
Are There Too Many Governments in the Tenth District?

By Glenn H. Miller, Jr.

Many taxpayers in the Tenth District and elsewhere have become concerned about their state and local government tax burdens. Yet, few citizens are willing to accept fewer public services to ease their tax burdens. As a result, keeping the lid on public spending requires that state and local governments provide services more efficiently.

It is believed by many taxpayers that excessive spending and taxation by the state and local government sector are due to too many governments. They urge consolidation, aimed at eliminating duplication of effort, as the best means to increase efficiency. One way consolidation might be achieved is by centralizing the state-local sector, that is, by providing services from the state house rather than from courthouses and city halls. Another way consolidation might be achieved is by merging units of local government. But making governments bigger through consolidation does not necessarily make government more efficient or the public sector smaller. Indeed, some researchers suggest just the opposite—that a greater number of governments in a certain area will reduce the overall size of the public sector in that area.

Consolidation of governments is a live issue in the Tenth District, where local governments are abundant and state and local taxes are rising. In Kansas, for example, a legislative committee was charged in 1991 with studying whether efficiency could be improved and taxloads reduced by combining some of the state's 3,800 local governments. The state's economic development agency argued for consolidation, but the Kansas Association of Counties denied that making governmental units bigger would make the public sector run more efficiently. Resolving this debate, in Kansas and elsewhere, will depend partly on how the consolidation of governments will affect the efficiency and overall size of the public sector.

This article reviews the evidence on the consolidation argument, especially on how the number of governments and the structure of the state-local sector affect the efficiency and size of the public sector. First, the article describes the state-local sector in the Tenth District. Next, the article examines whether the public sector is likely to be larger overall if consolidation is achieved by increasing the state's share of state-local activity. The article then examines whether consolidating local governments tends to increase their efficiency and reduce the size of government overall—and if so, what types of local government are more likely to gain from consolidation. The article concludes that those interested in controlling tax

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burdens must look beyond the number of governments and not jump to the conclusion that consolidation inevitably makes government more efficient.

THE STATE-LOCAL SECTOR IN THE TENTH DISTRICT

Kansas is not alone among district states in having a large number of local governments, nor in its interest in consolidating governments to help curb overall state and local government spending. Indeed, the district has a disproportionate share of the nation's local governments.

Types of local governments

In the Tenth District as elsewhere, local governments can be divided into two types of jurisdictions—general purpose governments and limited purpose governments. General purpose governments comprise counties, municipalities, and townships. Limited purpose governments comprise independent school districts and special districts, such as fire protection or water supply districts.

General purpose governments perform an array of functions. They build and maintain streets, highways, parks, and recreation areas. They also provide health and hospital services, social services, and police and fire protection. And they administer these and other activities. About 40 percent of all local governments in the district are general purpose governments, compared with 47 percent nationwide.¹

Limited purpose governments perform specific functions, such as providing fire protection or operating public schools. Most limited purpose governments perform only a single function, though a few provide several types of services. About 20 percent of all local governments in the district are independent school districts, compared

with 18 percent nationwide. About 40 percent are special district governments, compared with 35 percent nationwide.²

Number of local governments

Tenth District states have a total of 14,254 local governments, or about 17 percent of all local governments in the nation. In comparison, the district has only about 7 percent of the nation's population. Three district states—Kansas, Nebraska, and Missouri—rank among the ten states with the most local governments. Oklahoma and Colorado rank among the top 20. The number of local governments in district states ranges from 3,803 in Kansas to 331 in New Mexico (Table 1).

Despite the large number of local governments in the district, the trend since World War II has been toward fewer local governments. From the early 1950s to the late 1980s the number of governments in the district fell almost by half. The number of general purpose governments fell only modestly during this period, as a growing number of municipal governments more than offset a falling number of townships. Most of the huge drop in the number of local governments came from a decline in limited purpose governments. While the number of special districts doubled, that increase was swamped by an 85 percent fall in the number of school districts, as district states joined in the national wave of school district consolidation and reorganization that swept the country in the 1950s and 1960s.

Some district states have both a large number and a relatively high density of local governments. For example, Kansas and Nebraska have substantially more governments per county than the national average (Table 2). But the average number of local governments per county is lower than the national average in four other district states—considerably lower in New Mexico. Other measures of local government density, such as the

Table 1

Number of Local Governments by Type*Tenth District states, 1987*

	Total	County	Municipal	Township	School district	Special district
U.S.	83,186	3,042	19,200	16,691	14,721	29,532
Colorado	1,594	63	266	—	180	1,085
Kansas	3,803	105	627	1,360	324	1,387
Missouri	3,148	115	930	325	561	1,217
Nebraska	3,152	93	534	454	952	1,119
New Mexico	331	33	98	—	88	112
Oklahoma	1,802	77	591	—	636	498
Wyoming	424	23	95	—	56	250
Tenth District	14,254	509	3,141	2,139	2,797	5,668

Source: U.S. Bureau of the Census.

number of governments in relation to land area and population, show a similar pattern. Thus by several measures, Kansas and Nebraska, and to a lesser extent Missouri, have relatively large numbers of local governments, while New Mexico has relatively few local governments.

In a region with such an abundance of governments, district citizens and policymakers naturally wonder if consolidation can offer relief from rising state and local taxes. The answer is not immediately apparent. Just counting governments is not enough to answer questions about whether there are too many governments or whether consolidation would lessen the tax burden. Some economists argue that combining governments increases efficiency in the provision of public services by yielding economies of scale, and that consolidation therefore results in a smaller public sector.

Others argue that when a government is the sole supplier of public services, it becomes bloated and inefficient. A smaller public sector results, they say, when many governments compete with one another.

Resolving this debate requires considering two questions: Can centralizing the state-local sector by increasing the state's share reduce the size of government overall? And can combining local governments into one or more larger jurisdictions reduce the size of government overall?

CENTRALIZING THE STATE-LOCAL SECTOR

Shifting a larger share of total state-local sector activity from courthouses and city halls to the

Table 2

Density of Local Governments*Tenth District states, 1987*

	<u>Square miles per government</u>	<u>Population per government</u>	<u>Governments per county</u>
U.S.	43	2,898	27
Colorado	65	2,051	25
Kansas	22	647	36
Missouri	22	1,610	27
Nebraska	24	507	34
New Mexico	367	4,471	10
Oklahoma	38	1,834	23
Wyoming	229	1,197	18

Source: U.S. Bureau of the Census.

state house is one way of consolidating to gain control of overall spending and taxation. Would such centralizing action increase efficiency and reduce the size of government, as local government activity became a smaller share of the total? Some researchers suggest the answer is probably no.

Fiscal centralization in the state and local sector

Proponents of consolidating more state-local sector activity into state government can point to a nationwide twentieth-century trend in that direction. As state governments expanded into several new services, the state shares both of state and local spending and of total sector revenues

increased substantially from 1900 to the middle of the century.³ From 1900 to 1952, the state share of state and local spending rose from 12 to 35 percent, and state government's share of revenue rose from 18 to 50 percent. After the 1950s, the trend continued but at a much slower pace. By 1989, the state share of state-local direct general expenditures averaged 40 percent, and the state share of total revenue averaged about 56 percent (Table 3).

Fiscal centralization in the Tenth District differs little on average from centralization nationwide. But district states differ widely among themselves in the centralization of their state-local sectors, ranging from relatively low degrees of centralization in Colorado and Kansas to more highly centralized sectors in Oklahoma and New Mexico.⁴

Table 3

State Government Share of Total State and Local Revenue and Expenditures
Tenth District states, 1989

	Revenue * (Percent)	Expenditures + (Percent)
U.S.	55.6	40.0
Colorado	47.0	34.5
Kansas	50.9	38.7
Missouri	56.1	40.4
Nebraska	49.7	41.7
New Mexico	75.1	49.5
Oklahoma	62.4	47.1
Wyoming	58.8	40.6
Tenth District	55.9	41.1

* General revenue from own sources.

+ Direct general expenditures.

Source: U.S. Bureau of the Census.

Centralization and the size of the public sector

Some economists have brought a market-structure perspective to the question of how the state government's share of total state-local activity affects the overall size of the state and local government sector. Long interested in issues of monopoly and competition in the private sector, they have developed an analogous case in the public sector. They believe that large governments may seek to exploit their citizens through excessive taxation, and that competition among many smaller governments is an effective means to prevent such exploitation (Forbes and Zampelli, Oates 1985). As a leading researcher has put it for the state and local government sector in the United States, "other things

equal, those states with a more decentralized fiscal structure should have a smaller state-local sector" (Oates 1985, p. 750).

Several studies covering all states in the United States support the view that state-local sectors tend to be smaller in states with more decentralized fiscal structures (Giertz 1981, Wallis and Oates, and Oates 1989).⁵ That is, the public sector overall is likely to be smaller where the state's share of total state and local government activity is smaller. This finding suggests that more fiscal decentralization of the state-local sector might help hold down the overall size of the public sector and the tax burden.

Fiscal centralization and the size of the public sector also appear to be positively related in the Tenth District. The size of the public sector can be measured by the ratio of state and local govern-

ment spending to the size of the state economy. Using that measure, the size of the public sector in district states, on average, is not far from the national average (Table 4). But the range from the smallest (Missouri) to the largest (Wyoming and New Mexico) is sizable. In district states as nationwide, the more centralized is the state-local sector, the larger is the public sector in relation to the size of the state's economy.⁶ For example, New Mexico has a relatively centralized state-local sector and also a relatively large public sector. In short, centralization does not appear to be the answer to keeping the lid on public spending.

CONSOLIDATING LOCAL GOVERNMENTS

If consolidation by increasing the state's share of state-local activity is not likely to reduce the size of the public sector, would consolidating local governments be more effective? Discussions of this issue have gone on for decades, generally pitting those favoring increased consolidation against those supporting greater decentralization, or fragmentation, as the proper way to minimize local government expenditure for a given level of public services. The debate on consolidating local governments has been waged all across the nation, and the arguments are highly relevant for the Tenth District with its large number of governments.

Consolidation and economies of scale

Supporters of consolidation claim that having too many local governments causes "inefficiencies leading to less than effective methods of providing services, higher per-unit costs, [and] larger government outlays" (Dolan, p. 30).⁷ Consolidation, they point out, permits larger jurisdictions to capture economies of scale that smaller units cannot. Economies of scale exist when the cost per person served for some government activ-

Table 4

Ratio of State and Local Government Spending to Gross State Product, 1989

	Spending as a Ratio to GSP *
U.S.	.147
Colorado	.149
Kansas	.141
Missouri	.118
Nebraska	.144
New Mexico	.183
Oklahoma	.153
Wyoming	.187
Tenth District	.143

* Direct general expenditures.

Source: U.S. Bureau of the Census; Bureau of Economic Analysis.

ity falls as the number of persons served rises. Thus, a certain size and concentration of population are necessary for scale economies to be achieved. "Even though each sub-district may have different desired levels of a public service, small scale provision of these services may result in such a high per unit cost that it outweighs the advantages of diversity" (Giertz 1976, p. 202).⁸

Fragmentation and competition

Supporters of more decentralization of local

government believe that a greater number of governments can better tailor services to meet a broader range of public tastes (Giertz 1976). Moreover, they maintain that decentralization of local government enhances efficiency in providing public services. It does so by increasing the choices of governments available, thereby increasing competition between jurisdictions. Competition, in turn, disciplines inefficient jurisdictions through threatened or actual emigration of taxpayers and tax bases.

A key feature of the argument for decentralization, therefore, is the mobility of citizens and other resources among jurisdictions that offer choices between various sets of public services and tax burdens. Households and firms must be able to move fairly easily between jurisdictions if they are to be able to choose the jurisdiction that best fits their tax and public services preferences, and thereby to exert an influence on the cost of government. This condition may be met more readily in areas of high population density, such as metropolitan areas, than in low density rural areas.

Competitive pressures thus lead local governments to provide the preferred services and to provide them efficiently. Such competition is greater the larger is the number of governments in the specific geographic area. And, because the competition between jurisdictions associated with decentralization increases efficiency, the overall size of the local public sector is reduced (Nelson).

The evidence

Is the overall size of the public sector likely to be reduced by consolidating local governments? Or, is the overall size of the public sector likely to be reduced by fragmentation and competition? The weight of the evidence appears to be on the side of the fragmentation position, especially for general purpose governments.

Several studies support the fragmentation hypothesis (Eberts and Gronberg, Nelson, Zax 1989). These studies typically examine virtually

all counties nationwide and generally support the conclusion that greater decentralization of local governments is likely to yield a smaller public sector overall.

But these studies also reveal a dichotomy: the relationship between fragmentation and the size of the public sector appears to be different for general purpose governments than for single purpose governments. Increased fragmentation of general purpose local governments is likely to result in a smaller public sector. But increased fragmentation of single purpose governments is associated with a larger public sector.⁹ These results arise because of the different effects of fragmentation in different situations. Competition between jurisdictions is a significant factor for general purpose governments. Economies of scale are a significant factor for single purpose governments.

General purpose governments, which have territorial boundaries that prevent them from overlapping with others of the same type, are most likely to have their services shaped by competition. Within an area small enough to minimize changes in residence, job location, and social life, they are typically the jurisdictions among which households and firms choose in selecting their preferred local tax burdens and sets of public services. With enough choice among jurisdictions, citizens and firms can "vote with their feet" so as to influence local governments toward more efficient provision of public services. For these kinds of governments the studies cited here report a clear and strong finding that fragmentation yields a smaller overall local public sector, a relationship "consistent with increased efficiency through competition among local governments" (Zax 1989, p. 564).

A single purpose government is ideally suited to take advantage of economies of scale (Zax 1989). Typically the sole provider of just one service over a large area, a single purpose government may overlap one or more other jurisdictions. Decentralization, which implies smaller sized governmental units, could cause the loss of scale

economies. Moreover, a single purpose government is less likely to be competing with other jurisdictions in its area than would a general purpose government. Consequently, a large number of single purpose governments in an area does not necessarily increase the choices available there and thus does not bring competitive pressures to bear on the provision of public services.¹⁰ Fragmentation among single purpose governments therefore might sacrifice economies of scale without bringing the pressure for greater efficiency that comes from competition between jurisdictions. Public sector size and the number of single-function governments thus might be expected to be positively related (Nelson). The studies cited earlier find that fragmentation among single purpose governments tends to increase the size of the local public sector.¹¹

Not all studies support the fragmentation position. Take, for example, a study of local governments in Illinois (Dolan). This study found a strong positive relationship between fragmentation and increases in the cost of government. That is, the more fragmented were local governments within a specified geographic area, the higher the costs of government were likely to be in that area. Another study, which examined the effects of competition between county governments within metropolitan areas, also concluded that decentralization is positively associated with the size of the public sector (Forbes and Zampelli).¹² While the evidence from empirical studies is somewhat mixed, the results overall appear to favor fragmentation.

The evidence on the consolidation vs. fragmentation discussion may be summarized as follows. Studies of the local government sector generally support the view that a larger number of local governments in a specific area tends to result in a smaller overall size for the public sector in that area. But the relationship between the number of governments and public sector size appears to be different for general purpose governments than for single purpose governments. Increased fragmentation of general purpose governments results in a

smaller public sector, due to the discipline exerted by competition between jurisdictions. But increased fragmentation of single purpose governments results in a larger public sector, due to a loss of those economies of scale for which such governments are well-suited.

The Tenth District case

The research findings just discussed are from studies of the United States as a whole. Do the same kinds of relationships hold for states in the Tenth District? To answer this question, the relationship between the size of the public sector and the number of local governments in district states was studied using regression analysis.¹³ The aim of the analysis was to determine whether fragmentation reduces the size of the public sector in district states.

The results of the regression analysis suggest that decentralization leads to a smaller public sector in Tenth District states. When all of the more than 500 counties in district states were included in the analysis, the results show a small but statistically significant negative relationship between the total number of governments and the size of the public sector. That is, in district states as nationwide, fragmentation of government tends to reduce the size of the local public sector, apparently by encouraging competition between public service providers. Moreover, just as was true nationwide, there is a statistically significant negative relationship between the number of general purpose governments and public sector size in the district. The relationship between the number of limited purpose governments and public sector size is not statistically significant for the district.¹⁴

The relationship between decentralization of local government and the size of the public sector might differ across district states because of substantial differences in population per county.¹⁵ For example, the potential for competition between jurisdictions to reduce the size of the public sector

might be less in counties with smaller populations. To examine a possible difference, all counties in the district were divided into those with populations less than 10,000 (42 percent of the total) and those with more than 10,000 (58 percent). Each group was analyzed separately. The analysis shows a negative, statistically significant relationship between the total number of governments and the size of the public sector in both the smaller county group and the larger county group. The same was true for general purpose governments. And, as was true for all counties together, the relationship between the number of limited purpose governments and the size of the public sector was not statistically significant, either for the smaller or for the larger counties.

In summary, this analysis of district local governments shows that fragmenting local government tends to reduce the size of the public sector in district states as in the nation as a whole. The relationship also holds for general purpose governments in the district. But the district analysis does not show the positive relationship between the number of limited purpose governments and public sector size that has been found nationwide. Finally, there appears to be little difference between these relationships for district counties of less than, and more than, 10,000 population.

SUMMARY

Most citizens of the Tenth District live in states with a large number of local governments. Among their concerns are whether there are too many governments, and whether consolidation would improve efficiency in the provision of public services and lessen the burden of taxation. This article has reviewed a body of research that addresses these issues by studying the relationship

between consolidation and the size of the public sector. While the research findings are complex and not always strictly comparable, some broad conclusions may help citizens and policymakers in district states make informed judgments on issues of government consolidation and decentralization.

First, there is clearly more to deciding questions of consolidation vs. decentralization than just the number of governmental units involved.

Second, research suggests that decreasing the state share of the total state-local sector can help control the size of the public sector. However, consolidation issues may be more fruitfully considered at the local government level alone. Indeed, the mobility of citizens and resources is so important in the analysis that state-level inquiries may be inappropriate and therefore investigations at the local government level may be required (Zax 1989).

Third, while decentralization at the local government level generally results in a smaller public sector overall, the relationship appears to be different for general purpose governments than for single purpose governments. Fragmentation of general purpose governments may be appropriate where jurisdictional competition is likely to be beneficial. But fragmentation of single purpose governments should be approached carefully where economies of scale may exist. Thus, citizens and policymakers should not lump the two types of government together when making decisions about local government structure (Eberts and Gronberg).

Consolidation of governments, then, may not always be the answer for citizens concerned about their tax burdens. In some cases, the route to controlling tax burdens may actually be through decentralization, not consolidation, of governments. In the end, Tenth District citizens who wonder if they have too many governments may find that fewer is not inevitably better.

ENDNOTES

¹ Information in this section is from U. S. Bureau of the Census, *1987 Census of Governments*.

² The local public sector is more heavily weighted toward special districts in the region than in the rest of the country. Four district states—Colorado, Kansas, Missouri, and Nebraska—rank among the ten states with the most special district governments in the nation. Nearly all of the special districts in the region are single function districts, with water supply and fire protection districts among the largest in number. Most special district governments in the region conduct relatively small scale operations, and many do not have property taxing power.

³ This discussion draws heavily on Wallis and Oates. The extent of centralization of the state and local sector is given by the share of state government in the sector as a whole, measured either by the share of revenues raised or by the share of expenditures made. Choosing whether to use revenues or expenditures to measure the relative importance of a level of government is primarily a matter of deciding how to treat intergovernmental transfers. Using a revenue measure attributes the funds involved to the grantor, which initially collects the revenues. Using an expenditures measure attributes such funds to the grant recipient, which eventually spends the money. Researchers have used both measures of centralization, although the spending measure may have received more attention recently.

⁴ Studies of the United States as a whole suggest several geographic and demographic factors related to diversity and population concentration that help explain the observed differences in fiscal centralization from one state to another. For example, size in terms of land area and population, as well as population density and the degree of urbanization, are related to fiscal centralization (Giertz 1976, Wallis and Oates). Fiscal centralization in district states seems to respond to many of the same factors that influence centralization nationally. Colorado, for example, has the largest range in population density between its counties, the largest share of its population in metropolitan areas, and the lowest degree of fiscal centralization among district states. New Mexico, on the other hand, with a small population and low overall population density, has the highest degree of fiscal centralization among district states. Other factors, including unique patterns of historical development and explicit political choices, also contribute to the fiscal centralization that now exists.

⁵ Other studies find that the degree of centralization has little to do with the size of the government sector (Eberts and Gronberg, Oates 1985). Also see the review of the earlier

work in Oates 1989.

⁶ The conclusion for the district states is based on the rank correlation between size of the public sector as measured by total state-local spending as a share of gross state product and centralization as measured by the state share of state-local expenditures. The value of the rank correlation coefficient is +0.5, indicating that a more centralized state-local sector is associated with a larger public sector.

⁷ Those favoring consolidation also cite a number of political and social disadvantages of decentralization, including "confusion in responsibility for service provisions, reductions in political scrutiny and control, political unresponsiveness, [and] units of government concerned only about their own problems," as well as negative impacts on policy issues such as fair housing and school desegregation (Dolan, pp. 30, 43).

⁸ Economies of scale alone may not be enough to tip the balance in favor of consolidation, however. Small jurisdictions may be able to take advantage of scale economies by contracting for services with another government or with the private sector. Doing so could permit them to retain choices about the quantity and quality of services they make available, while taking advantage of the benefits of large size achieved by the contracting agency (Giertz 1976).

⁹ One of these studies reports little or no effect of the number of single purpose governments on the size of the public sector (Nelson, pp. 201, 203).

¹⁰ "In addition, since many special districts provide only minor services and since nearly half of them lack the authority to levy taxes . . . there may be little incentive for individuals to choose between these districts" (Eberts and Gronberg, p 4).

¹¹ Eberts and Gronberg caution that "it may be the case that part of the observed increase in spending associated with greater numbers of units simply indicates that additional special districts are providing additional services" (p. 8).

¹² It has been suggested that the Forbes and Zampelli study may not be directly comparable to the other studies discussed here (Oates 1989).

¹³ The size of the public sector—the dependent variable in the regression analysis—is measured as total local government spending as a proportion of personal income in each county. The fragmentation variable is the number of local governments in the county. The analysis was completed both with the total number of governments, and with local govern-

ments divided into general purpose and limited purpose jurisdictions. The other explanatory variables are per capita income, population, a dummy variable indicating whether or not a county is located in a metropolitan area, and intergovernmental revenue as a share of total revenue. The first three variables represent demand for local public services. The fourth shows the extent to which local governments receive support from higher levels of government.

14 Results for all governments:

<u>Fragmentation variable</u>	<u>Coefficient</u>	<u>T-statistic</u>
Total number of governments:	-.0007	5.59
Results by type of government:		
General purpose governments	-.0014	5.69
Limited purpose governments	-.0003	1.37

15 Some research suggests that fragmentation does not reduce the size of the public sector in counties with populations of less than 10,000 (Zax 1988).

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