

City-County Consolidation and Diseconomies of Scale

Summary of Selected Literature

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Overview: Can City-County Consolidations Cause Diseconomies of Scale

When local officials consider how best to maximize efficiency in local government, one often-discussed proposal is the consolidation of city and county services. In theory, consolidation should produce economies of scale which allows cost savings to be achieved – average costs are reduced when spread out over a wider set of users. The reality is that this may not always occur—but why? Why do city-county consolidations not always produce cost savings and, in some case, actually lead to higher costs? To help local and state officials grappling with this issue, we have summarized recent literature on the causes of diseconomies of scale in city-county consolidations and listed useful online resources.

What Causes Diseconomies of Scale in a City-County Consolidation?

- **Labor intensive services.** Consolidated city services that are labor intensive and require replication from one neighborhood to the next cannot always achieve economies of scale and may in fact result in diseconomies of scale. Labor intensive services can include: police, general fire protection, public works, and parks and recreation services.^{1,2}
- **Bureaucracy growth.** According to some economists, diseconomies of scale in consolidated local governments occur because bureaucrats and politicians become removed from day-to-day contact with residents. When these officials are “out-of-touch” with citizen concerns, there may be no incentive to cut costs, or to stop increased spending.³
- **Merging personnel-related costs.** In city-county consolidations, personnel-related costs may actually rise as two pre-existing personnel systems and benefits packages merge. One explanation is that the wages and benefits of employees are equalized to the highest level of comparable employees. Similarly, existing employees may have job security as part of the merge agreement.⁴
- **Merging service quality costs.** When pre-existing delivery systems are merged in a city-county consolidation, an “averaging up” effect may occur with service levels and standards for equipment and facilities. These increased service quality costs then become ongoing expenditures.¹
- **One-time transition costs.** Consolidating city services may require one-time operating and capital expenses that can quickly add up. One-time transition costs can include: merging and upgrading computer systems and consulting fees to resolve conflicting rules and regulations.⁴

Relevant Quotes

“[M]any of the case studies on consolidations in both the U.S. and Canada over the last 20 years have failed to find significant economies of scale for most municipal services. The findings from

these and other studies have shown that costs for many services actually go up following large municipal consolidations” (p. 3)¹

“There is general agreement that consolidation has not reduced costs (as predicted by some reform advocates) and in fact, may have even increased total local expenditures...Gustely found that expenditures rose after the Dade county consolidation. Benton and Gamble came to the same conclusions in their study of Jacksonville. Erie and colleagues reviewed a range of consolidation efforts and concluded that “the net effect of restructuring is a per capita increase in service costs,” which they attribute to an increase in average service levels.” (p. 106)⁵

“In recent years, economists have endorsed the fragmented, decentralized model. They have concluded that competition between numerous adjoining jurisdictions keeps total expenditures down in metropolitan areas. The multiplicity of local governments allows for contracting among jurisdictions for services when local elected officials determine buying from a neighbor is less costly than producing the service in-house. The end result is a “local public economy” — a quiltwork of service deliveries determined by decentralized elected officials who are responsive to their voters.”⁶

“A review of 25 research studies conducted over the past two decades on “fragmentation” versus centralization in U.S. local governments suggests “local government systems which are fragmented and de-concentrated are generally associated with lower spending and greater efficiency.” The power of bureaucracies grows the larger the centralized government becomes. This is evident in the difficulty locally elected officials have in privatizing municipal services in large cities. They are hemmed in by empire-building bureaucracies and government employee unions, which are stronger in the larger... municipalities.”⁶

Selected Bibliography of Online Resources

“[A Primer on Unification](#),” Gainesville.com, 12 October 2003.

Robert L. Bish, “[Local Government Amalgamations: Discredited Nineteenth-Century Ideals Alive in the Twenty-First](#),” *C.D. Howe Institute*, No. 150, March 2001.

Stephen Goldsmith, “[Smaller Government Prescriptions for Big City Problems](#),” The Fraser Institute, September 1998.

Bruce Katz, “[Pittsburgh: The Road to Reform](#),” Pittsburgh Post-Gazette, 18 January 2004.

Pat Hardy, “[The Consolidation of City and County Governments: A Look At the History and Outcome-Based Research of These Efforts](#),” Metropolitan Technical Advisory Service, The University of Tennessee, 2005.

“[In Athens, Ga., the drive for `one community' came in a revolutionary fashion](#),” Gainesville.com, 12 October 2003.

Vicky Murray, “[Competition or Consolidation? The School District Consolidation Debate Revisited](#),” Goldwater Institute Policy Report 189, 12 January 2004.

Brendan O'Shaughnessy, "[Louisville offers lesson in mergers](#)," The Indianapolis Star, 14 August 2005.

Endnotes

¹ "[Is Municipal Consolidation the Answer? Is Bigger Always Better?](#)," Municipal Research and Services Center of Washington, Summer 2003, pp. 1-5.

² "[Cooperation Not Consolidation: The Answer For Milwaukee Governance](#)," Wisconsin Policy Research Institute Report, Vol. 15, No. 8, November 2002.

³ Sam Staley, "[Bigger Is Not Better: The Virtues of Decentralized Local Government](#)," Cato Policy Analysis 166, 21 January 1992.

⁴ "[Does City-County Consolidation Save Money?](#)" Carl Vinson Institute of Government, University of Georgia, Public Policy Research Series Vol. 1, No. 2, March 2000.

⁵ Altshuler, Morrill, Wolman, and Mitchell, eds, "Governance and Opportunity in Metropolitan America," *The Committee on Improving the Future of U.S. Cities, Governance, and Opportunity in Metropolitan America*, National Academy Press: Washington, D.C, 1999.

⁶ Eva C. Galambos, "[Sandy Springs: A Case Study on Centralization of Local Government](#)," Georgia Public Policy Foundation, 3 November 1999.