For metro governments, bigger may not be economically better

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When big cities gobble up smaller ones nearby, residents often are told a consolidated government is more efficient, providing improved services and other economic benefits.

But new research from Texas McCombs questions that bigger-is-better paradigm. By some key economic measures, more fragmented local governments lead to better outcomes for residents, finds John Hatfield, a professor of finance. The paper is published in the journal *Public Choice*.

With Luke Rodgers of Florida State University and Katrina Kosec of the International Food Policy Research Institute, Hatfield analyzed 2012 data for the 201 largest metropolitan areas, home to 77% of the U.S. population.

Using the number of county governments as an index of fragmentation, they found that for every standard deviation more counties in a metro area:

- Housing values were 11% higher than average.
- Wages were 4.6% higher, amounting to an extra $1,700 a year for the average worker.

Not all economic measures showed gains. When compared with consolidated governments, metro areas with more separate jurisdictions had similar levels of taxation, spending, environmental quality, educational outcomes, and crime.

Milk, cheese, and taxes

Why does municipal fragmentation boost wages and home values? To Hatfield, it's a basic economic phenomenon that he calls jurisdictional competition.

"All the different municipalities and all the different counties are competing for investment and residents and business," he says. "That drives them to choose better policies. You might think of it as choosing policies and tax rates in the same way that a grocery store is choosing prices and qualities for milk and cheese."

Just as grocery stores compete by lowering prices, he says, when competing municipalities are vying for new businesses and residents, they try to outdo each other in their offerings.

He found that metro areas with more governments had a 12% higher-than-average economic freedom index, a measure of local business-friendly policies developed by Dean Stansel of Southern Methodist University, based on the world rankings by the Heritage Foundation, a conservative think tank.

They also tended to have more workers in higher-paying industries, such as finance; insurance; and professional, scientific, and technical occupations.

"By attracting more business investment, you attract more jobs," Hatfield says. "Firms then start competing for workers, and wages rise overall."

Efficiency and competition

Hatfield notes that his findings about jurisdictional competition go against conventional wisdom about urban planning, as more large metro areas have moved toward combining their governments. When local governments can compete, he says, businesses and site selection companies often take advantage of that to obtain favorable tax rates, investment in infrastructure, and more.

"Our work shows that more jurisdictional competition leads to more business-friendly policies," he says. "If I owned a business, I would have much more faith that my city government is going to think carefully about public services or raising taxes if they know I can move."

More information: John William Hatfield et al, Housing values and jurisdictional fragmentation, *Public Choice* (2024). [DOI: 10.1007/s11127-024-01160-6](https://dx.doi.org/10.1007/s11127-024-01160-6)

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