature. In the fall of 1949, an amendment to the charter,

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[1] State ex. rel. Kemp v. City of Baton Rouge, 40 So2d 477.

[2] Ibid.

known as the Webb plan, called for the abolishment of the city
government. The obvious intent of this amendment was to replace the
present government with a Parish-type system in the hope of
eventually reducing the tax burden. After an extended legal
struggle, the courts prevented an amendment of this nature from
being voted on by the city council because of a technicality relating
to the petition for the amendment. Although the failure of the Webb
plan did not end the widespread discontent, it did represent the last
concerted attempt to revoke consolidation.

Efficiency case study

As developed earlier, an efficiency consolidation requires that
all segments of the metropolitan area benefit from merger. The only
large-scale case which approximately satisfies this condition is
the 1967 Jacksonville consolidation. While the consolidation outcome
was not unanimously endoresed, at least the Jacksonville case captures
the spirit of the efficiency explanation. In outlining the
circumstances surrounding consolidation, we shall attempt to highlight
those gains residents perceived from merger.

In the mid-1960s, the population of metropolitan Jacksonville
climbed well over 500,000. Population growth throughout the area was
uneven, however. The city of Jacksonville was slowly declining in
population, so that in 1965 population dipped under 200,000. Outside
the city limits, population grew rapidly. In order to accomodate
jurisdictions of such proportion, a sizeable bureaucratic
superstructure was gradually established in the city and county.

Duval County contained 74 elected officials, 6 independent boards and authorities, 17 major departments, and 19 minor departments. Similarly, within Jacksonville there were 18 elected officers, 23 departments, and 4 boards or authorities.

There is substantial informal evidence indicating that, in the period before consolidation, bureaucrats exercised some monopoly power. For instance, even though population was actually declining, city budgets increased substantially on a year-to-year basis. From 1950 to 1965, the Jacksonville budget increased from $23.9 million to $94.8 million, while population decreased from 204,517 to 198,000.[1] One city official commented that "commissioners usually submit a budget twice what they really need. They shoot for the moon and hope to catch a star."[2]

Jacksonville bureaucrats were also adept at obtaining salary increases as well as other perquisites which sometimes accompany the job. For a city of its size, Jacksonville had the largest number of full-time employees and the highest monthly payroll in the nation. Officials also obtained monetary and nonmonetary income from other sources. These benefits came to the attention of local residents when on 22 July 1966 a grand jury initiated the first of many city official indictments. At this time two city councilmen and a former recreation department executive secretary were indicted on charges of larceny, conspiracy, and perjury. The Grand Jury report of

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[1] Even in real terms, this represented a budget increase of over 200 percent.

[2] Jack Morris, "You Would Want Our System? Officials of Jacksonville Wonder," Memphis Commercial Appeal, 21 October 1965.

12 August 1966 stated, "Many of our city officials have apparently considered the city government as their private business with a never ending source of revenue. Any private business similarly operated would long since have closed its door."[1] Subsequently, the Grand Jury indicted two city commissioners, another city councilman, a council president, and a city auditor.

Two factors--Florida constitutional law and the tax assessment policy implemented by Ralph N. Walter--had served as constraining influences on the bureau. Property values in Duval County had traditionally been assessed below market value. Under the administration of Walter, the city assessor, the ratio of assessed value to market value steadily declined. In 1955, Duval real property was assessed at 41.64 percent of market value; by 1964, the ratio declined to only 30.52 percent. Given Florida's homestead exemption law, which exempted the first $5,000 of assessed value, this declining ratio created a somewhat unusual situation. Of Duval's 93,500 homesteads, 60,000 were not even on the tax rolls in 1964.

The position of tax assessor is an elective office in Duval County. In 1964, Walter, the incumbent, ran on the campaign pledge to hold down the tax bill by maintaining low assessment ratios. He handily defeated his opponents both in the primary and general election. A suit was brought against Walter later in the year by the Taxpayers Association which claimed that he was violating a constitutional provision that property be assessed for tax purposes

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[1] J. C. Green, "Grand Jury Blasts City in Car Purchasing Use," Times-Union, 13 August 1966.

at just valuation. Judge William Durden of the Circuit Court ruled

in January 1965 that Walter was "systematically, deliberately, and

intentionally underassessing real and personal property at a steadily

decreasing ratio of its full value."[1] Durden ordered reassessment

at full (100 percent) cash value.

Walter's assessment policy had provided a check on the bureau's

budget expansion powers. To appreciate this constraint, suppose that

instead of decreasing assessments, Walter had maintained the ratio.

In this case as the value of property increased through time, perhaps

as a result of inflation, tax revenue would also increase. Local

government would have an automatic source of additional revenue. The

policy Walter actually pursued did not give rise automatically to

additional revenue over time. In order to increase the budget, the

local government was forced to increase millage rates. Any revenue

generated in this fashion would be more difficult to come by, since

millage changes are more easily identified by the public and,

therefore, more directly subject to political pressures. Hence, the

reversal of the underassessment policy eroded one of the public's

indirect controls over the budget.

There was an even more important reason for citizen dissatis-

faction with Judge Durden's order. With the reassessment of property

values, many individuals, who before paid no taxes because of the

homestead exemption law, were introduced onto the tax rolls. For

these new taxpayers, the cost of local government's operation

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[1]Times-Union, 6 June 1965.

intruded upon them for the first time. The combined effects of the burgeoning tax rolls along with the elimination of the underassessment strategy made Duval Countians acutely aware of the (potential) cost of local government in the mid-1960s. Any future plan to restructure the government would have to calm the minds of the voters on this score.

Having recorded the major events which contributed to the "climate" immediately preceding the 1967 consolidation attempt, it will prove instructive to review the nature of the consolidation voting procedure generally used in Florida. Historically, a consolidation's success has required consent from a majority of residents throughout the area to be affected. Clearly this rule, in itself, does not grant either the city or county exclusive authority to determine the outcome. Neither does it insure both jurisdictions a voice in the procedure. However, given certain population distributions, this procedure does reduce the likelihood of significant income transfers through consolidation.

Consider the population distribution in Duval County before consolidation. City population was just under 200,000 and the population outside the city limits (excluding those small incorporated areas which chose to maintain their autonomy) was 235,067. If either the city or county strongly opposed merger, a referendum most likely would fail under those circumstances. The population configuration in Duval County certainly reduced the probability of a redistributive consolidation, given the area-wide voting rule.

We have found that some voting rules which appear to be consistent with an efficiency explanation are actually redistributive in nature, when considered in conjunction with the annexation procedure. In the Jacksonville case, the basic nature of the consolidation voting rule was not undermined by the annexation procedure. Indeed, the efficiency-generating aspects of consolidation become even more apparent when the annexation policy prior to consolidation is taken into consideration. Here, annexation required majority consent from the annexed as well as the annexing area. Hence, annexation could not be introduced as a threat by the city to induce county votes for a welfare-reducing consolidation.

Two annexation attempts preceded the Jacksonville consolidation. On 8 January 1963, a proposal called for the annexation of 130,903 people into the city. While the city favored annexation by 17,974 to 5,310, the proposed annexed area voted against the proposal by a margin of 15,936 to 11,927. Again, late in 1964, the city proposed annexation. And again the proposal received the support of city residents but lost in the county by a vote of 28,397 to 18,328. Each of these annexation votes occurred before Judge Durden's reassessment order. The proposals also involved a substantial portion of the county outside the city. These unsuccessful attempts suggest that agglomeration was not beneficial to metropolitan residents. At the very least, we can conclude that before the reassessment order, the designers of the annexation proposals were unable to construct a plan that was perceived as beneficial to most city and county residents.

Several reasons preclude the 1963 and 1964 annexation attempts
from legitimately being used as inputs into a prediction of the 1967
consolidation outcome. First, as suggested earlier, there were
significant differences between the political and economic climate
in 1964 and 1967. In the years after the last unsuccessful
annexation attempt, public schools lost accreditation, corrupt
officials were uncovered, and Walter's assessment policy suffered a
reverse. Furthermore, annexation and consolidation outcomes cannot
be compared because of underlying differences in the two structures
of government. Annexation implies maintenance of the previous
structure of government, whereas consolidation involves a basic
reorganization of local government. During the mid- and late 1960s,
revenues from state and federal governments were being funneled
to local governments at unprecedented rates. It was the latter type
of structure, that of consolidation, which appeared uniquely designed
for attracting such funds. For instance, the simple reformulation of
the city boundaries to include the county would automatically bring
in $2 million of additional cigarette aid in the first year after
merger. Also, if the nearby Miami-Dade County experience was of any
relevance, residents would enjoy a large inflow of federal funds with
consolidation.[1]

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[1]A detailed explanation of how and why a consolidated
government is better able to attract outside funds is not of
particular concern here. The important point is that Duval Countians
perceived Metro Jacksonville as being a means of obtaining more state
and federal funds.

Hence, one of the major selling points of consolidation, which could not be utilized in the earlier annexation campaigns, was the fact that the new government would be able to attract significant amounts of outside revenue. Even given this anticipated benefit, recent events would make Jacksonville residents extremely wary of promoting any structural change that enhanced the monopoly power of the bureau. The success of consolidation depended upon residents obtaining some assurance that the gains from attracting outside funds would not be completely dissipated by either budgetary expansion or bureaucratic shirking.

One obvious, if radical, method of implementing such control would be through a millage rate ceiling incorporated directly into the consolidation charter. Ironically, only as a result of Judge Durden's assessment order could such an approach be effective. Before Durden's order, a millage limit could not be binding on the maximum size of the bureau's budget. This restriction might always be circumvented through upward pressure on the ratio of assessment values to market values. However, there is no escape from the check imposed on the tax burden when 100 percent assessment is the norm. Designation of millage limits in a consolidation charter fixes the tax bill (from local sources) at a specific level.

The proposed incorporation of millage limits into the charter was instrumental in the proponents' campaign for consolidation.[1]

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[1]Joseph Kennelly, a respected state representative and former member of the Duval County Budget Commission, went so far as to say that "consolidation offers the only real hope for tax relief to

Richard Martin, author of Consolidation: Jacksonville, Duval County,

summarized the significance of the limitations: "possibly no other

single factor was as important as this one to the passage of

consolidation."[1] Table 5.4 outlines the substance of article 25,

section 25.01 of the consolidation charter. Millage limitations on

three types of services were outlined in concise terms in the charter.

Taxes in the general service district were levied for "general

government purposes," and taxes in the urban district were levied

for "additional government services." The process for altering the

constitutional limits are contained in section 25.02 which states,

> No increase shall be allowed in any of the millage limitations
> provided in section 25.01 above unless first approved by a
> majority vote of the freeholders voting in a special referendum
> in the district to be affected by any such proposed increase in
> millage limitations.[2]

Establishing or altering the limits was left entirely in the hands of

the majority.

The outcome of the consolidation election on 8 August 1967

completely reversed the trend established in the previous annexation

attempts. Out of a total of 86,079 votes, 54,493 favored and

29,768 opposed consolidation. The winning percentage was 63.9.

Support for consolidation was equally strong in the city and county.

Duval Countians in the foreseeable future." See, Richard A. Martin,
"Consolidation Seen Hope for Tax Relief," Times-Union, 30 July 1967.

[1]Richard A. Martin, Consolidation: Jacksonville, Duval County
(Jacksonville, FL: Crawford Publishing Company, 1968), p. 168.

[2]Consolidated Government of Jacksonville Charter, article 25,
section 25.02.

TABLE 5.4

MILLAGE LIMITATIONS IN JACKSONVILLE CHARTER

Service Basis	Millage Limitations
Schools	not more than 16 mills unless otherwise set by referendum of majority of qualified electors
General services	not more than 14 mills
Urban services	not more than 6 mills

SOURCE: Consolidated Government of Jacksonville Charter, article 25, section 25.01.

In the city, those for and against merger were 19,534 and 9,677, respectively. Final tabulations in the county revealed 30,858 supporting and 17,192 opposing consolidation. All except the very sparsely settled rural areas favored consolidation. Only 40 of 187 county precincts failed to carry the proposal, and in many of these precincts the charter failed by only a few votes.

A detailed breakdown of the vote reveals how thorough was the reversal from the previous annexation referendums. In the annexation attempt of November 1964, zone 6 (Ortega-Cedar Hills) defeated annexation by 5,462 to 3,059. The same area approved consolidation 3,601 to 1,592 in the 1967 election. Similarly, the Lakewood precinct defeated annexation 532 to 383 in 1964, but it favored consolidation 520 to 151. Finally, annexation was voted down in the Arlington precinct by 937 to 591. However, in 1967 merger won in Arlington by 479 to 151.

The discussion of the Jacksonville experience suggests that in examining the postconsolidation record, attention should be directed toward evidence that indicates (1) both city and county residents perceived a gain from consolidation, and (2) consolidation was basically monopoly enhancing. Recall that area-wide residents perceived a gain from consolidation to the extent that additional sources of revenue could be attracted without adding significantly to the local tax burden. Table 5.5 indicates that Jacksonville citizen-voters at least partially were successful on this score. The charter's millage ceiling served as an effective constraint on total property tax revenue collected by the new government. In the

TABLE 5.5

METRO JACKSONVILLE BUDGET COMPONENTS

Item	1969-70		1974-75	
	Total	Per Capita	Total	Per Capita
General Revenue	61,882	122.79	179,939	344.74
Intergovernmental	5,047	10.01	67,936	130.16
Own Sources	56,835	112.78	112,003	214.58
Property Tax	24,697	49.00	32,383	62.04
General Expenditure	68,280	135.48	199,115	381.48

SOURCE: U.S., Department of Commerce, Bureau of Census, City Government Finances (Washington: U.S. Government Printing Office).

year before consolidation, property taxes were approximately $40 per head. Over the next three years, these taxes rose by only $9 per capita. Finally, in 1975 the per capita amount still totaled only $62. Translated into real terms, the per head property tax actually decreased from 1966 to 1975.

The stability in property taxes was counterbalanced to some extent by increases in other sources of local revenue. From 1969-70 to 1974-75, the per capita amounts of total revenue from own-sources approximately doubled. During this period, the own-source listed as "miscellaneous" increased from $6,460 to $27,951. However, as we shall explain subsequently, even these increases were overwhelmed by the growth in outside revenue.

Another measure, the effective tax rate, also reflects the potency of the consolidation millage limitation. The effective property tax rate measures local property taxes paid as a percentage of the market value of an individual's property. In 1966, the effective rate was 1.81 percent in the city and 1.78 percent in the county (outside the city). Five years later in 1971 the effective rates in both areas decreased substantially. The core city rate decreased to 1.1 percent and the rate for the remaining area dropped to 1.2 percent. In addition to signaling a decreased property tax burden, the uniform change in rates indicates the absence of any relative tax liability shift. Unlike the Baton Rouge and Muskogee County cases, consolidation did not systematically transfer the property tax bill from one segment of the population to another in Duval County.

Predictably, the relatively slow growth of own-revenue did not
noticeably affect the expansion of the government's budget. After
consolidation, the rate of increase in total spending overwhelmed
the corresponding increase in local revenue. From 1969-70 to
1974-75, Metro Jacksonville's per capita expenditures increased by
over 180 percent.[1] Comparatively, for cities of the same size in
the nation as a whole per capita budgets increased by only
78.5 percent. In keeping with campaign promises, the source of the
increased Jacksonville spending was intergovernmental revenues from
state and federal levels. The increase from this source was truly
dramatic. In 1969-70, per capita intergovernmental revenue stood at
$10 and in 1974-75 the total climbed to over $130. While inter-
governmental revenue grew in other cities of comparative size, the
change outside of Jacksonville was much more modest. For cities
with populations of 500,000 to 999,000, intergovernmental revenue
increased by 143 percent from 1970 to 1975.

The outstanding feature which emerges from an even cursory
examination of Table 5.5 concerns the fact that the growth in
intergovernment revenue outdistances any other revenue source. This
feature suggests that bureaucrats and residents alike achieved their
goals through consolidation. Citizens prevented the complete
dissipation of gains from consolidation through constitutional millage
limitations. True, total local revenue did increase after
consolidation, but each dollar of local revenue was compensated by

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[1]In real terms, general expenditures increased by over 100
percent from 1970 to 1975.

many more dollars of outside revenue. Furthermore, this inflow of federal funds enabled bureaucrats to increase the size of the budget to an extent they were unable to in the past, and to an extent equaled by few other contemporary cities.

Throughout this section we have argued that the Jacksonville case belongs in the efficiency category. A study of the Jacksonville election by Parris N. Glendening and John Wesley White supports this contention. These writers maintain that other consolidation procedures would do well to follow the Jacksonville example and "permit all major groups involved to gain, or to think they will gain, from the change."[1] However, at this point we must acknowledge that the efficiency label may be somewhat of a misnomer. Examined from a global perspective, the Jacksonville consolidation was not necessarily a Pareto superior move. Gains from consolidation did not necessarily accure from economies of scale or the internalization of externalities; instead, an important reason for the endorsement of merger by Duval Countians pertains to the fact that they were able to extract more from the large federal pot.

Verification of the Bureau's Monopoly Power

A large portion of the theoretical analysis was devoted to a demonstration that bureaucrats are major beneficiaries of consolidation. The bureau's enhanced monopoly power arises from the increase in migration costs consequent to merger. Migration costs will increase with any large-scale merger, whether efficiency,

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[1] Martin, Consolidation: Jacksonville, Duval, p. 233.

conclusion following from Chapter IV is that all consolidations are at heart monopoly enhancing. We found in the last section that bureaucrats have much to gain even from an efficiency consolidation.

In this section, the general implication that consolidation increases the monopoly power of the bureau is evaluated. Consolidation, by this explanation, will lead to an increase in spending and public employment, an increase in salaries and benefits associated with employment, and, finally, change the mix of the local government budget (see Chapter IV). All of these changes will be more prominent, the larger the increase in bureau monopoly power as a consequence of consolidation. If consolidation serves to merge two governments of large population and area, then, naturally, the monopoly effect should be noticeable. In contrast, when a jurisdiction of small size (in relation to the other unit) is involved, consolidation will have a much more modest impact on the ability of bureaucrats to extract surplus from citizen-voters.

This basic distinction motivates a division of successful consolidations into two categories. Consolidations in Baton Rouge (1974), Dade County (1957), Nashville (1963), Jacksonville (1967), Indianapolis (1969), and Lexington (1972) each involved two jurisdictions of substantial size. Hence, the bureaucratic implications should apply fully. The remaining consolidations have been different in character, however. Consolidations in Virginia and Alaska, for instance, have involved jurisdictions with small populations. Such also is the case with the Carson City-Ormsby County merger. The Columbus-Muscogee County case is somewhat

unusual. While the population of Columbus was relatively large, the population in the county, as a result of prior annexation, was much lower before consolidation. In this case, as well as the Nevada, Virginia, and Alaska cases, the interest of the bureau in consolidation will be marginal. For this reason, consolidations have been demarcated according to the relative sizes of the merging jurisdictions. Only in those cases where the jurisdictions are large, and of approximately equal size, should we anticipate that the bureau's influence will be striking.

In the remainder of this chapter, consolidations involving large jurisdictions will be studied. The attention devoted to "large" mergers is based on the fact that the bureaucratic implications, previously derived, fully apply only in these cases. Still, data on the consolidation of small localities would be of some interest. The "small" mergers could serve as a point of comparison. We would anticipate that the indicators of monopoly power would be less responsive in the context of "small" consolidations as compared to "large" consolidations. However, in practice such an examination proves impossible. "Small" local government data are either not available or incomplete.

Spending and public employment implications

Tables 5.6 and 5.7 give one measure of the degree to which bureaus are able to exercise their influence after consolidation. The tables compare the percentage change in spending and public employment for a given period preceding consolidation with an

TABLE 5.6

PUBLIC EMPLOYMENT BEFORE AND AFTER
CONSOLIDATION

City and County	Employment before Consolidation		Employment after Consolidation	
	Period	% Change	Period	% Change
Baton Rouge-EBR Parish	1943-48	29.8[a]	1949-54	36.0
Miami-Dade Co.			1957-62	49.0
Nashville-Davidson Co.	1957-62	35.3	1963-68	35.6
Jacksonville-Duval Co.	1962-67	(-4.2)	1968-73	58.2
Indianapolis-Marion Co.	1962-67	1.9	1970-75	90.1
Lexington-Fayette Co.	1967-72	41.4	1974-75	109.4[b]

[a]Based on only city data.

[b]Even though the "after" period is less than five years, the "after" percentage was calculated on a five-year basis for purposes of comparison.

SOURCE: Various issues of City Employment and Local Government Employment in Selected Metropolitan Areas and Large Counties. Each of these are published annually by the U.S. Department of Commerce, Bureau of the Census (Washington: U.S. Government Printing Office). See, also, various issues of U.S., Bureau of Census, Census of Governments, Public Employment (Washington: U.S. Government Printing Office).

TABLE 5.7

GOVERNMENT EXPENDITURES BEFORE AND AFTER
CONSOLIDATION

	Real General Expenditures Before Consolidation		Real General Expenditures After Consolidation	
City and County	Period	% Change	Period	% Change
Baton Rouge-EBR Parish	1942-47	2.9[a]	1950-55	231.2
Miami-Dade Co.			1957-62	38.3
Nashville-Davidson Co.	1957-62	67.7	1964-69	44.0
Jacksonville-Duval Co.	1962-67	4.0	1970-75	110.4
Indianapolis-Marion Co.	1962-67	14.8	1971-75	55.2[b]
Lexington-Fayette Co.	1967-72	38.0	1975-76	142.6[b]

[a]Based on only city data.

[b]Even though the "after" period is less than five years, the "after" percentage was calculated on a five-year basis for purposes of comparison.

SOURCE: Various issues of City Government Finances and Local Government Finances in Selected Metropolitan Areas and Large Counties. Each of these are published annually by U.S. Department of Commerce, Bureau of the Census (Washington: U.S. Government Printing Office). See, also, various issues of U.S., Bureau of the Census, Census of Governments, Government Finances (Washington: U.S. Government Printing Office).

identical length interval (usually five years) after consolidation.
Unless otherwise stated, all preconsolidation data refer to city and
county aggregates. According to the implications previously
developed, a larger percentage increase in each variable over the
latter period would confirm that the bureau is effectively using its
enhanced monopoly power.

The tables do not convey the change in spending or public
employment from the last year of fragmentation to the first year of
consolidation. While this information would be of some interest, it
is difficult to obtain data which is comparable. The difficulty
stems from the fact that mergers differ in the degree to which local
governments within the former city and county are subsumed within the
new governmental unit. Some consolidations may involve only the
individual county and central city governments. Others may involve
the merger of all the special districts and small incorporated areas
within the county, as well as the individual county and city
governments. More generally, consolidation affects the central city
and county governments and some, but not all, of the preconsolidation
special districts and incorporated areas. Hence, a comparison of
public employment for the metropolitan area immediately after
consolidation with, for instance, the individual city and county
government just before merger would not be very meaningful.

The tables contain the available spending and employment data
for all large consolidations. Notice that only the Nashville-
Davidson County case shows some inconsistency with the monopoly
power hypothesis. With respect to the public employment implication,

the results are merely neutral. The rate of increase in public employment was greater after consolidation, but only by a miniscule three-tenths of 1 percent. More conclusively, the relative spending pattern in Nashville-Davidson County is contrary to expectations. While the rate of increase in real general expenditures was substantial (44 percent) from 1964 to 1969, it did not match the rate of increase before consolidation.

The Lexington and Miami consolidation statistics require some explanation. Pre-1957 data on metropolitan Miami were not available. Accordingly, only employment and expenditure information covering a five-year period after consolidation is listed. In Lexington, the consolidated government has existed as a legal entity for only a few years (since 1974). The postconsolidation data, while suggestive, must be judged inconclusive because of the short time span.

The remaining three successful consolidations represent striking confirmations of the theory. In Baton Rouge, the relative magnitudes of the before and after employment figures are as expected. The most impressive difference occurs in the real expenditure category, however, where the percentage change in expenditure after consolidation was over 231 percent.[1] In Jacksonville, the postconsolidation record of spending and employment also represented a significant change from the past. Note the difference in the rate of increase in real expenditures before and after consolidation. In nominal terms, general expenditures rose from 68,280 to 199, 115 over the 1970 to 1975 period.

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[1]Strictly speaking, the preconsolidation spending figure cannot be used as a point of comparison. The 1942-47 period was not typical since it included several war years.

Similarly, from 1962 to 1967 public employment actually decreased by 4 percent in Jacksonville. However, for the same length period immediately after consolidation, employment increased by 58.2 percent. That such a rate of growth was sustained becomes even more significant when considered in light of the fact that Jacksonville had the largest number of full-time employees and the highest monthly payroll ($1,449, 616) for a city of its size before consolidation.

In Indianapolis, the story is much the same. Before consolidation, real expenditures increased at a moderate rate of 15 percent, whereas in the period after the percentage change leaped to approximately 55 percent. Proponents of consolidation pointed to the fact that in the year after merger, the number of public employees actually decreased by several hundred. However, this initial decrease was soon overwhelmed by huge increases in employment. While growth in employment was barely perceptible before consolidation, from 1970 to 1975 the number of employees grew from 6,037 to 11,478. This represented a growth of over 90 percent.

Charter provisions for public employees

City-county charters provide another direct indication of the influence and power of the bureau in the consolidation procedure. Invariably, consolidation proposals contain clauses which pertain to the job security of former city and county employees. Such conditions are included because of an awareness that bureaucrats represent a potentially significant influence in the consolidation

process. Table 5.8 presents a summary of the different types of security clauses. The Baton Rouge consolidation guarantees the jobs of only a subset of the local government work force. More commonly, as Table 5.8 indicates, the employment rights of all municipal and county employees are upheld. In Indianapolis, for instance, the specifics of the new government's authority are laid out in legislative law. One statute "provides for the transfer to the consolidated city of all employees as well as other contractual rights and therefore, does not fail to recognize any right of tenure held by an employee of the pre-existing government units so as to deny them equal protection of the law."[1]

The Miami-Dade charter is the only one of the seven under review which does not offer ironclad protection of jobs. This omission proved to be a subject of some controversy in the formulation of the charter. But the public employee lobby eventually lost out when the charter was worded to give them only limited protection:

> Employees of municipalities who, by merger, transfer, or
> assignment of governmental units or functions become county
> employees, shall not lose the civil service rights or
> privileges which have accrued to them during their period
> of employment with such municipalities and the county shall
> use its best efforts to employ these employees within the
> limits of their capabilities. However, if because of the
> merger of a department or division of a municipality with the
> county, all of the employees of such department or division
> are unable to be employed by the county either because of
> lack of funds or lack of work, the employee possessing the
> greater amount of service shall be retained in accordance
> with civil service rules and regulations.[2]

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[1] Indiana, Statutes Annotated, article 4, section 3.14.

[2] Joseph F. Zimmerman, ed., "Metropolitan Dade County Government,"
Metropolitan Charters (Albany, NY: Graduate School of Public Affairs,
SUNY of Albany, 1967), p. 80.

TABLE 5.8

PUBLIC EMPLOYEE GUARANTEES IN CHARTER

	Charter Provisions	
City	Job Security	New Pension & Retirement Plans
Baton Rouge	Police and fire	All full-time employees
Miami-Dade	"County shall use best efforts to employ employees"	New civil service system
Nashville	All public employees	All public employees
Jacksonville	All public employees	
Indianapolis	All public employees	
Lexington	All public employees	All public employees

SOURCE: Various consolidation charters.

Although jobs were not protected universally, a civil service system was instituted in the Miami-Dade County charter which soon yielded tangible benefits. In the first year of its existence, the Civil Service conducted a study of salaries in private and public agencies. The results of this study were used as the basis of computing wage adjustments for government employees. In the year after the civil service report, the total wage bill was adjusted upwards by half a million dollars in addition to seniority and merit pay increases. Approximately 2,600 of 5,500 Metro government employees benefited from this revision of pay plan.

As the Maimi case suggests, many charters offer more to bureaucrats than a simple right of employment. The Lexington consolidation charter not only protects the existing jobs of government employees but also includes a clause which prevents their salaries from being reduced. Several consolidation proposals (Lexington, Baton Rouge, and Nashville) outline new and improved retirement and pension plans for public employees. Before the Baton Rouge-East Baton Rouge Parish consolidation, government workers did not enjoy any fringe benefits. But, as a result of a new charter-authorized retirement plan, employee fringe benefits, which were negligible before 1949, amounted to about $382,000 per year in the 1958-61 interval.

Capital expenditure changes with consolidation

So far we have examined obvious indicators of the bureau's enhanced monopoly status. Increased employment (spending) and more

favorable retirement and pension benefits are directly related to

bureaucrats' well-being. But, as developed in the last chapter,

there are also indirect measures which suggest that a bureau's

monopoly position has been strengthened through consolidation.

Because the difficulty of monitoring the invisible attributes of a

public goods package increases with consolidation, bureaucrats will

channel resources toward those components of the budget which are

most visible and quantifiable. Assuming capital outlays to be of

such a nature, consolidation should increase these expenditures as

a fraction of total expenditures.[1]

Informal evidence of this effect abounds in the statements of

commentators and officials on the progress of particular

consolidations. Time and again these individuals will stress the

concrete and physical accomplishments as indications of

consolidation's success. Thus, consolidation has been praised in

Miami-Dade County for allowing an extensive capital improvements

program which provided roads, hospitals, health clinics, and jails

for an expanding population.[2] In Baton Rouge, Mayor Dumas summed

up an evaluation of consolidation by saying: "We have built the

sewer systems, we have built the roads, the highways, the drainage

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[1]In the data source used, capital outlay is defined as "direct expenditure for contract or force account construction of buildings, roads, and other improvements, and for purchases of equipment, land, and existing structures." See, U.S. Commerce Department, Bureau of the Census, City Expenditures (Washington: U.S. Government Printing Office).

[2]Aileen Lotz, "Metropolitan Dade County," Regional Governance: Promise and Reform, Advisory Commission on Intergovernmental Relations, (Washington: U.S. Government Printing Office, 1973), pp. 6-16.

canals. We have improved our buildings, our jail facilities, our health centers . . ."[1]

The aftermath of the much publicized Toronto consolidation in neighboring Canada proves indicative of many other consolidation experiences. Here capital spending increased dramatically after federation.[2] The structure of metropolitan government in Toronto, dictated by the charter, insured that the "concrete and obvious" would be promoted at the expense of the "less tangible." Originally, Metro Toronto was a two-tier government consisting, at the lower tier, of 13 municipalities. For those municipal services of area-wide significance, an entity, known as the Corporation of the Municipality of Metropolitan Toronto, bore responsibility. Among other powers, the metro level of government possessed the sole authority to float debt issues of the individual municipalities. If a municipality wanted to issue a bond, even for purely local purposes, it had to do so through the Metro Corporation which had final veto power. Significantly, all debt charges were covered through an area-wide levy. This payment arrangement provided a built-in incentive for municipalities to issue debt. While residents in the municipality initiating the bond could enjoy all of the ensuing benefits, the cost of debt servicing was spread over the entire metropolitan region. The cost (to a single municipality)

[1] City-County Consolidation, pp. 13-14.

[2] For documentation of this point, see, Albert Rose, Governing Metropolitan Toronto (Berkeley: University of California Press, 1972).

of capital expenditures, which are commonly financed through bonds, thereby was reduced.[1]

The implications derived in the previous chapter suggest that this peculiar financing scheme actually serves a logical purpose. Metro Toronto was not ever submitted to a popular referendum; rather, the Province of Ontario mandated federation. If the success of federation is judged largely by tangible achievements, then the designers[2] of Metro could not leave the outlays on capital expenditures to the discretion of individual municipalities. A Metro structure which channels bond issues through a central organization, while at the same time providing municipalities with an incentive to borrow, insures that a relatively large segment of the area-wide budget will be devoted to capital expenditures. The visible accomplishments of Metro will, thereby, be properly advertised. Frank Smallwood summarizes the success of this structure:

> ten years' cumulative experience indicates that the Metropolitan Council has been consistently aggressive in tackling the so called 'hard-core' problems where results are concrete and obvious, and considerably less assertive in meeting some of the 'softer', more socially oriented issue areas where results are usually less tangible and more controversial.[3]

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[1] See, Gail C. A. Cook, "Effect of Metropolitan Government on Resource Allocation: The Case of Education in Toronto," National Tax Journal 26 (December 1973): 587.

[2] The state-mandated model developed in the last chapter suggests that the designers will be most responsive to the interests of bureaucrats.

[3] Frank Smallwood, Metro Toronto: A Decade Later (Toronto: Bureau of Municipal Research, 1963), p. 35.

Some indication of the general validity of the capital

expenditure hypothesis can be obtained through an examination of the

U.S. record. The Indianapolis case proves of little interest in this

respect since special districts continue to carry out most capital

expenditure programs. However, in the other cases we would expect

the ratio of capital expenditures to total expenditures to be

greater after consolidation.[1] The data support this expectation.

For instance, in Baton Rouge the average annual capital expenditure

ratio for a six-year period before consolidation (1942-47) was

3.8 percent. Comparatively, from 1950 to 1955 the same ratio was

24.2 percent. Similarly, in Nashville and Jacksonville, the

preconsolidation (1962-67) ratios were 22.9 and 21.5 percent,

respectively. In the five-year period (1971-75) subsequent to

consolidation, the average annual ratio increased to 28.4 percent

for Nashville and to 30.8 percent for Jacksonville. In each of

these three cases, the annual capital outlay ratio is significantly

greater after consolidation.[2]

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[1] The Miami and Lexington cases are omitted for reasons of insufficient data.

[2] The capital expenditure ratio was 20.4 percentage points greater in Baton Rouge, 5.5 points greater in Nashville, and 9.1 points greater in Jacksonville. Furthermore, these local differences are significantly larger than the analogous national differences for the relevant time periods. For instance, compared to the 1942-47 ratio, the 1950-55 average annual ratio is only 15.4 points greater in the nation as a whole. For the Nashville periods, the national increase was (-3.1) points and for Jacksonville (-3.6).

CHAPTER VI

CONCLUSION: CONSOLIDATION AS AN

INSTITUTIONAL CHANGE

The consolidation story since World War II has been one of

numerous attempts with only sporadic success. Less than one out of

every four consolidation proposals pass the test of the local

referendum. Many more attempts are aborted in the constitutional

or legislative stages, and they do not ever reach local residents

in the form of a proposal.

A Review of the Consolidation Record

Of those consolidations that do pass, most have been

redistributive in nature. In these cases, the city is motivated to

design a consolidation proposal that reduces the welfare of

residents in the county. Real-world consolidation procedures differ

in the means by which city residents are given this power. In some

cases, the city is able to shift the tax burden to the county

because of the way rights in the procedure are defined by the voting

rule. For instance, the peculiar nature of the Columbus-Muscogee

County double-count majority rule all but excludes the possibility

of county residents having any power to influence the final

consolidation outcome. Other redistribution procedures, at least

formally, involve efficiency-type consolidation voting rules.

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In these cases, the passage of consolidation is insured by the threat and/or implementation of annexation. The Nashville-Davidson County consolidation is typical in this respect. In 1958, a consolidation proposal requiring separate majorities was defeated by county residents. Only after annexation of part of the county, and the threat of annexation of the remainder, did the city "persuade" the county to accept consolidation in 1962. In still other cases, no proposal is ever submitted to the voters; instead, consolidation simply is mandated by the state legislature.

One reason for the dearth of successful efficiency-type consolidations pertains to the role of the bureau in the consolidation process. An often overlooked fact is that consolidation, by increasing the costs of migration, makes it more difficult for residents to obtain an alternative source of public goods supply. Just as importantly, consolidation reduces the signals through which public manager performance can be judged, and it also reduces the likelihood that the bureau will produce those attributes of the public goods package desired by citizen-voters. Taken together, these factors imply that the bureau will be better able to pursue its goals of budget-maximization and shirking after consolidation.

The evidence set forth in the empirical section of this dissertation broadly supports the monopoly power hypothesis. In most of the cases surveyed, spending and employment aggregates increased markedly after consolidation. Also the capital expenditure ratio increased, indicating that the bureau concentrated

on the more visible components of the budget as predicted. However, these results, while suggestive, must be interpreted with extreme caution. The universe of large-scale consolidations is relatively small. Nevertheless, consolidation attempts have been more numerous in the last few years. Further confirmation of these preliminary results awaits future successful consolidations.

Consolidation as a Negative-Sum Game

The overall picture that emerges from a survey of consolidation's history is one of infrequent success. This in itself suggests that large segments of the metropolitan area rarely perceive any gains from consolidation attempts. But even stronger conclusions are indicated by the survey of Chapter IV. The scenario which emerges from this account suggests that few, if any, proposals pass because residents perceive consolidation as a means of exploiting scale economies or internalizing externalities through the larger sharing group. Efficiency consolidations, which usually entail scale economies, have seldom succeeded. Furthermore, in one of the few efficiency consolidation cases (Jacksonville), we found that scale-economy considerations may not have been a factor. In Jacksonville, consolidation was approved on the basis of an anticipated inflow of federal funds.

The theoretical section did not exclude the possibility of economies of scale accompanying redistribution consolidations. Under certain conditions, a redistribution merger conceivably could take the form of a positive-sum game (where all benefits accrued to city

residents). However, the circumstances surrounding real-world consolidations cast doubt upon the possible existence of these specialized conditions. Commonly, consolidation proposals have failed only to pass several years later--after the threat of annexation. This sequence of events suggests that residents did not perceive any gains from consolidation over fragmentation; but instead, they acquiesced to merger after the city council made clear that the only viable alternative to consolidation was annexation on less satisfactory terms.

Alternative Perspectives

Past contributions to the literature have demonstrated differing degrees of awareness of the consolidation record outlined above. At times, members of the reform tradition have at least implicitly acknowledged the redistributive nature of most consolidation attempts. Recall that the reform tradition maintained that only through consolidation can order be introduced into the chaotic fragmented system of local governments in the U.S. According to this approach, consolidation promises elimination of duplicative administrative staff along with a more "rational" structure of government.

The widespread failure of all but the most redistributive of consolidations raises a question which must be addressed by this approach. If consolidations are so beneficial to all residents of the metropolitan community, then why do citizens oppose reorganization? As reform advocates interpret the record, the

failure of numerous consolidation attempts results from the inability
of local residents to understand the gains to be obtained from merger.
If only residents were not so endeared to the status quo, they, too,
would be able to appreciate the beneficial effects of consolidation.
Proponents of this tradition are forced into a position of endorsing
coercive methods of merger in order to bring about the good inherent
in consolidation.

The normative underpinnings of all reform arguments merit
further consideration. According to this approach, the efficiency
or desirability of consolidation is something to be judged from
"without." The interactions of individuals and the preferences
revealed by this behavior do not provide any information pertaining
to the desirability of an institutional change. Efficient structures
can only be discovered and delineated through introspection on the
part of the analyst.

In contrast, the interpretation of "efficiency" in this
dissertation differs radically. Here efficiency has no meaning
outside of the choices of individual participators in the
consolidation environment. If all parties in the metropolitan
community consent to a merger, then the consolidation procedure
implied by such consent is grouped under the efficiency model. Used
in this context, the word efficiency has no normative overtones. It
simply becomes a shorthand expression describing a particular
consolidation legal structure which entails predictable consequences.
Similarly, the redistribution model encompasses the consolidation
process which evolves from an alternative set of laws.

In recent economic consolidation literature, the term efficiency
is used in the sense employed throughout this dissertation. However,
for the most part these studies have not exhibited even a rudimentary
awareness of the elements of the consolidation record discussed in
the last chapter. This neglect stems from a implicit assumption that
the institutional structure underlying consolidation has no impact
on outcomes. Models have been constructed as if real-world
consolidations require the consent of all parties. While not logically
contradictory, we have argued that this approach has little to do with
actual processes. Most successful consolidations simply do not provide
all residents of the metropolitan community with the opportunity of
choosing between the status quo and agglomeration. Redistributive
processes are the norm. The danger here is that the formal models
constructed by economists will be used illegitimately as rationali-
zations for the consolidations which actually do succeed.

The message of this dissertation should by now be clear--
institutions do matter. To maintain any relevance, future studies on
consolidation must proceed from this basic observation. Deriving
the predicted consequences following logically from a conceivable
set of legal rights represents only the starting point of an analysis.
The next step entails demonstrating how this framework is in fact
applicable to actual consolidation procedures. In this dissertation,
we have concluded that the redistribution framework captures the
essence of most successful referendum consolidations. However, because
of consolidation's infrequent success at the polls, state-mandated
mergers could play a more prominent role in the future.

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metropolitan community. Alternatively, only city residents have a voice in the redistributive procedure; here, residents of the suburbs will be made worse off by consolidation.

Finally, the analysis indicates that local bureaucrats gain from either type of consolidation. The models' implications are tested primarily through a case study approach. Most modern-day consolidations conform to the redistributive model. Commonly, these mergers take the form of a negative sum game where the city benefits at the expense of suburban residents.