

Municipal amalgamations in Atlantic Canada and beyond: Why amalgamate?

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Ladies and Gentlemen,

Thank you for the kind invitation to be here with you today.

I was asked to speak to the Maritime experience of municipal amalgamation but, I protested, there have only been a few of any consequence, such as the Halifax Regional Municipality (HRM), the Cape Breton Regional Municipality and the creation of Miramichi City in New Brunswick (although such amalgamations have been mooted as well in Saint John, Moncton and St. John's). Of the ones that have already occurred, only one (the HRM) has been studied intensively, as I shall relate in a moment. This could be the world's shortest talk.

So, I said, let me use the HRM experience as a springboard for talking about the principles behind the amalgamation movement, and what the evidence is telling us about how well founded that movement's assumptions are and what the outcomes have been generally.

Now that could easily be the world's longest talk, so I will strive to be brief.

The first section of my talk is called "The Chief Cause of Problems is Solutions"!

To understand the HRM experience, you have to understand three particular circumstances.

1) The amalgamation of metropolitan Halifax was caused by the Price Club big box retailer. This is only a slight exaggeration. The old municipalities of Halifax and Dartmouth got in a destructive bidding war with each other to attract the Price Club store that had been announced for the metropolitan area. They got into a destructive and pointless competition, since the benefits of the Price Club went well beyond the boundaries of each municipality (the catchment area for a Price Club store is usually quite vast, and would certainly cover much of mainland Nova Scotia). In the end, Halifax won the right to have the store built within its boundaries at a cost of about \$1-million. That amount was a direct gift from the taxpayers of Halifax to the shareholders of Price Club for zero public benefit, other than sticking it to the municipality of Dartmouth across the harbour.

It was events like this that raised great suspicion of the rivalry between these municipalities and convinced many, including in the provincial government, that a single municipality would be cheaper and more efficient because it would abolish such wasteful behaviour.

2) The discovery of natural gas off the shores of Nova Scotia triggered a huge flurry of public spending on the assumption that the revenue to pay for it was just around the corner. Except the corner turned out to be 2 decades away. By the early 90s, the province was in desperate fiscal shape — more so than virtually any other province — and they were desperate to cut costs.

3) The third circumstance is that we have in Nova Scotia a culture of what I call executive personalism in government — the policy formulation process is excessively weak, and fashionable ideas that get into the heads of premiers and powerful cabinet ministers are not subjected to searching analysis. If an idea sounds good to the right people, things happen — heavy water plants, steel mills, and municipal

amalgamation being only a few examples.

The Premier and his minister of finance got it into their heads that there were major efficiencies to be had in amalgamating the municipalities. Now if they had actually wanted to test these ideas properly, if they had wanted to engage in that dangerously radical practice known as evidence-based policymaking, they could easily have consulted the literature on local government and amalgamation, a literature which is now quite vast. Had they done so, they would have discovered the following:

First, they would have discovered that local government is not merely a device for supplying municipal services, but also for finding out what services people want and how much they are prepared to pay for them. The smaller the government unit, the better they are at discovering this, because the empirical evidence is very strong that local government is closest to the people. Amalgamation tends to undermine this relationship and therefore can only really be justified if there are pretty remarkable efficiencies to compensate for dilution of responsiveness and democratic accountability.

But, second, they would have discovered that the evidence is quite strong that creating single-tier local government monopolies doesn't reduce costs — it increases them. It levels costs up to the highest common denominator in the pre-existing units, and seems to result in higher trends of cost growth over time. This is especially true where amalgamation has eliminated competition between pre-existing municipalities both in terms of attracting residents and industry and in terms of tax and service levels. It seems that the most dynamic force helping to keep costs down is not a highly centralised and bureaucratic monopoly provider of public services, but a decentralisation of authority and decision-making within several municipalities within an urban area where residents cannot vote themselves benefits at the expense of other taxpayers in other parts of the city. This ensures that people only demand services that they're prepared to pay for, and municipalities have powerful incentives to keep costs low and satisfaction high, or risk the erosion of their tax base as people and businesses vote with their feet.

Third, they would have discovered that it is a fairly small part of public services where there are significant returns to scale — in other words where the bigger you are, the cheaper it is to produce a unit of a given service. The evidence says pretty unambiguously that the lowest observable level of per unit costs for most services are compatible with very small municipal units (on the order of 5,000-10,000 residents). Moreover, there are significant diseconomies of scale beyond relatively small population numbers — on the order of 250,000 residents. And, finally, that the supposed savings from smaller councils and elimination of several city halls and other trappings of multiple local governments, is so paltry as to be not even worth mentioning.

But of course, given the culture of executive personalism that I mentioned, they didn't consult the literature. Had they done so, they, like California under Ronald Reagan, would likely quickly have abandoned their amalgamation policy.

Instead they committed a nearly always fatal mistake — they hired a consultant. And instead of asking this consultant to review what is now known about the dynamics of local government, they asked him to write an abstract report about all the ways one could, theoretically, save money if you were an omniscient manager and there were economies of scale in the provision of most municipal services.

The consultant duly told them that there were significant savings to be had at very low cost. This is not hard to do since any outsider can look at any organisation and identify ways that things could be done "better". In 1996, the municipalities of Halifax, Dartmouth, Bedford, Sackville and the dozens of towns and villages in the old Halifax County, were duly amalgamated into the HRM, with a population of

around 350,000.

Now what is interesting to note is that the HRM is an extremely valuable test case, because it is the only large scale amalgamation North America to have been studied from the outset by a team of academics, a team, moreover, that received high levels of co-operation from the authorities of the new municipality. Bob Bish, of the University of Victoria was a key member of the team, which was headed by Dale Poel of the Dalhousie School of Public Administration. Their study, which covered 1996-2000, was financed largely by the Donner Canadian Foundation, a private foundation which supports important public policy work in this country.

Now before I report on their findings, let me emphasise that these are preliminary, and the research team themselves now recognise that the 5 years they gave themselves to study the new entity was not enough for it, and its procedures, to be fully formed.

Still, certain things are clear. The consultant's implementation study underestimated the cost of amalgamation by a very significant margin. The final tally, including a new financial management system and labour agreements, is expected to reach \$40-million, whereas the estimate was under \$10-million. No cost savings or economies of scale are observable yet, and it is not obvious that they ever will be, or where they might come from. Both taxes and other charges, as well as debt increased significantly. User charges rose and average residential property taxes went up about 10% in urban areas and by as much as 30% in suburban and rural areas. Polling data show low levels of satisfaction with post-amalgamation services, although again it may be premature to make a strong judgement here.

Recalling the Price Club fiasco, it is interesting to note that the HRM doesn't even engage in such economic development activities anymore — although there are obviously areas, such as land swaps and zoning that Council deals with. HRM contributes a minority share of the funding of a highly innovative public-private partnership that handles promotion of the HRM as a place to work and invest. It is worth noting, as an aside, that those US cities with the highest rates of economic growth count many with the most fragmented local government structure.. There is no observable correlation between amalgamation and economic growth.

There is a structure for community councils within the HRM, but these are not widely used nor understood, and it is not at all clear that they will gain much power and prestige as against the HRM Council or the permanent central bureaucracy. In other places where conflicts have arisen between such community councils and the senior centres of authority, it is the community councils that have generally ended up the losers.

There is still a very high degree of monopolistic in-house provision of services, although there are exceptions, in areas like solid waste collection. An innovative public-private partnership process for the construction of a waste water treatment system is teetering on the brink of collapse, because the new mayor, again, favours in-house monopoly provision.

Where should local government be headed?

I've already remarked on some of the advantages of local government, and in particular the fact that it is the level of government most able to be relatively aware of the real concrete circumstances of their populations, and to be able to see and correct the damaging and undesirable consequences of their policies. But the small scale of local governments and the large number of them that exist, has other advantages. Chief among these is the possibility they create of carrying out a great number of experiments with different types of policies. This has some important consequences.

For example, organised minorities and pressure groups benefit from centralised political power because that means that they can concentrate their lobbying power on a central point of authority, in the national or the provincial capital. When power is widely dispersed to many small units of government, however, that reduces their lobbying power because it is spread so thinly. Amalgamation in a large urban area, however, restores the bargaining power of organised minorities in local government affairs.

In the same vein, this decentralisation reduces significantly the ability to pass the costs of local decisions along to larger communities, which forces voters to be more fiscally responsible. When governments cover relatively small geographical areas, it reduces significantly the cost of “voting with your feet”. It is much cheaper to move from one town to the town next door than it is to move to another country.

The third consequence of the existence of a large number of local government units is that it allows the benefits of successful experiments to be copied by other local and even more senior governments, and obtains the information about which experiments are successful at lower cost than when entire provinces or countries must try out policies to see if they work.

A good example is the London borough of Wandsworth in central London. According to the Deputy Leader of the borough council, Maurice Heaster, “Our public housing was a disgrace: more than 100 high-rise apartment blocks where no one wanted to live. They needed money spent on them and they needed occupants with a new, more house-proud attitude.

“As long ago as 1978, we began to sell council-owned flats and houses to the tenants.... [O]ver the years, we have sold 20,000 of our original 40,000 properties. Every estate, every block, now has a healthy mix of home owners and tenants. We have generated £500 million in capital receipts.”

It was from Wandsworth that Mrs. Thatcher drew the inspiration for her famous (and hugely popular) programme of council house sales.

Without that successful local experiment, it would have been far more difficult to “sell” such a policy at the national level, which leads to my fourth and final point: decentralisation, when linked to a high degree of competition between localities, increases the likelihood of spreading local policies and practices when these are successful, and getting rid of them when they are not. Imitation is a powerful force.

But none of these positive effects can or will be realised without a vital element of competition. Because of the ignorance of municipal officials about their own population, the true costs of various services, and the potential of new methods to deliver efficiencies and improved service levels, we need a framework for local government that spurs competition, which is really only another way of talking about maximising experimentation and ending rigid monopolies in the supply of local government services. Competition is a discovery procedure.

At the local level, competition takes place on two dimensions:

First, there is competition within municipalities. By this I mean that the most successful municipalities, places like Charlotte, North Carolina, Phoenix, Arizona, and Indianapolis, Indiana, are more and more getting out of the game of directly supplying traditional local government services where local government employees under a rigid contract supply individual services, such as garbage collection or sewer and water services, to the residents of an entire city as a typical public sector monopoly. Note that this is consistent with structures such as BCs regional districts, that permit pooling and sharing of services and purchasing across units.

Instead, the model that is emerging is of a much smaller local government that acts as a kind of buyer's co-op on behalf of the residents of the locality. Service standards are set, and contracts are let on the basis of those standards, to competitive bidders. The winning bidder is then held accountable for his success or failure in reaching the agreed standards. The question of whether the service is provided by public sector or private sector workers and managers is actually becoming irrelevant.

Naturally the monopolists are the ones who resist the most, and especially large centralised service provision bureaucracies and their associated public sector unions, but the benefits are so great from contracting out and privatisation – as Jim McDavid at the University of Victoria Local Government Institute has been instrumental in documenting with respect, for example, to garbage collection — that the momentum is clearly with the reformers.

The other kind of competition that it is vital to preserve is that between municipalities on the local level. One of the things that drives local government toward reform is the ease with which people vote with their feet. One strategy for frustrating this crucial means of disciplining and controlling the quality of local policy and holding local officials accountable, is to expand the boundaries of local government to such an extent that the costs of exit become prohibitive.

This movement toward what we call municipal amalgamation is driven, ironically, in many cases by the business community, who believe that we have “too many governments”, resulting in “overlap and duplication”. Surely, it stands to reason that having only one mayor, one council, one city hall, and one public works department would save money and promote efficiency.

But as Gordon Tullock, a prominent economist, argued in a recent book, “There is much more centralisation in governments than in the economy. This is in spite of the fact that there do not seem to be any very obvious economies of scale outside a few special areas like the military and, possibly, diplomacy.” Tullock is properly drawing our attention to the fact that in both government and the economy, small and large organisations exist, and both can be efficient in those things where they enjoy advantages. But being large in itself is no guarantee of anything.

In fact, there are good reasons for thinking that bigger government will be less efficient and responsive, not more. Certainly in the private sector thinking is running the other way, as the break up of giants releases hidden value in their assets. We have seen this recently, for example, in the decision of Telus to sell many of its large office buildings, because the company argues that they are in the telecommunications business, not the property management business. BCE's spinning off of Nortel created new value for shareholders in both organisations. And of course we all know that the experience of amalgamation has been to drive costs up to the highest level, rather than down to the lowest.

The other danger, of course, is that of cartelisation. This is what happens when local governments refuse to compete, but simply agree that they will all aim for the lowest common denominator. It is not unusual, in practice, for cartels of local governments to complain about outliers who do engage in vigorous competition, accusing them of "raiding", "unfair practices", "social dumping", provoking a "race to the bottom" and so forth.

This is where senior governments can usefully play the role of stimulator of competition, through actions such as those taken in New Zealand and Australia. Here, for example, there are laws obliging local governments to use compulsory competitive tendering for all services. Local governments undergo regular audits, where service levels and taxation levels are compared, permitting the publication of league tables and other instruments of accountability that grant to local voters much greater insight into the performance of their local government and hence more means to hold them accountable. Research indicates that people and businesses that move from one municipality to another are actually quite knowledgeable about the conditions in both their old and new municipalities.

Public sector competition, like private sector competition, is not "wasteful", but is a healthy discipline that promotes efficiency, accountability and good service. Such competition, where it has been introduced into local government, has transformed it for the better.

Thank you.