

## METROPOLITAN ORGANIZATION AND GOVERNANCE A Local Public Economy Approach

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New conceptualizations are needed to encompass cumulating research findings that complex, multijurisdictional, multilevel organization is a productive arrangement for metropolitan areas. A local public economy approach recognizes (1) the distinction between provision and production, and the different considerations that bear on each; (2) the distinction between governance and government, and the multiple levels of governance; (3) the difference between metropolitan fragmentation and complex metropolitan organization, and the prevalence of the complex organization over fragmentation; and (4) the necessity for citizen choice and public entrepreneurship in crafting productive organizational and governance arrangements. It may contribute to a rethinking with respect to governance structures adapted to the diversity characteristic of American metropolitan areas.

The long and continuing debate over metropolitan organization and governance concerns two basic questions:

- (1) What patterns of public organization are more likely to be *responsive* to citizen preferences, *efficient* in the way services are produced, and *equitable* in the way services are financed and delivered?
- (2) What patterns of *governance* are more likely to enable individuals to establish and maintain such patterns of organization in view of changing preferences, technologies, and other circumstances of metropolitan life?

Answering the first question requires solving a number of diverse problems simultaneously. Consider: Preferences for public services are diverse,

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varying both from place to place within a metropolitan area and over time. Moreover, preferences can be aggregated at different levels with different results— from neighborhoods to cities and towns, counties, submetropolitan regions, and the metropolitan area. Public services also are diverse in scale of effects: air pollution control affects an entire airshed, while a police patrol may affect but a single neighborhood. Technologies for producing various public services exhibit gross differences in scale economies (Hirsch, 1984; Barlow, 1982). Resources available to provide public services are not uniformly distributed across a metropolitan area, and achievement of equity in fiscal terms does not guarantee equity in service delivery. This diverse array of problems is unlikely to yield to a simple solution to be applied uniformly across different metropolitan areas, or even across different communities within a single area. Solutions depend on time- and place-specific knowledge rather than on abstract knowledge of a single correct pattern.

In the orthodox literature, metropolitan area governments repeatedly have been scorned for their failure to conform to a rational pattern of organization. The preferred pattern was originally a single, areawide, general-purpose government. Later, a two-tier variant was introduced. Common to both was a desire for structural uniformity— identical arrangements for service provision and delivery throughout a metropolitan area. All unreformed metropolitan areas were viewed as organizationally “fragmented” and tied to an assortment of ills including both inefficiencies and inequities. Research and analysis were geared toward finding the *one right way* to organize metropolitan America.

If solutions depend on time- and place-specific knowledge, however, there is no “one right way” to organize a metropolitan area. In this event, one needs a governance structure in which local citizens and their agents are empowered to make choices among alternative organizational arrangements. Instead of a governance structure that can impose a correct solution, metropolitan areas require patterns of governance that are sufficiently open to allow for diverse solutions that respond to variable conditions.

A public economy approach to metropolitan studies assumes that a multi-jurisdictional metropolitan area can be better understood as a complex *local public economy* than as a maze, a jungle, a crazy quilt, a stew, or other metaphor indicating an absence of rational organization. Organizational diversity and complexity do not imply institutional failure, but neither do they always imply success. Research efforts focus on identifying patterns of organization that work better in various circumstances and on patterns of governance that underlie the organization of more responsive, efficient, and equitable local public economies.

Researchers have shown that more fragmented metropolitan areas tend to be more efficient. Schneider (1986), for example, reported that growth in local expenditures, after control for relevant service conditions, was slower in fragmented metropolitan areas than in more consolidated ones. This finding is consistent with research by Eberts and Gronberg (1988), Diloranzo (1983), Wagner and Weber (1975), and other students of local public finance. Bell (1988) reported similar results with respect to school district fragmentation in the states.

Fragmentation usually is measured as a ratio of the number of jurisdictions in a metropolitan area to population. Sometimes only particular types of jurisdictions, such as municipalities, are counted, yielding a measure of horizontal fragmentation. Other measures include all jurisdictions considered to be governmental in nature by the U.S. Census of Governments, thus summing over jurisdictions that do and do not overlap territorially. In neither case does fragmentation measure the vertical structure of a metropolitan area, that is, the amount of territorial overlap among jurisdictions. Nor does it measure the presence of nongovernmental yet public bodies created by local governments.

Metropolitan areas that are more fragmented in jurisdictional terms tend to be more complexly organized in other ways as well. To respond to the inherent diversities of preferences, scales of effects, and production economies and diseconomies, metropolitan area governments tend to develop multilevel and multiscale arrangements, including both horizontal and vertical diversity. A local public economy that has numerous jurisdictions typically also has many interjurisdictional and multijurisdictional arrangements. Simply to describe such systems accurately requires a careful mapping of the linkages among jurisdictions (Advisory Commission on Intergovernmental Relations [ACIR], 1988, forthcoming).

Researchers are introducing evidence that more complexly organized metropolitan areas are more efficient than more simply organized areas, in which both horizontally fragmented areas without overlapping jurisdictions and vertically integrated areas that lack horizontal differentiation are included. Consistent with the importance of matching scale of provision with scale of effects, Chicoine and Walzer (1985) reported higher citizen perceptions of service quality for some services (libraries and streets) in which provision was concentrated, but higher perceptions for others (education and parks) in which provision was fragmented. Parks (1985) reported higher technical efficiency in police production<sup>1</sup> in metropolitan areas in which fragmentation in the production of patrol and immediate response to citizen requests are combined with more concentrated supply of radio communica-

tions and the investigation of the most serious crimes. A combination of small and large police service producers organized in nested arrangements was found superior both to pure horizontal fragmentation and full vertical consolidation.<sup>2</sup> Jurisdictional fragmentation alone appears to be an insufficient indicator of the complex structure of local public economies.

### ORGANIZING TO PROVIDE AND PRODUCE SERVICES: THE STRUCTURE OF LOCAL PUBLIC ECONOMIES

The distinction between provision and production of public services (Ostrom et al., 1961; Oakerson, 1987) yields a method of analyzing the organizational structure of metropolitan areas that allows a fuller description than is possible by counting jurisdictions. *Provision* refers to collective-choice processes that determine (1) what goods and services to provide, (2) what private activities to regulate, (3) the amount of revenue to raise and how to raise it, and (4) the quantities and quality standards of goods and services to be provided (ACIR, 1987: 10). *Production* refers to the technical processes of combining resources to make a product or render a service.

Different considerations apply to the organization of a collectivity to *provide* a service than to the organization of an agency or firm to *produce* a service (ACIR, 1987: 7-11). Governments are primarily provision units. As provision units, local governments can use a variety of alternative production arrangements, including not only in-house production, but also intergovernmental and private contracting, coordinated or joint production by more than a single provision unit, franchising, vouchering, and the encouragement of voluntary production (Ostrom and Ostrom, 1978). There are few, if any, "full service" local governments in the United States, if by this phrase is meant a collectivity that organizes production in-house for all the services it provides.

The structure of the production side, therefore, tends to be different from the structure of the provision side. The number of units that *produce* police patrol services, for example, is usually less than the number of units that *provide* police patrol services. Some small providers may choose to contract with other production units. The number of units that produce radio communications and dispatch will tend to be still less, because of economies of scale in producing this service component; still fewer units may be involved in the production of training and the investigation of serious crimes. Services such as these often are produced by joint units created by intergovernmental agreements, by larger-scale patrol producers under contract, or by units

organized by overlapping county or state jurisdictions (Ostrom et al., 1978). In much the same manner, school districts that both provide and produce direct services to students may rely on consortium arrangements to produce a range of support services (ACIR, 1988, forthcoming).

Provision tends to be differentiated both horizontally and vertically. In horizontal differentiation (corresponding to some measures of fragmentation) responsibility is divided among a set of nonoverlapping jurisdictions, such as municipalities or school districts. In vertical differentiation responsibility is divided between jurisdictions that overlap territorially. School districts that provide regular elementary and secondary education, for example, can be overlaid by special districts to provide education for handicapped students, vocational-technical education, or adult education. In municipalities in which a limited array of local services are provided, special districts can be overlaid to provide fire protection, parks, sanitary sewers, or water supply.

When some provision units are nested inside others, diverse problems can be addressed at differing scales of organization. Districts organized to treat waste water, monitor air quality and enforce regulations, or foster regional economic development can, when overlaid on municipalities, afford appropriately scaled forums for addressing these issues. Those issues that cannot be effectively addressed by governments of a large number of relatively small, adjacent municipalities can be assigned to overlying special-purpose or multipurpose jurisdictions.

Other districts can be nested inside municipalities, for example, to provide street lighting or neighborhood recreation. Functionally, municipal organization need not preempt the formation of smaller, nested governmental units, although, jurisdictionally, it often does. The development of private subdivisions as collective provision units (the fastest-growing type of local organization in America) is a way to diversify provision within municipalities as well as outside.

Among the issues that can be addressed by nesting smaller units inside larger ones is distributional equity. The orthodox view is that fiscal equity is best obtained by enlarging the size of jurisdictions to encompass economically diverse communities, creating a broader tax base and, in theory, allowing greater resources to be distributed to poorer areas. The local public economy view is that overlying jurisdictions can be used to raise revenues for purposes of redistribution without depriving distressed communities of their autonomy as provision units (ACIR, 1987). If citizen preferences support resource redistribution to distressed communities within large, general-purpose units, they also may support redistribution to smaller, auto-

nous units by overlying jurisdictions. Counties, for example, often are useful arenas for redistribution (Schneider and Park, 1988). Preserving the jurisdictional autonomy of communities in need has the advantages of encouraging local self-reliance, of allowing the elected officials of recipient communities to control many aspects of provision, including the choice of services to be provided, and of allowing them to control important aspects of production such as style and strategy choices made by production agents.

Local public economies are not simply fragmented; they are complexly organized by a variety of both small and large provision units linked in numerous ways to a variety of production units. Jurisdictional fragmentation is augmented by organizational overlays that may provide and/or produce services. In the orthodox view, in which it is recommended that local governments operate at a scale that allows them to become "full service" producers as well as providers, such functional arrangements are seen as distinctly second-best (Parks and Oakerson, 1988). But from a local public economy view, these arrangements are rational accommodations to diversity in the relevant scales of provision and production. Arrangements of this sort are commonly found throughout the United States. Local governments tend not to be "balkanized" in multijurisdictional metropolitan areas; rather they are linked organizationally by webs of interlocal agreements and overlaid by larger-scale arrangements for specific purposes.

## THE GOVERNANCE OF LOCAL PUBLIC ECONOMIES

The explanation most commonly given by researchers who find superior performance in more highly fragmented metropolitan areas is that the greater potential for citizen "exit" in a multijurisdictional metropolis constrains local government officials to be more efficient, drawing on Tiebout's (1956) model of local public goods provision. The Tiebout model, however, did not explicitly address the issue of governance. Moreover, locational choice among horizontally fragmented jurisdictions is insufficient where local public economies are vertically differentiated as well. Ostrom et al. (1961) added a governance dimension and argued that a "metropolitan framework" for adjusting relationships among jurisdictions and settling conflicts could be found in most complex metropolitan areas. The "framework" does not depend exclusively on exit.

Elsewhere (Oakerson and Parks, 1988) we have argued that abstract Tiebout effects cannot adequately account for the results observed in empir-

ical settings. Given the immobility of homeowners' capital stock, which both composes much of the local property tax base and represents the potential impact of exit for the vast majority of residents, consumer exit has a different impact in public than in private economics. An exiting homeowner who finds a buyer is simultaneously replacing the potential tax loss from his or her own exit. It is an odd, and we suggest much less effective, sort of competition that requires an individual customer to find a replacement before taking his or her business to another vendor.<sup>3</sup>

We argue that local public economies depend more on citizen "voice" (Hirschman, 1970) than on exit to motivate public entrepreneurs and to allow both citizens and officials to create appropriate organizational arrangements. Voice depends on political mechanisms, that is, on institutions of governance. The choice of governance arrangements, in turn, is contingent upon the variable environmental factors that underlie the structure of local public economies.

Governance can be distinguished from both the provision and the production of goods and services, depending instead on a capacity to make, change, and enforce rules within which provision and production occur (ACIR, 1987, 1988). Metropolitan *governance* does not require a metropolitan *government* able to provide or produce services. Rather, we distinguish three separable levels of governance that apply to the complex organization of a local public economy.

*Level 1:* Given a set of provision units, local officials make arrangements for production. Arranging for production is not simply a management problem, but a governance problem. Instruments of governance for this purpose include intergovernmental agreements, both formal and informal, contracts with private firms and not-for-profit organizations, and labor agreements with public employees. Governance of production frequently depends on the willingness and ability of local officials of different communities of interest to create institutions that can address common problems jointly rather than separately.

*Level 2:* Given a set of rules, citizens and officials make arrangements for provision by creating and, over time, modifying a set of provision units. Dillon's Rule (1868) notwithstanding, most local governments in the United States were created not by state governments, but by local citizens through various procedures of initiative and referendum (Reynolds, 1976; Teaford, 1979). When citizen decisions determine the structure of the provision side of a local public economy, the usual result is a set of relatively small jurisdictions with representational arrangements that feature very low citizen-to-elected-official ratios, overlaid with additional levels of provision arrangements to address problems of wider

scale (ACIR, 1988). Given the opportunity to say no, citizens have turned down the vast majority of proposals to consolidate such complex provision arrangements into single- or two-tier alternatives (Marando, 1979).

*Level 3:* Within the constraints and opportunities afforded by local political geography and by institutional history, state and local decision makers choose (over time) a set of rules for creating provision and production arrangements. The basic rules of metropolitan governance, found mostly in state law, compose a "local government constitution" by which local citizens and officials organize their relationships one with another (Parks and Oakerson, 1988; Oakerson and Parks, 1988). Included are rules of incorporation, annexation, and consolidation, fiscal and regulatory rules, and rules bearing on interlocal agreements and the organization of production. Making and adjusting these rules is an ongoing process that fashions the legal tools of association used to address local problems and seeks to resolve those conflicts that develop.

The structural variations among local public economies, we suggest, derive from different governance structures. At Level 1, the tools of governance available for constituting production arrangements explain, in part, the patterns of organization that emerge on the production side. Likewise, at Level 2, the rules of association used to constitute provision units explain, in part, the patterns of organization on the provision side. Level 1 is nested in Level 2. Thus the choice of provision units provides a second order of explanation for the patterns of organization associated with production. Both Level 1 and Level 2 are nested in Level 3. The choice of rules provides a second order of explanation for patterns on the provision side and second and third orders of explanation for patterns on the production side.

We posit that more "successful" metropolitan areas, in both efficiency and equity terms, are likely to be those areas that exhibit greater capabilities of self-governance. *Self-governance* refers to the ability of the residents of the relevant community of interest—whether a neighborhood, a city, a county, or the metropolitan area—to decide for themselves how to arrange for provision and production. Two closely related processes occur: (1) citizen choice and (2) public entrepreneurship (Oakerson and Parks, 1988). Both are necessary to self-governance. Citizen choices function as a constraint on public entrepreneurs who exercise the necessary initiative and take on the costs of time and effort to seek improvements in public organization.

Self-governance, however, tends to preclude the uniformity prescribed in the orthodox reform literature. Instead, it breeds diversity. As a result, some parts of a metropolitan area may be organized differently from other parts. Small municipalities exist alongside larger ones. Citizens in different parts of the metropolis receive a different mix of services, while those who receive

the same services may see them delivered in different ways. As Tocqueville (1945) argued more than a century ago, lack of uniformity is the price paid for a robustness and responsiveness that results in higher productivity and greater citizen satisfaction.

### NORMATIVE IMPLICATIONS

Orthodox theory remains primarily normative; its research base is thin. Although the local public economy approach has emphasized research, the research findings have normative implications. One implication is that citizen choice and public entrepreneurship, because both tend to be productive, are desirable. Reformers frequently seek, through one means or another, to impose their preferred view of the metropolis on others. The preferences of citizens for small jurisdictions are dismissed as parochial, and their creation of overlapping jurisdictions and interlocal arrangements is characterized as patchwork. In the absence of research findings supporting reform recommendations, this is a risky position to take; in the presence of research findings to the contrary, it is a position that becomes untenable.

Liberated from the quest for "one right way," reform advocates can concentrate on solving real problems. By carefully linking governance structures to organizational structures and to performance, it may be possible to diagnose urban and metropolitan ills more precisely and to seek corrective measures at the appropriate level of governance. By no longer seeking to reduce the number of jurisdictions and searching for economies of scale that do not exist, reformers can turn to the pressing problems faced by a small but growing number of distressed communities and offer help, both fiscal and organizational, instead of "advice" and coercion.

Reform efforts also can focus on relationships within large central cities, in which a much different pattern of governance prevails. Here lies the single greatest challenge facing local America today: how to introduce a more differentiated local public economy into the organization of central cities.<sup>4</sup> A local public economy approach that recognizes (1) the distinction between provision and production, and the different considerations that bear on each; (2) the distinction between governance and government, and the multiple levels of governance; (3) the difference between metropolitan fragmentation and complex metropolitan organization, and the prevalence of organization over fragmentation; and (4) the necessity for citizen choice and public entrepreneurship in crafting productive organizational and governance ar-

rangements can contribute to the creation of new governance structures adapted to the often difficult circumstances of urban residents.

### NOTES

1. The transformation of available resource inputs to valued outputs is measured to determine technical efficiency; thus technical efficiency goes beyond efficiency characterizations that focus solely on public expenditure.
2. For a comprehensive review of research on organizational and interorganizational structure in metropolitan areas and the relationships of structure and performance, see Ostrom et al. (1988).
3. Citizens unencumbered by home ownership may still find it difficult to "vote with their feet." People are tied to specific locales by family and friendship bonds. The poor are inherently less mobile than the better-off. Racial minorities continue to find inhospitable conditions in many localities.
4. For example, in 1988 the Illinois legislature approved a sweeping reorganization of the Chicago public schools transferring authority over basic school operations to parents and school-site personnel. Efforts to create a new, predominantly black municipality of Mandela within the borders of Boston are also illustrative.

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