

## Reassessing Local Government Amalgamation

Quebec's Liberal Government Establishes Process for Municipal Demerger



### Executive Summary

- Provincial governments in Canada have actively promoted municipal amalgamations with the claim that overall costs per capita for taxpayers are lower with larger urban government units.
- An analysis of US Census data indicates the reverse, that higher expenditures per capita are generally associated with larger municipal units and that consolidated governments are more costly than governments typified by multiple government units.
- Many of the world's largest and most successful urban areas have numerous local government units. For example, the Paris area has more than 1,300 municipal governments and the Tokyo area has more than 225.

If there is one idea that politicians of every stripe seem to agree upon, it is that bigger municipal governments are better than smaller ones. But there is good reason to be suspicious of this consensus.

In the late 1990s, Ontario's Progressive Conservative government, headed by Premier Mike Harris, decided it was time to put an end to what it perceived as the duplication of services and excess expenses of the six municipalities that operated within the regional Municipality of Metropolitan Toronto. They hatched studies proving that a "megacity" Toronto would save taxpayers money, while providing them better services. The Harris government claimed, to make its point, that instead of having six fire chiefs in the existing six jurisdictions, there would only be one. Opponents countered that there would be seven, the six original fire chiefs plus a "super chief." People who understood the dynamics of employee relations and inconsistent labor contracts knew that work arrangements and pay scales would "migrate" to the highest level.

The people, in whose name all of this was to occur, had nothing to say about it. Referenda were held in each of the six jurisdictions and amalgamation scored less than 30 percent with voters. But the consolidation went ahead anyway.

The Ontario PCs extended their government consolidation program to Ottawa, Hamilton and elsewhere. At the same time, a more modest government consolidation program was undertaken in Nova Scotia, where a Halifax super city, incorporating Dartmouth and other areas into Halifax, was established.

Most recently, the former Parti Québécois government combined municipalities throughout La Belle Province. The largest consolidations were in the Montréal area, where a new megacity now occupies all of Montréal Island, and to the south, where the consolidated City of Longueuil encompasses a number of former, smaller jurisdictions.

In 1972, Manitoba created Winnipeg Unicity out of 13 municipal jurisdictions in the province's capital area.

In virtually all of these cases there has been significant opposition to consolidation. Perhaps the most spirited campaign was in Toronto. There, Mayor of the former core city of Toronto, Barbara Hall, led an aggressive effort to stop the province from imposing the unpopular new structure. Costs were not the principal issue for the populace. People in the neighborhoods of Toronto, North York, East York, York, Scarborough and Etobicoke knew that their concerns would not resonate as well in a city hall located farther away, rather than nearer. Few people could recall stories of being more satisfied in their dealings with larger bureaucracies than with smaller offices staffed by people they knew.

In the United States, Louisville, Kentucky, consolidated with Jefferson county in 2000, largely in response to the fact that it would otherwise permanently slip behind Lexington as the state's largest city. New York's forced consolidation in 1898 began with fear that Chicago might otherwise pass it in population.

### **Turning Point**

But the trend may be turning. Withdrawal movements – where parts of larger cities break away to form new, smaller urban governments – have gained momentum, but not yet prevailed, in Los Angeles and Oakland in California, in Boston and in Göteborg, Sweden's second largest city.

Citizens of Québec are taking the fight one step further. In the past, when all-knowing provincial legislatures forced their consolidations on an unwilling populace, they could be assured that the protests would die away soon after the deed was done. But not in Québec. Passions are so strong here that the new Charest government has promised to establish a process by which people can "demerge" from consolidated municipalities. This is an important development that will be watched closely by others with similar ideas virtually everywhere.

### **Larger Cities are not More Efficient Cities**

While people may generally like smaller municipal jurisdictions, they pay no higher price for them. The cost efficiency justification for amalgamation rests on a foundation less stable than a transitional Nunavut permafrost. Larger units of government do not cost less, they cost more. Of course, the studies commissioned by ministries and politicians bent on consolidation always produce the required "bigger is better" results. The agenda-armed consultants proceed from their offices and count the people that they would make redundant if they were in charge and plan on sending back the excess personal computers. But, of course, they are never put in charge, the elimination of redundancies never comes, and more equipment is purchased. The real purpose of their reports is simply to produce a smoke screen thick enough that it does not dissipate before the final bill receives assent.

Regrettably, what none of the advocates of consolidation do is to look at the actual data. Research in the United States illustrates the point. There are 10 city-county consolidated governments in the United States that have, at one point or another, had more than 500,000 residents. The most famous is the city of New York, composed of five boroughs and, as in Toronto, where their consolidation was forced upon local residents by the legislature. Local government expenditures per capita in the consolidated city of New York are 34 percent higher than elsewhere in the state. It might be expected that New York, as the largest consolidated government in the United States, would have

government expenditures per capita that are among the lowest. But not so, they are among the highest.

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

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

But there is a further problem. Larger municipalities cost more than smaller municipalities. A sample of more than 700 municipalities, from the United States Census Bureau governments database for 2000,<sup>1</sup> has been reviewed. The sample was divided into quintiles (20 percent shares) based upon population. The highest municipal expenditures per capita were in the quintile with the *largest* population (Table 2). The lowest costs were in the second and third quintiles, where populations averaged 38,000 and 71,000 respectively. The fourth and fifth quintiles, with even smaller population averages, had somewhat higher municipal expenditures, but not as high as the largest municipalities. This

Quintile	Population	Expenditures/ US \$Capita	Employee Compensation/ Capita
1	273,960	\$1,209	\$541
2	71,320	\$1,038	\$458
3	38,376	\$1,035	\$450
4	21,578	\$1,119	\$401
5	8,722	\$1,161	\$428
Mean	82,731	\$1,112	\$456
Calculated from a sample of 762 municipalities from the United States Census Bureau (2000 data)			

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

obviously contradicts the “bigger is better” theory and the view that larger government have greater “economies of scale” that should drive down costs. The only “economies of scale” in larger governments are those faced by special interests. It is easier for special interests to exercise control where governments are larger, than where they are smaller and more fragmented.

#### UNICITY CASE STUDY

In 1972, Winnipeg merged 13 smaller municipalities into one large entity called Unicity. These municipalities had previously co-operated on a number of common issues, like arterial roads and water projects, through a Metropolitan Corporation, but had reserved to themselves a wide range of municipal functions. They competed with each other to attract development and residents, a fact that exerted pressure to keep municipal costs down. Evidence shows the merger removed that bias and municipal costs “leveled” up to the highest spending level, the one reported by the central, core city, with about half of the urban area’s population. Reduced accountability on spending brought higher property taxes, soaring debt levels and less responsive government units. These factors contributed to Winnipeg’s relative decline against other cities, falling from Canada’s third largest city in the late 1960s to the eighth largest today.

Critics suggest that amalgamation stamped the soul out of neighbourhood communities when it moved decision-making power and local service-delivery choices into the hands of distant, more unconnected, politicians who responded in the new structure to the tightly organized provider groups that dominated the new organization. One result was higher property taxes. Prior to a dramatic reorganization of city government under city manager Gail Stephens, city staffing and compensation levels peaked among the highest in Canada (see Manitoba has Larger Public Sector than Most, Frontier Backgrounder No. 3, December 2000, [www.fcpp.org](http://www.fcpp.org))

Did Unicity otherwise meet expectations? University of Western Ontario Professor Andrew Sancton, author of the book “Merger Mania: The Assault on Local Government (McGill University Press, 2000, p. 62), summarized Winnipeg’s Unicity amalgamation project as follows:

“What is the lesson of all this? It is that 30 years after Canada’s most dramatic and comprehensive municipal amalgamation – in which virtually all the residents of the Winnipeg city-region were included – the area now confronts the same problems as everyone else: most of the growth is occurring outside the municipal boundaries and there is need for new mechanisms for regional co-operation. No one is recommending further amalgamations.”

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

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

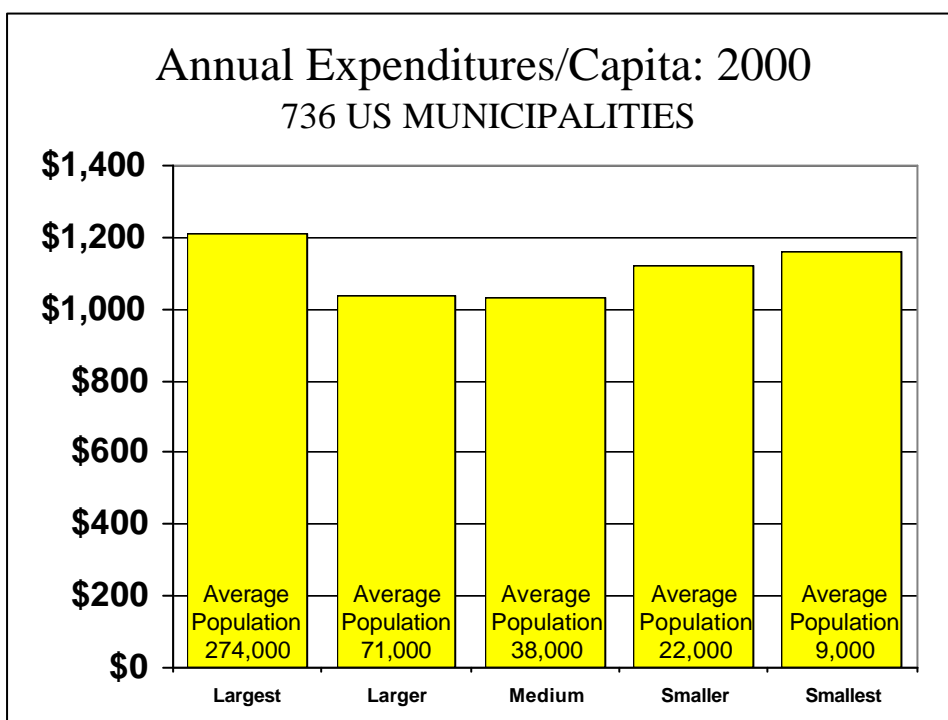
#### Successful Metropolitan Areas have Many Local Governments

Some of the world’s most successful metropolitan areas have highly fragmented government. Paris has seven regional governments and more than 1,300 municipal governments. Yet Paris has developed a governance structure that effectively delivers quality public services throughout and regional services that would be the pride of any

area. Tokyo, the world's largest metropolitan area, has more than 225 municipalities that stretch through the parts of four provinces. The Milan area has more than 150 cities.

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

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



**LARGER CITIES ARE MORE EXPENSIVE**

**About the Author:**

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