

# A Transactions Costs Model of Metropolitan Governance: Allocation Versus Redistribution in Urban America

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## ABSTRACT

*The apparent hegemony of the public-choice approach to metropolitan governance has been sharply challenged on a number of fronts during the 1990s with a series of new arguments for consolidation emphasizing the role of boundaries in defining interests and property rights so as to structure the distribution of political transactions costs within metropolitan areas. These new arguments have yet to be organized, however, into a coherent critique of the public-choice approach. This article provides such a statement. First, the nature of individual decision making implicit within the new case for metropolitan consolidation is examined. Second, its core institutional propositions on boundaries are discussed. And third, the key outcome hypotheses flowing from the new consolidationist case's assumptions about institutions and individual choice are evaluated in light of the public-choice case for jurisdictional fragmentation.*

The long-running debate between public-choice proponents of metropolitan fragmentation and supporters of consolidated governmental institutions was dramatically reinvigorated over the last decade. After the 1980s, when the public-choice approach (Tiebout 1956; V. Ostrom, Tiebout, and Warren 1961; Ostrom and Ostrom 1971; E. Ostrom 1972; V. Ostrom 1974; Parks and Oakerson 1989) became the new theoretical orthodoxy on metropolitan governance and public-choice institutional proposals dominated the public agenda (Lowery 1999a; Eggers and O'Leary 1995; Osborne and Gaebler 1992; Jennings 1991; Haque 1996), a series of new works was reexamined that substantially revised the core arguments of the older orthodoxy supporting consolidated governments that originally was championed by Maxey (1922), Studenski (1930), Jones (1942), Wood (1961), Gulick (1962), the Advisory Commission on Intergovernmental Relations (1966), and the Committee on Economic Development (1966). In

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addition to renewed consideration of the older orthodoxy (Stephens and Wikstrom 2000), these newer works, while they do not always advocate consolidated metropolitan government *per se*, have questioned many of the assumptive foundations of the public-choice case for jurisdictional fragmentation (Lyons, Lowery, and DeHoog 1992). More importantly, and from a variety of theoretical and methodological perspectives, they have focused attention on the racial segregation, economic development, and citizenship consequences of fragmentation (Weiher 1991; Massey and Denton 1993; Rusk 1995; Downs 1994; Dowding 1996; Lewis 1996; Haar 1996; Frug 1999; Bickford 1999 and in press). In short, the apparent hegemony of the public-choice approach to metropolitan governance has been sharply challenged on a number of fronts during the 1990s.

However, these several new perspectives on the consolidation/fragmentation debate have yet to be organized into a coherent critique of the public-choice approach. Quite simply, the range, diversity, and sheer recentness of the newer arguments for consolidation have, so far, precluded their organization and presentation in a manner so as to systematically confront the public-choice case for fragmentation. While it has not been clearly articulated, I believe there is a common core to the new case for consolidation, a core that emphasizes the role of boundaries in defining interests and property rights so as to structure the distribution of political transactions costs within metropolitan areas. But without a more systematic statement of the new case for consolidation, it is not clear how normal science research—on the part of both sides of the debate—should proceed. Such normal science activity will necessarily include attention to a *common* set of empirical and theoretical issues that divide the two approaches to metropolitan governance. Only with such a common agenda will the debate be a true dialogue between competing perspectives, a dialogue that offers at least the prospect of scientific progress. To facilitate such normal science theoretical development and research activity we need a clear and precise delineation of the assumptive foundations and empirical claims of the new case for consolidation, one that is isomorphic to the public-choice case for fragmentation.

This article will provide such a statement. While it is almost certainly not comprehensive, given the range of the newer arguments for consolidation, it provides a concise theoretical statement of what I view as the core propositions of the new case for consolidation. And it presents this statement in a format that facilitates direct comparison with the public-choice case for fragmented governmental arrangements. This I will accomplish in three steps. First, I will examine the model of individual decision

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making that is implicit within the new case for metropolitan consolidation. Second, I will discuss its core institutional propositions on boundaries. And third, I will evaluate the key outcome hypotheses that flow from the new consolidationist case's assumptions about institutions and individual choice. Throughout, I will note in detail key differences between the two schools. Building on these differences, I will conclude the article by outlining a common research agenda for both sides of the debate, one that is likely to lead to progressive problem shifts in the evolving debate over the political structure of metropolitan areas or, in the case of several remaining differences in fundamental values that guide institutional choice, at least a more precise confrontation between the two alternatives.

### **ASSUMPTIONS ABOUT INDIVIDUAL DECISION MAKING**

When the public-choice model of fragmentation predicated on Tiebout's seminal paper (1956) was initially presented to political science (Ostrom, Tiebout, and Warren 1961; Ostrom and Ostrom 1971; E. Ostrom 1972; V. Ostrom 1974), it was reflexively rejected as relying on an alien mode of analysis imported from economics (Golembiewski 1977; Baker 1976; Furniss 1978; and Wade 1979). This included a sharp rejection of the economic discipline's reliance on methodological individualism and models of individual choice built on self-interested utility maximization. Yet reliance on both is now common within political science as a result of both the behavioral revolution and the new institutionalism. As a result, the initial criticisms had little impact on disciplinary assessments of the public-choice case for fragmentation. Indeed, while any number of empirical analyses that have purported to challenge public-choice outcome hypotheses have appeared over the last two decades (Lowery 1982; Marlowe 1985; Dolan 1990; Frisken 1991), one is hard pressed to find contemporary analyses of metropolitan politics that are not grounded on methodological individualism or are inattentive to the central roles of political institutions and the nature of the goods or services provided in shaping individual choices and policy outcomes, the elements Vincent Ostrom (1997, 102) has identified as essential attributes of public-choice analysis. This does not mean, however, that those who support fragmentation analyze self-interested utility maximization in the same way as do consolidationists. Indeed, two differences are readily apparent, while a third difference, once central to the debate, seems to have diminished in import, given recent work by supporters of fragmentation.

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First, and most important, the public choice case for consolidation delimits the content of self-interest in a very narrow manner in comparison with the new consolidationist model. This difference is fully evident in the specification of the content of both citizen and bureaucratic self-interest. In terms of citizens, the public-choice model narrowly focuses on tax and service packages, assuming that variations in preferences guide Tiebout sorting within a fragmented governmental setting. Beyond the special cases of taxes and perhaps education (Teske et al. 1993), however, this assumption has not been strongly supported in empirical analysis of sorting (Dowding, John, and Biggs 1994, 775). Stein's (1987) analysis of over ten thousand cities in 224 metropolitan areas indicated that tax and service packages were poorly differentiated in terms of revealed preferences. He concluded that "preferences for police, fire, sewer, and sanitation services tended to be relatively homogenous. . . . People rarely concern themselves with the manner in which these basic functions are performed." More indirect evidence is provided by Lyons and Lowery (1989; Lowery and Lyons 1989), who use survey data in a comparison of levels of service satisfaction within fragmented and consolidated governmental settings. If citizens vary sharply in their public-service preferences and such preferences guide sorting, then levels of service satisfaction should be more uniform in fragmented settings that provide a range of service packages than in consolidated governmental settings that provide a more uniform set of services. Their empirical results yield the opposite result, however, which suggests that the citizen preferences for service packages do not vary greatly.

The new case for consolidation does not deny that sorting occurs or that it is guided by individual self-interest, including interests associated with taxes and services. However, it takes both a much broader and a more limited view of the content of that self-interest. It is broader in the sense that it is attentive to more than taxes and services. In the earliest statement of this view, Williams (1975 and 1981) argued that location choice is guided by a search for "lifestyle maintaining conditions" leading to segregation into discrete social worlds. This broader specification of preferences necessarily includes attention to the class and racial composition of the community. But this new consolidationist perspective is also narrower in its assessment of the content of self-interest in the sense that it suggests, based on the preferences revealed by actual location choices, that only an abbreviated portion of tax and service packages significantly influences sorting. Taxes clearly matter (Miller 1981), as does education and perhaps police services. Beyond these elements, however, both limited information and the apparent homogeneity of preferences indicate that variations in the levels of most services matter

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little. Just as important, these two understandings of the content of citizen self-interest can be combined via recognition that race and class are likely used as simple decision heuristics guiding the search for either lifestyle maintaining condition or low taxes and high quality education and police services. This certainly is the implication of Stein's (1987) work. Although he found little evidence that the preferences that guide location choice are those associated with urban services, his analyses provided strong evidence that location choice was guided by race.

A similar reliance on a narrow specification of self-interest by the public-choice approach is evident in its characterization of bureaucratic motivations, which lies at the core of its hypotheses about the consequences of large, consolidated governmental arrangements. Despite Downs's early broad characterization of the content of bureaucratic self-interest (1967), public choice analyses of local government (V. Ostrom 1974) have relied on a stylized, bare bones model of bureaucratic motivation centered on the work of Niskanen (1971) to summarily dismiss bureaucratic production. Such rejection occurs even when the nature of a public good in question switches from a "good" to a "bad," such as taxation (Bowman and Mikesell 1978) when such a switch implies nearly the opposite conclusion about the prospects of service outcomes (Lowery 1982). Such stiff commitment to the bare bones model seems inconsistent, given that Vincent Ostrom (1997, 102) has argued that attention to the nature of the good in question is critical to generating hypotheses about service outcomes. But despite a few nods to the extensive body of work still being developed on the interests, opportunities, and behaviors of public employees, near exclusive reliance on the bare bones model of bureaucratic motivations and behaviors continues to characterize most urban public-choice research (e.g., Schneider 1989, 32-35).

This image that consolidated local government relies on a centralized, monopolistic bureaucracy was always something of a caricature, however. It is even more so today, in part precisely because the public-choice approach has been so successful on the policy front. Service provision and production—in all types of governmental arrangements—is today a complicated mix of direct and both public and private third-party actors, which is heterogeneous in the extreme (Stein 1990 and 1993). To the extent that these public-choice inspired reforms are successful in reducing bureaucratic rents via enhancing competition, there may be few *additional* savings to accrue from jurisdictional fragmentation *per se*.

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Just as important, recent research on bureaucratic motivations raises any number of questions about the plausibility of the bare bones model that is typically employed by public-choice analysts. Some of this research is essentially anthropological in nature (DiIulio 1994), while other examples are couched in economics (March 1992) or behavioral social science (Perry 1996; Crewson 1997). Perhaps the most important of these works is Brehm and Gates's (1997, 2) *Working, Shirking, and Sabotage: Bureaucratic Response to a Democratic Public*, which supports the public-choice conclusion that "bureaucratic accountability depends most of all on the preferences of individual bureaucrats." But based on their extensive secondary analyses of data on bureaucratic behavior, they also conclude: "Fortunately for us, those preferences are overwhelmingly consistent with the jobs American democracy sets them to do" (p. 2). Perhaps what is most notable about this work is that much of the secondary analysis that supports this conclusion is from data generated by E. Ostrom, Parks, and Whitaker's (1978) police study, which may be the central empirical analysis bolstering the case for fragmentation. To date, however, public-choice scholars have not bothered to respond to this broader and more generous assessment of the content of bureaucratic self-interest.

Second, analyses supporting the two approaches to organizing metropolitan areas differ in their views about the interdependence of individual preferences, especially about our capacity to resolve conflicts of interest within a democratic context. When the preferences of individuals conflict, resolution might arise in three ways. It might be achieved through bargaining and exchange. Alternatively, communication and deliberation may lead to a revision of the initial specification of self-interest. And last, coercion might be employed. To many of the early critics of the public-choice case for fragmentation, it seemed to rely only on the bargaining option as governed by the Pareto rule, downplaying the possibility of a respecification of self-interest through communication and deliberation or resolution via coercion. Unfortunately, this skewed attention to the means of resolving interdependent self-interest has been weakened only marginally within recent public-choice analyses (Dowding 1996).

The clearest evidence of this is provided in Vincent Ostrom's most recent work, *The Meaning of Democracy and the Vulnerability of Democracy* (1997). At first reading, Ostrom does not seem to opt for an unrestricted application of unanimity in exchanges, noting that "I cannot imagine that human societies can exist without the exercise of some coercive capabilities" (p. 272). Rather, he offers us a potential if limited escape from the Pareto principle, one that bears directly on designing

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institutions of metropolitan governance. That is, relaxation of the unanimity rule might be possible under limited conditions associated with deliberation and communication. Ostrom notes (p. 272) that "in the presence of common knowledge, shared communities of understanding, and mutual trust, modest coercive capabilities might be sufficiently diffused through a system of social and political order so that a monopoly of rulership prerogatives can be foreclosed." This in turn depends, of course, on how public decision-making structures provide for the kinds of interaction and deliberation needed to develop sympathy and trust (Ostrom 1997, 290). Unfortunately, Ostrom concludes that only institutions that provide for face-to-face, personal interactions are capable of doing so (p. 299). As a result, he concludes that democratic governance is viable only under limited conditions.

'One person, one vote, majority rule' is an inadequate and superficial formulation for constituting viable democratic societies. . . . Person-to-person, citizen-to-citizen relationships are what life in democratic societies is all about. Democratic ways of life turn on self-organizing and self-governing capabilities rather than presuming that something called 'the Government' governs (1997, 3-4).

In conjunction with Ostrom's extensive prior work on metropolitan institutions, the clear implication is that only fragmented governmental arrangements—indeed, *very* fragmented arrangements—are capable of noncoercive or only weakly coercive redistribution.

Interestingly enough, this perspective is not restricted to public choice proponents of fragmented metropolitan political arrangements. As I have noted elsewhere (Lowery, Lyons, and DeHoog 1992), this insistence on person-to-person deliberations as the necessary prerequisite for establishing the trust required for democratic use of coercion is shared by the communitarian urban politics literature associated with the work of Barber (1984) and Elkin (1987). However, for many critics of both the public-choice and communitarian diagnoses of metropolitan politics, this escape from the Pareto principle is too limited, precisely because it restricts the possibilities of coercive resolution of conflicts of interest to tiny jurisdictions, where there is limited variation in either initial endowments or contemporary needs. To such critics, this proposal reads like the old joke about the drunk searching for his keys under a streetlight rather than in the dark where they were lost. Because of the difficulties of encouraging deliberation between those with needs and those with resources, those with resources and those with needs should deliberate only among themselves. Meaningful democratic use of coercion as a means to resolve interdependent interests within communities

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comprised of citizens with variations in needs and resources is, in Ostrom's view, impossible within a democratic setting.

In contrast to both this public-choice perspective and the version of communitarian politics supportive of fragmentation, the new case for consolidation emphasizes the use of modest coercive capacities via majoritarian politics. But it does so within a majoritarian politics tempered by institutions that have been designed to enhance communication and deliberation among different interests so as both to legitimize majority application of coercive authority and to broaden the majority's understanding of its own interests in light of a reflective appreciation of the independent interests of the minority (Bickford 1999; Frug 1999). Indeed, this view suggests that the erection of institutional barriers via fragmentation will restrict whatever limited communication—direct or indirect—that might occur *between* different interests within a community. Such separation is expected by some to further undermine what limited trust and sympathy now exist among the different income and racial groups populating our metropolitan communities (Bickford in press). Thus Ostrom's solution to the problem of inequity appears to many critics of metropolitan fragmentation to be a quasi-communitarian rationale designed to deny the very possibility of effectively addressing the interdependence of interests except as it might occur separately among those with like problems or like solutions.

The third difference between the two approaches concerns the information base employed by self-interested utility maximizers. This is surely the most frequently articulated challenge of the public choice case for fragmentation, and it concerns the *process* that underlies citizen choice among fragmented institutions. The original Tiebout model (1956) and its variants within political science (V. Ostrom, Tiebout, and Warren 1961; Bish and V. Ostrom 1973) emphasized, under the assumption of *full information* (as well as the assumption of limited transactions costs), citizens voting with their feet to secure desired packages of taxes and services within metropolitan regions. Despite some modest positive support for this mechanism (Dowding and John 1996; Percy, Hawkins, and Maier 1995), its plausibility was severely challenged by findings that citizens have limited information about their choices of tax and services packages within metropolitan areas (Lyons and Lowery 1989; Lowery, Lyons, and DeHoog 1990). The very positive result of this challenge was the further theoretical developments by Teske and his colleagues (1993; Schneider and Teske 1993, and Schneider, Teske, and Mintrom 1995) and by Stein and Bickers (1995) that emphasized quite different causal processes associated with marginal consumers, civic entrepreneurs, and decision heuristics in



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understanding citizen location choices under conditions of less than full information. The answers are not yet in on either the plausibility of these alternatives or their outcomes. Still, they represent significant theoretical developments based upon a normal science empirical challenge, developments that have themselves generated a substantial and still growing body of further empirical work. More to the point, however, these developments indicate that both of the schools have relaxed the full information assumption.

Just as important, the new consolidationists suggest that individuals are boundedly rational in more ways than simply by a lack of complete information. That is, relying on well-established findings in cognitive psychology, the new consolidationists tend to view individual assessments of the information they do have as systematically biased in a number of ways, including the routine discounting of future costs and benefits and greater attention paid to losses than to gains (Lewis 1996, 26-28, 211; Nisbett and Ross 1980). As we will see, they also suggest that deliberation and communication can to some extent ameliorate such biases (Nisbett and Ross 1980; Bickford 1996 and in press). But they will always be part of our evaluation of self-interest, something that will become quite important when we consider the persistence of efficiency degrading transactions costs.

### ASSESSMENT OF THE ROLE OF BOUNDARIES

Boundaries are central both to the public-choice case for fragmentation and to the new consolidationist argument. However, they play a considerably different role for each. These differences are explored by looking at the three functions that boundaries play in the consolidationist model and how these differ in the case for fragmentation.

To consolidationists, the first function of jurisdictional boundaries within metropolitan regions lies in how they *create*, *modify*, and *facilitate* the *articulation* of the content of citizens' self-interest and then structure the *resolution* of conflicts of interest. Boundaries play a central role in the *creation or realization* of interests because of the way they inevitably define who we are via definition of neighbors and specification of the "other," which in turn specifies which issues we should or should not be concerned about (Bickford in press). As Lewis (1996, 31) has stated, "[T]he institutional arrangement [of a metropolitan area] serves as a perceptual filter for residents, developers, and politicians, as it shapes the way 'our city (or town)'—its politics, history, and the impacts of growth upon it—are understood." In fragmented governmental arrangements, this

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understanding is likely to center on distinguishing between those within and those outside a city's boundaries. Thus Frug (1999, 10) concludes that "the more a city's sense of self is based on separation from its neighbors, the more important such a separation becomes." From a consolidationist perspective, then, fragmentation does more than simply reflect and then institutionally protect preferences for separation; it engenders and then reinforces them.

Boundaries also provide conditions in which preferences can potentially be *modified*. Communication—and the trust and sympathy it fosters—is central to such modification, a position shared by V. Ostrom (1997, 272) and Bickford (1996). But not all institutions foster equal levels of trust, attachment, participation, and sympathy. Ostrom's insistence that these values can be realized only via face-to-face exchanges among immediate neighbors limits the prospects of modifying interdependent self-interests to only those situations in which those interests are unlikely to conflict. Where real conflicts occur, as among the variety of interests found *across* metropolitan areas, communication has a much more important role to play, but it is certainly more difficult to realize. Still, consolidationists reject the pessimism of public-choice scholars on the prospects of metropolitan democracy. And this more optimistic view is founded on more than faith, given the findings of Lowery, Lyons, and DeHoog (1992; see also Lyons and Lowery 1989) that civic attachment is greater in neighborhoods within consolidated cities than in their counterparts in fragmented civic arrangements and Oliver's (1999) finding that civic participation is positively related to community income heterogeneity. Attachment and participation are not the same as trust, but they are powerful resources that cities can and often do call upon in making local democracy work in the sense of at least potentially allowing for real communication among competing interests and thus their modification to secure mutually satisfactory solutions.

Finally, boundaries structure the *articulation* of interests and the *resolution* of conflicts of interests. Clearly, venues matter in the articulation of interests (Baumgartner and Jones 1993). In our case, municipal boundaries define venues that bias the kinds of issues that are discussed and how these issues are resolved. To argue otherwise would be to suggest that institutions do not matter. In fragmented governmental settings, there simply is no metropolitan-wide political forum in which regional interests can be articulated (Downs 1994, 182-83). Thus the interests of citizens in such metropolitan-wide concerns as economic development and social equity, even when realized, are likely to remain "latent" and unarticulated (Lewis 1996, 213).

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On first reading, it seems that the public-choice case for fragmentation would agree with much of this assessment of the role of boundaries in defining and structuring interests. Thus, in regard to water resource policies, Vincent Ostrom has suggested that

[a]ll of the people who are affected by a modified regimen of water stocks and flows and by the consequences that emerge would constitute Dewey's inchoate public—those who are affected. How an *inchoate public* is brought to the *consciousness of a shared community of understanding* depends on the existence of *decision-making arrangements* in an open public realm and on a willingness to explore how to pool, rearrange, and compromise existing interests and to provide for the constitution of new and altered patterns of relationships (1997, 290).

Yet Ostrom's insistence on face-to-face contact among what are likely to be homogenous neighbors within jurisdictionally protected enclaves belies this understanding. As a result, most public-choice analyses at least implicitly view the content of self-interest as fixed and beyond the influence of exogenous forces. Boundaries, in this view, facilitate only the realization of preferences; they do not influence their substance.

The second important function of boundaries lies in their facilitation of sorting. Both supporters of consolidation and fragmentation proponents would agree with this as a general statement. However, they offer somewhat different interpretations of the sorting induced by boundaries, given their different perspectives on the content of self-interest. To supporters of fragmentation, boundaries are important in the limited sense that the jurisdictions they define provide distinguishable tax and service packages. Varying preferences for such packages would then lead consumer-voters to select among the jurisdictions so as to maximize their self-interest. Other bases of sorting associated with jurisdictions largely are passively ignored or, as we will see, actively denied in the public-choice case for metropolitan fragmentation.

In the new consolidationist view, by contrast, boundary-induced sorting is founded on a wider array of criteria, including race and class considerations. As I have noted elsewhere (Lowery 1999b), attention to boundary-induced sorting is a relatively new addition to the consolidationist argument. That is, the original version of the social stratification-government inequality (SSGI) thesis of R.C. Hill (1974) and Neiman (1976) focused on the *exclusionary* powers of autonomous local governments in explaining income and class segregation within fragmented governmental arrangements. In contrast, recent work has begun to explain the origins of segregation as the outcomes of disaggregated personal

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location choices. Thus, Weiher (1991), Massey and Denton (1993, 88-96), and Downs (1994, 24-26) explain segregation as a function of an unequal initial distribution of income by race, the resulting stratified housing market with sharp distinctions in the opportunities available to choice makers and choice takers, and asymmetrical interpretations on the part of whites and blacks about what constitutes an integrated neighborhood. The three factors combine to insure that neighborhood tipping still segregates the races by jurisdiction even as black suburbanization modestly increases (Stahura 1988). Such sorting operates, of course, in both inter- and intracity contexts. But it is more complete within the former. As Weiher (1991) demonstrates in a series of elegant analyses of St. Louis data, political boundaries—as opposed to the more ambiguously defined boundaries of neighborhoods within consolidated cities—make it easier for residents to make location choices on the basis of race and income; boundaries provide crucial information that facilitates sorting.

This new emphasis on sorting has two important implications. First, racial and class segregation generated by sorting is far more difficult to control via regulation than is that arising from a politics of exclusion. Simply eliminating the local land use controls of Tiebout enclaves will not eliminate sorting within metropolitan governments (R.C. Hill 1974), nor will enforcing laws against discrimination within fragmented governmental structures (E. Ostrom 1983, 96). Second, the new attention to sorting renders the Tiebout model and the consolidationist case much more isomorphic in terms of their basic causal mechanisms. Both now emphasize pull factors that guide sorting. But which pull factors matter more? Is residential sorting through location choice driven by race and class or by preferences for market baskets of public goods and services? As we have seen in the earlier discussion of the content of citizen self-interest as revealed through actual local choices, the case for the former is quite strong.

The third and perhaps most important function of jurisdictional boundaries is that they define the political property rights that largely determine the outcomes of situations of interdependent self-interests. They define the decision rules that govern choice, the venues within which that choice is made, and who is enfranchised and who is not. Indeed, the property rights associated with jurisdictional boundaries define the very nature of the transactions that take place (Schmid 1978). In consolidated governmental situations, for example, such basic issues as the funding of streetlights and sewers are *allocative* decisions that involve an assignment of taxes to one subset of the members of the community and the services to another subset where the two

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may or may not overlap. In a fragmented setting, however, the very same physical assignment of taxes and services might well require interjurisdiction subsidies, making the decision a *redistributive* transaction. Of course, if, like Coase (1960), we are willing to assume that there are no transactions costs associated with either type of decision (Furubotn and Richter 1991, 91-97) and if we are inattentive to distributive outcomes (Mishan 1971, 17-26; Schmid 1978, 212), then both decision processes should produce the same efficient outcome. Unfortunately, the imposition of transactions costs and distributive consequences are the heart of the issue.

This makes the assignment of property rights through boundaries a fundamentally political choice fully infused with normative considerations and less readily subject to empirical assessment, as are many other issues that divide supporters of fragmentation from consolidationists. The property rights assignments entailed by boundaries will clearly advantage some and disadvantage others in making tax and service decisions. This dilemma was well recognized by Vincent Ostrom (1997, 292) when he noted that "[o]pportunities will always exist for some to prey on others. Under conditions of unanimity, some have incentives to hold out for special advantages. Whenever it becomes expedient to relax the conditions of general agreement for other decisions rules, including majority-vote rules, opportunities are created for some to take advantage of such circumstances to prey on and exploit others." How then do we choose between the two sides of this dilemma?

The normative case for fragmentation clearly opts for the former side of the dilemma. Given Ostrom's (1997, 3-4) pessimism, noted earlier, about the possibilities of communication, he pays far greater attention to the potential of majority exploitation of minorities within nominally democratic forums once boundaries encompass more than those with whom one can have face-to-face communication. The consequences, he suggests, are dire in the extreme:

Instead of maintaining standards of consensus that are constitutive of self-governing communities of relationships, it is easy to be lulled into believing that others are responsible for one's fate. One can then find that the structure of covenantal relationships has been replaced by a system of command and control. An overemphasis on legality can transform the conditions to life into a quest for exceptions and favors that eventually lead to the corruption of life, to the abandonment of morality, and to conditions of servitude in which everyone is bound by the tethers of legality and the loss of self-governing ways of life (1997, 292).

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This can only be read as a strong defense of what is only a weakly modified Pareto rule, modified only in the sense that coercion might barely be possible among those able to engage in direct and immediate communication. Thus boundaries should be designed so as to allocate property rights in a way that such a near-Pareto condition will be satisfied.

Given this defense of only a modestly weakened Pareto rule, it is not surprising that many consolidationists view the public choice case for fragmentation as most fundamentally a scheme to minimize opportunities for redistribution. To many critics of fragmentation, the Pareto principle represents the core of public-choice theory, and the real goal of its institutional analysis is to raise political transactions costs so high that redistribution is highly restricted. As Dowding and Hindmoor (1997, 460) have stated this position, the Pareto principle "is not a normatively weak criterion as public-choice writers maintain, but one which is deeply abhorrent to many people." The reason is simple. "Public choice is [when insistent on the Pareto principle] so deeply conservative precisely because it denies, by its very methods dependent upon searching for Pareto-efficient solutions, that redistribution is an issue with which political discussion should concern itself" (Dowding 1996, 60).

Vincent Ostrom's reliance on the Pareto rule is a normative position that, however principled its defense, is clearly an extra-scientific adjunct of the public choice paradigm's more fundamental elements of methodological individualism and attention to institutions (Dowding and Hindmoor 1997). The same is true, of course, for the case for majoritarian politics within metropolitan areas. However, while they are not directly subject to empirical evaluation, many consequences of democratic politics within larger jurisdictions noted by Ostrom (1997, 292) *are* hypotheses subject to empirical assessment: "the corruption of life, . . . abandonment of morality, and . . . conditions of servitude in which everyone is bound by the tethers of legality and the loss of self-governing ways of life." This is not the place to fully consider these hypotheses. However, I would expect few to disagree with the claim that the consolidated governments of Lexington-Fayette County, Indianapolis-Marion County, Jacksonville-Duval County, and Nashville-Davidson County bear little resemblance to Sodom and Gomorrah.

### **TRANSACTION COST MODEL HYPOTHESES**

The new case for consolidation extracts three hypotheses from its analysis of individual choice within metropolitan settings and its analysis of boundaries. These hypotheses are not new,

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even in comparison to some of the earliest arguments for metro-  
politan consolidation (Stephens and Wikstrom 2000, 29-51). Still,  
the more recent work on consolidation has placed them on a  
firmer theoretical and empirical foundation, and it has made them  
more isomorphic in terms of causal processes with the public  
choice case for fragmentation.

The *first* hypothesis is that racial and income segregation  
will be greater in fragmented settings than in consolidated  
government settings. This is because of the interaction of  
individual preferences for lifestyle maintenance conditions  
entailing racial and/or income homogeneity either overtly or as  
an heuristic indicative of other desirable features of a location  
choice with the enhanced signaling of such homogeneity provided  
by jurisdictional boundaries. This hypothesis is somewhat agnos-  
tic about causal processes enforcing segregative location choice.  
The original form of the hypothesis—the SSGI thesis of R.C. Hill  
(1974), Neiman (1976), and Miller (1981)—emphasized exclusion  
via the land use powers of local government. R.C. Hill (1974,  
1557) argued that these tools make “[p]olitical incorporation by  
class and status . . . an important institutional mechanism for  
creating and perpetuating inequalities among residents in metro-  
politan communities.” Emphasis on exclusionary enforcement has  
not disappeared from more contemporary versions of the consoli-  
dationist argument (Frug 1999; Haar 1996). But as we have seen,  
the SSGI thesis has undergone substantial revision over the last  
decade, including greater reliance on individual sorting as a  
causal mechanism (Weiher 1991; Cutler, Glaeser, and Viner  
1999), which has rendered it in many respects a mirror image of  
the Tiebout model (Lowery 1999b).

The first defense offered by public-choice supporters has  
been to deny the racial and income segregative consequences  
hypothesized by both the SSGI thesis and the new consoli-  
dationists to arise from fragmentation. Indeed, Elinor Ostrom's first  
argument in her response to the original SSGI thesis was a direct  
challenge of any association between fragmentation and income  
inequality across jurisdictions. Relying heavily, if somewhat  
selectively, on Schneider and Logan (1981), she used part of her  
1983 (p. 96-98) rebuttal to deny that the enhanced sorting  
expected from fragmented institutional arrangements generates  
income inequality meriting redistribution. Rather, she argued that  
sorting by income across suburban jurisdictions is incomplete in  
all but the most affluent jurisdictions.

While perhaps plausible at that time, more recent research  
undermines this argument. First, analysis of more recent census  
data suggests that income sorting by jurisdiction has increased.

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Thus, Massey and Eggers (1993, 313) conclude, "During the 1980s, affluent and poor Americans not only pulled apart from one another in social and economic terms, they separated in spatial terms as well." And this is not a new trend; it was fully evident in earlier decades as reported by other research conducted by Logan and Schneider (1981), but not reported by Elinor Ostrom. Ostrom failed to discuss race in relation to income. Since segregation across jurisdictional boundaries by race trumps segregation by income (Stein 1987), even the income mixing claimed for middle class suburbs generally is not available to blacks. Indeed, Weiher's (1991, 106) painstaking analyses of Los Angeles and Cook County, Illinois, census data from 1960, 1970, and 1980 suggest that jurisdictional sorting by race has increased over time. In short, this argument has been weakened by more recent research findings, findings that have not been responded to by proponents of governmental fragmentation.

This public choice defense shifts on race. Bowing to the obvious reality of racial segregation, Elinor Ostrom (1983, 94) does not deny its existence and appropriately regrets it as a "tragic fact." But given its persistence in both types of government settings, Ostrom then argues (p. 93) that moving from a fragmented to a consolidated government structure would have no net effect on segregative residency patterns. Unfortunately, more recent research has undermined this argument as well. Whereas *overall* metropolitan segregation by race has not changed much since first studied in the 1960s, even as numbers of suburban blacks have increased, there has been an important change in the distribution of the variance in racial segregation explained by neighborhood and jurisdictional boundaries. In an analysis of this distribution in 1960, 1970, and 1980 in two metropolitan areas, Weiher (1991, 87-115) found that the proportion of variance in racial segregation explained by municipal boundaries increased markedly, from 15.7 to 58.1 percent in Cook County and from 34.4 to 69.1 percent in Los Angeles County. Thus, previously high levels of intrajurisdictional segregation are being replaced by interjurisdictional segregation. Weiher (1991, 93-95) credits this pattern to the judiciary, which has vigorously discouraged the former in recent decades, but too often turns a blind eye to the latter. It is also consistent with his notion that once the courts began restricting intracity discriminatory practices racial sorting became easier in the suburbs, given the reduced ambiguity in neighborhood borders provided in the former by their hard jurisdictional boundaries. These findings are more broadly supported by those of Downs (1994) and Rusk (1995), based on large numbers of metropolitan areas, which indicate that racial segregation



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is now more severe in governmentally fragmented metropolitan areas than in cities with "elastic borders."

In sum, while the public-choice denial defense may have had some merit in 1983, it now appears that persistent patterns of income and racial segregation are becoming ever more uniquely a consequence of governmental fragmentation. This would all be well and good from a public-choice perspective if such segregative patterns fully reflected varying preferences for public goods and services. But Stein's (1987) study indicates that there is little empirical basis on which to make such a claim. As Logan and Schneider (1984, 886-87) have noted, "It is simply not plausible to argue that blacks are attracted to such places or that whites are more sensitive to fiscal differences than blacks. Instead, we believe that this finding [of racial sorting by jurisdictions] indicates that the dual housing market effectively steers blacks to disadvantaged communities." The new consolidationists would only add to this statement the corollary that it is jurisdictional boundaries that sharpen these sorting patterns.

The *second* hypothesis concerns the spatial mismatch of expenditure needs and fiscal capacity that results from sorting by race and class (Lewis 1996, 15; Logan and Schneider 1982; Gustely 1978). Reflecting the government inequality component of the original SSGI thesis, this hypothesis suggests that the poor and minorities are isolated in jurisdictions with limited fiscal capacity and significant demand for expenditures, while wealthy whites escape to enclaves with limited needs and a generous fiscal capacity. The evidence for a fiscal mismatch between central cities and outer suburbs is, of course, overwhelming. But even the rather limited increase in black suburbanization in recent decades has been restricted largely to the poorest, most densely settled suburbs on the fringe of central cities (Logan and Schneider 1984; Downs 1994; Rusk 1995; Schneider and Logan 1981 and 1982; Phelan and Schneider 1996; Schneider and Phelan 1993), and thus it has hardly dented the mismatch problem. It is not surprising that the central finding of Schneider's pro-fragmentation work, *The Competitive City*, is that municipal governments spend less in metropolitan areas that have more fragmented political jurisdictions. To consolidationists, fiscal mismatch arises directly from the interaction of the availability of incorporated enclaves and household sorting. Those benefiting from the spatial mismatch shield themselves from observing poverty by the absence of a political forum in which it might be addressed. Property rights are defined in such a way that what would be an allocative issue in a consolidated governmental setting becomes a redistributive issue in the fragmented context. Any redress on the part of the poor must overcome the

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significant transactions costs associated with securing unanimous support from a nonrepresentative metropolitan institution such as a council of government or must seek a venue outside of the metropolitan area at the state or national level.

Public-choice supporters of fragmentation have offered a number of interrelated arguments designed to ameliorate the implications of the fiscal mismatch hypothesis. The first suggests that such disparities arise from individuals' choices and reflect differing preferences for public goods and services among the rich and the poor, an issue we already have considered at some length. But here it is worth noting that survey research clearly indicates that satisfaction with local government across all kinds of jurisdictions is positively associated with the number and quality of the goods and services they provide (DeHoog, Lowery, and Lyons 1990). It is simply implausible to imagine that location in jurisdictions in which one would be less satisfied somehow reflects the preferences of the poor and minorities.

Second, Schneider (1989, 65) claims that the lower spending found within fragmented settings arises solely from the elimination of the *excessive* expenditures associated with bureaucratic rents. Unfortunately, this claim rests completely on Schneider's use of the bare bones model of bureaucracy typical of public-choice urban analyses. No direct evidence of bureaucratic behavior was supplied by Schneider (1989). The observed lower spending could also be explained either by lower levels of redistributive spending within fragmented jurisdictions arising from their greater income homogeneity or by reductions in all forms of spending, going well beyond rents because of the limited fiscal capacities of poorer jurisdictions.

The third counter argument is that while spending may be lower in poorer jurisdictions, the quality of public services may in fact be superior to what would be received in a consolidated government setting because of the efficiency advantages engendered by competition (E. Ostrom 1983, 103). Is service efficiency enhanced by the competition associated with fragmented governmental arrangements? Unfortunately, no simple answer has emerged, given the inherent difficulty of comparing the apples of fragmentation with the oranges of consolidated government. Thus, like the literature on sorting, the literature on efficiency savings hypothesized to arise from competition within Tiebout settings is extremely controversial. Keating's (1995, 125) review of the literature led him to conclude that "[m]easuring the public choice school's claims to allocative and service efficiency has proven as difficult as measuring those of the consolidationist school." Based on a thorough and rather disinterested review of

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this literature by scholars who have argued on both sides of the public-choice divide, Dowding, John, and Biggs (1994, 787) come to a similar conclusion: "It is very difficult to test the proposition that the greater the number of jurisdictions, the greater the competition between them. There is virtually no worthwhile evidence to support this [efficiency] implication." At best, they note, research does support Schneider's (1989) conclusion that greater fragmentation is associated with reduced spending. But they follow Elinor Ostrom (1983, 101-102) in arguing that there is no necessary relationship between spending and efficiency.

A fourth version of this argument is Ostrom's (1983) suggestion that the poor and minorities can still benefit from the consumer sovereignty enhancing advantages of quasi markets by forming their own Tiebout enclaves. The problem for lower-income minorities, as I have noted elsewhere (Lowery 1998), is that middle- and upper-class whites have often cornered the tax base required to make such incorporation viable. Or if the market is not already cornered, business interests opposed to incorporation can use their superior political resources to resist incorporation, thereby erecting a quasi-legal barrier to access to the quasi market (Hoch 1985; DeHoog, Lowery, and Lyons 1991). Nor is this solution of much use to wealthier blacks. As Phelan and Schneider (1996, 676) note, "Despite the impression that black middle-class suburbs are the wave of the future of integration in the United States, such suburbs are remarkably few in number." For both rich and poor minorities, it is the Tiebout quasi market itself that constitutes a semilegal barrier to entry into the quasi market, thereby ensuring that its formation will be partial and incomplete and its fiscal advantages available in only a separate *and* unequal manner.

This should not be taken to suggest that opportunities for the poor and minorities to benefit from fragmentation could not be strengthened and enhanced by additional institutional reforms. Clearly, if public-choice theory has taught us anything, market failure does not imply nonmarket success. I will gladly admit that the failure of Tiebout quasi markets to provide sufficient opportunities for the poor and minorities to form their own viable governments within a fragmented setting does not, by itself, imply a need for metropolitan government. And it is no great stretch within the public-choice framework to suggest that governments can step in to ameliorate cases of market failure via means other than direct public production. In this case, that might entail strengthening regional land-use planning so that economically viable areas for new incorporations are not gobbled up on the basis of wealth. It might also entail explicit councils of

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government (COGs), state, or national subsidization of city incorporations by the poor and minorities. The point is that the paucity of such viable incorporations over the last two decades in the presence of public-choice advocacy of the kinds of subsidies needed to make this option a reality requires that this argument be presented in a stronger form if public-choice theory is to provide a real solution to problems of metropolitan racial and class segregation. Again, this is an opportunity for the expression of the institutional creativity for which public-choice scholars are so well known, one that they have so far rather studiously eschewed.

The *third* outcome hypothesis of the new case for consolidation concerns the undersupply of metropolitan-wide public policies designed to enhance equity in social opportunities and promote economic growth. These include the kinds of land use policies that minimize sorting by race and class, redistributive policies necessitated by the fiscal mismatch hypotheses, and developmental policies needed to manage and sustain economic growth. Mounting evidence indicates that all three types of policies are supplied at higher rates in consolidated metropolitan settings than in fragmented metropolitan settings (Rusk 1995; Downs 1994; Lewis 1996). Importantly, the costs of this undersupply bear across fragmented metropolitan areas and not just on their central cities. This suburban dependence argument suggests that the economic vitality of the suburbs and that of the central cities are inextricably linked. It further suggests that racial and economic segregation and weak or nonexistent regional economic planning lead to systematic mismatches in material and, especially, human resources, which results in serious allocative inefficiencies that are felt across metropolitan areas (Ledebur and Barnes 1992 and 1993; Voith 1992; Savitch, Collins, Sanders, and Markham 1993; Downs 1994; Rusk 1995). While this suburban dependence thesis remains controversial (Hill, Wolman, and Ford 1995; Savitch 1995; Blair and Zhang 1994), even critical empirical evaluations by advocates of fragmentation report results indicative of significant metropolitan-wide economic costs associated with excessive segregation and disparities in income (Blair, Staley, and Zhang 1996), albeit costs more modest than those reported by its proponents.

The new consolidationists suggests that the undersupply of metropolitan-wide policies results from the interaction of sorting, a fragmentation-induced narrowing of the content of self-interest, and the erection of institutional barriers that raise the transactions costs associated with their adoption. Haar has stated this in terms of policies designed to address the dual housing market:

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As presently constituted, no public body represents the interest of metropolitan areas as a whole in implementing regional housing opportunity. Nor is this likely to change, since there is no community motivation to formulate ordinances (or the legal power to adopt them) aimed at overcoming the self-serving policies of narrow groups of residents. With such fragmentation of legal power within the metropolitan area, communities are free to construct land-use ordinances to uphold the interests of individuals seeking to maintain social status through position in the stratified hierarchy of place (1996, 1993).

Downs (1994, 31-33) and Lewis (1996, 212-15) have described the undersupply of economic development policies in nearly identical terms. Quite simply, such policies, while they provide broadly based benefits for most metropolitan area residents, will impose costs on at least some citizens. When boundaries allocate property rights in such a way that political transactions must satisfy or nearly satisfy a Pareto criterion test, they will not occur.

In the face of the undersupply hypothesis, perhaps the response that is most often presented in defense of fragmentation is the suggestion that higher levels of government could act to ameliorate any of its unintended distributive consequences. National and state governments could provide redistributive spending directly to citizens or to communities (E. Ostrom 1983, 101; Hill, Wolman, and Ford 1995, 165-68; Dowding, John, and Biggs 1994, 773; Parks and Oakerson 1989, 22-23; Dowding 1996, 54), or these benefits could be provided through voluntary agreements among the governments comprising a Tiebout quasi market through COGs, such as the tax-base sharing plan of Minneapolis-St. Paul, Minnesota, in which the many governments in the metropolitan area agreed to share part of the tax revenue arising from growth at the periphery with the city governments in the center (ACIR 1987; Blair, Staley, and Zhang 1996). This option, of course, relies on an exceptionally optimistic view of property rights and transactions costs (Furubotn and Richter 1997, 108), which suggests that inefficiencies that arise from any misallocation of rights will inevitably lead to their reassignment so as to secure the resulting gains in efficiency. If the costs of the undersupply of such metropolitan-wide policies are in fact so great, new institutions should naturally arise to supply them. We will see that such an optimistic view is unwarranted.

Let us start first with reliance on state and national-level policy intervention. The first thing to note is the circular nature of the appeal for state and federal intervention. That is, it offers a defense of governmental fragmentation by first assuming its existence. It is also possible to argue—and do so from a public-choice position using Oates' *Decentralization Theorem*—that

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government goods and services should be provided at the lowest level of government at which there are no spillovers. The lowest level at which the undersupplied policies might be provided without spillovers is the metropolitan area, not the state or federal government, which implies that metropolitan governments would, all other things being equal, be the appropriate units through which to provide them. Selecting the appropriate level to provide redistributive/allocative services and economic development policies then depends on a prior assessment about the relative importance of different types of goods and services and, thus, the areal boundaries around which to construct primary units of government. If, as is typical of public-choice analyses (Savas 1987; Ostrom and Ostrom 1971), primacy is awarded to basic services such as police and fire protection or sanitation services in determining the areal basis of the primary unit of government, fragmentation would be preferred and redistributive/allocative services and economic growth policies would have to opt for a second best solution via provision at the state or national level. If the latter are seen as sufficiently vital to organize the primary unit of government around their provision, metropolitan government would be preferred, with other services provided through second best options. I do not want to argue here which of these options is to be preferred. Rather, I am merely suggesting that for this response to the undersupply hypothesis to be less circular, a much fuller explication and defense of a series of prior arguments is required.

Turning to more substantive concerns, it is difficult to deny the attractiveness of the argument that higher levels of government could and should provide redistributive goods and services in cases of fiscal mismatch, enhanced access to fair housing across jurisdictional boundaries, and coercive implementation of regional planning policies. There are at least a few examples of each in the form of modestly greater state judicial attention to interjurisdictional housing policies (Haar 1996) and recent national transportation policies requiring some minimal forms of regional planning (Downs 1994). But as a realistic prescription for the problems raised by the undersupply hypothesis, this approach leaves much to be desired. In regard to housing and economic development, these positive examples are rare and have not been followed with any enthusiasm by other state or national courts or legislatures. More importantly, further state or national imposition of regional economic planning policies are unlikely in the face of powerful political incentives at the local, state, and national levels of government (Downs 1994, 188-89). Even sincere advocates of the expansion of such policies as Downs (1994, 192-95) can only rely on appeals to ethics and community spirit to overcome these incentives. These same powerful incentives, of

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course, make the prospects of consolidation equally unlikely. But the point is that the options of state or national intervention do not somehow magically sidestep the same incentive problems that face consolidation as a solution to the undersupply problem. As Furubotn and Richter (1997, 110-14; Libecap 1989) note, "the distributional conflicts that are inherent in any property-rights arrangement can override efficiency considerations and act to block or critically constrain the institutional structure that can be adopted." The simple prospect of efficiency gains is not alone sufficient to overcome the inefficiencies associated with a critical undersupply of metropolitan-wide policies arising from a misallocation of political property rights within fragmented metropolitan settings.

The situation is even worse, however, when we turn to state and/or national redistributive policies designed to address the fiscal mismatch hypothesis. As Elinor Ostrom (1983, 101) correctly noted, the plausibility of this argument "is obviously dependent on the continuance of redistributive policies by overlapping governments." But the years since Ostrom's article in *Urban Affairs Quarterly* have seen the effects of state tax revolts and fiscal crises, the Reagan cutbacks in social spending and elimination of revenue sharing, and the Clinton era reform of welfare, all of which have taken us in quite a different direction—a pattern replicated around the world over the last decade (Haque 1996). Redistribution has occurred, but in a direction opposite the manner suggested by this public-choice defense of fragmentation. At best, federal government expenditures have moved from a spatially redistributive to a spatially neutral allocation pattern (Lowery, Brunn, and Webster 1986). Given recent history, it seems utopian to count on higher levels of governments to fill the redistributive gaps left or engendered by governmental fragmentation.

Or worse. To many critics of the public-choice approach, the suggestion that reliance be placed on higher levels of government seems to be insincere. Such a frank assessment has face plausibility, given the deafening silence on the part of public-choice proponents of fragmented government that accompany all the policy changes just noted. I certainly would not expect public-choice scholars to oppose all or even most of the many changes in public policy at the state and national levels that have occurred over the last twenty years—changes that have so substantially reduced the redistributive role of the public sector—on the grounds that they undermined the viability of fragmented metropolitan institutional arrangements. These policies are an extraordinarily heterogeneous mix, including elimination of revenue sharing, tax limitations, budget cutbacks, and welfare

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reform, each of which has its own unique merits and liabilities. But of all these policy changes, are not there *any* that should have been opposed by prominent scholars in the public-choice tradition if they really believed that redistribution by higher levels of government could and should be used to ameliorate some of the unintended consequences of fragmentation? If such opposition existed, I do not know of it. The lack of such opposition is not all that surprising when viewed from the perspective of the public-choice model as a whole. Given the bare bones model of bureaucracy favored by public-choice analysts, it would be inconsistent to suggest that centralized bureaucracies at the state and national levels would be accountable, responsive, and efficient providers of redistributive goods and services.

What of voluntary agreements among fragmented jurisdictions within metropolitan areas via COGs, as suggested by Oakerson (1999) for economic development policies and by Elinor Ostrom (1983) for redistributive/allocative concerns? Unfortunately, the case for COG implementation of meaningful economic development policies is quite weak. Simply put, such policies would undercut the very powers of privileged local governments in fragmented settings that allow them to facilitate racial and class sorting and to secure the benefits associated with the fiscal mismatch hypothesis (Lewis 1996, 215). In regard to redistributive policies, public choice proponents are as fond of citing Minnesota's tax-base sharing plan as they are of pointing out the paucity of recent metropolitan consolidations—to the continuing chagrin of advocates of metropolitan government. But it should be equally fair to point out that in addition to evidence that Minnesota's plan never was quite all that it was purported to be (Gilbert 1979), there is the nagging problem that so few other metropolitan areas have followed its example in the more than quarter century since it was adopted. If metropolitan consolidations have not swept the nation, neither have meaningful tax-base sharing plans. This is hardly surprising, given that coercive solutions mandating significant redistribution—as in the case of regional land use controls—would encounter a unit veto, where any one city government can veto redistribution among the separate governments found within a metropolitan area (Keating 1995, 126). And more voluntary contributions by a few local governments to others would falter due to problems of collective action, especially as the number of local governments increases. As Downs (1994, 171) observed, when "policies require allocating benefits and costs among jurisdictions, sacrifices on the part of one locality or another, or other controversial decisions, this approach does not work." Again, inefficiency alone is not sufficient to generate noncoercive solutions when a maldistribution of property rights lies at the heart of the problem (Furubotn and



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Richter 1997, 113; Libecap 1989). After twenty-five years, simply expecting that Minnesota's plan will naturally emerge elsewhere no longer offers a plausible escape from the under-supply hypothesis.

### CONCLUSION

The transactions costs model of metropolitan political organization is founded on an assessment of individual decision making, an analysis of the impacts of boundaries, and outcome hypotheses that differ sharply from those of the conventional public-choice rationale for metropolitan governmental fragmentation. This new consolidationist interpretation has been identified here as a transactions costs model, given its central attention to how boundaries define political property rights that then interact with the perception and articulation of interests to enhance or impede the adoption of metropolitan-wide urban policies. At the most fundamental level, boundary-determined property rights specify whether these policies will be considered as allocative choices within a single community or as redistributive choices among socially and spatially distinct political jurisdictions. This boundary-determined distinction between allocative and redistributive choices in turn specifies the political transaction costs that must be overcome in the adoption of such regional policies. In fragmented governmental settings, the dice are institutionally loaded against policies designed to enhance desegregated housing location, the matching of fiscal resources and fiscal needs, and the effective management of growth and economic development. This bias extends from the weakened perception of the costs and benefits of these policies, through their restricted opportunity for articulation within the policy process, to their diminished prospects for adoption. Just as the advent of firms facilitated the reduction of transactions costs by moving from spot to long-term employment contracts (Williamson 1975), consolidated governments reduce the transactions costs bearing on the adoption of regionally focused policies by relying on democratic choice rather than intergovernmental agreements.

Is this new consolidationist perspective really *new*? Clearly, it borrows liberally from and builds on significant prior work on metropolitan governance, especially the SSGI thesis of R.C. Hill (1974) and Neiman (1976) and the fiscal mismatch hypothesis. Similarly, this new case for consolidation entails rejection of the implicit—and sometimes not so implicit (V. Ostrom 1997)—reliance by public-choice theory on the Pareto rule, something that was characteristic of the initial critical reaction to the case for fragmentation within political science. There are innovative elements in the new case for consolidation, however. One is the

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greater attention given to the character and content of self-interest and how it interacts with boundaries (Frug 1999; Bickford in press). Even more important is the attention now accorded to growth management and economic development in analyses of metropolitan governance structures. The case against fragmentation now rests on more than redistributive concerns. Finally, the transactions cost model constitutes a new case for consolidation, given the temporal discontinuity between recent and earlier analyses of metropolitan government. After the 1970s and 1980s, when there was very little work on metropolitan governance outside of the standard public-choice framework, the 1990s has seen the development of a broad, multidisciplinary research program that provides a stronger theoretical and empirical foundation for regional institutional structures.

In the end, however, preferences for fragmented or consolidated metropolitan governance structures will always be infused with values. Advocacy of the Pareto rule, or its rejection, cannot be based on the cumulative results of normal science. The primacy accorded to either regional or intensely local political structures will also depend on individual assessments of which kinds of issues—those with metropolitan-wide implications such as growth management, economic development, and fair access to housing or those that are more local in incidence such as sanitation and police services—pose the most serious threat to the health of metropolitan communities and should therefore lead the metropolitan policy agenda. Science cannot answer these questions. But as we have seen, the answers we develop rest to some considerable degree on the validity of consequences hypothesized to flow from the governmental structures designed to advance certain values or to promote the primacy of certain kinds of issues. These hypothesized consequences clearly *are* amenable to scientific inquiry, and much of the new consolidationist literature during the 1990s has addressed them in detail. What has been missing during the 1990s is a considered public-choice response to this research. For example, to my knowledge, the sole public-choice assessment of Downs's (1994) *New Visions for Metropolitan America* was a convention paper that Ronald Oakerson presented in 1999. For the most part, supporters of fragmentation have been content to rely on Elinor Ostrom's (1983) response to the original form of the SSGI thesis. But as we have seen, the consolidationist argument and the evidence used to support it have changed markedly since then. Thus the scientific exchange needed to prosecute the debate over metropolitan governmental structures has been quite limited in recent years, and this time it is the public-choice team that has been negligent.

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