

## Two-tiers Consolidation - The New Public Management in Action

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**Abstract.** In many countries, they are implemented public sector reforms inspired New Public Management. The main motivation are effectiveness policy, cost reduction and efficiency improvement. They often involve reducing bureaucracy by reducing the number of administrative levels. The main goal of paper is to characterize activities consisting in merging two local government tiers – a city and a county, and an attempt to their evaluate through the prism of results. The paper is based on the analysis of reports from ex-post research of such reforms' effects from many countries worldwide.

### Introduction

In the course of the last three decades the trend towards local government units' size increase has been the most commonly applied method of administrative structure reforms in many countries worldwide, regardless of the continent or culture circle. The paper highlights such processes, which in the world literature are referred to as city-county consolidation. The purpose of the article is, firstly, to discuss such processes and, secondly, to evaluate the obtained results, particularly the ones which acted as the main incentives for the reformers.

The article is of review nature – the *ex-post* analysis of abundant literature, discussing these reforms' objectives and implications, is the primary applied method aimed at achieving the set goals. The presented problems were divided into three main parts. The first is an outline of theoretical determinants underlying consolidation reforms. The second one presents the nature and scope of reforms consisting in the consolidation of cities and counties. The third of them discusses the outcomes of reforms which emerge from the world literature review.

### Theoretical Determinants of Consolidation Processes

In the opinion of many economists an extensive fragmentation of structures results in the increased transaction costs of the provided services. In turn, larger unit size allows achieving both economies of scale and economies of scope. Large fragmentation does not allow, for example, effective agglomeration management [1]. In terms of local governments it was described in detail by Dollery, Crase and Johnson [2]. According to this theory the consolidation of entities providing public services should result in the reduction of unit costs and more efficient functioning [3]. Such opinion is based on the approach that larger units are characterized by better allocation of financial, material and human resources [4]. Thus this trend can be referred to as "bigger is better". This conviction is so deep that it frequently takes the form of an undisputable paradigm, which does convince many authors of reforms. The reviews of transformations in the territorial structure of European countries, conducted by Wollmann [5], clearly indicate the adherence to this idea. While the mainstream economists follow the economies of scale approach (both in production and public sector), the e.g. institutionalists and sociologists demonstrate larger distance to such attitude. They accuse economists of having a narrowed down picture of the functioning of public institutions. In fact, however, the limitations, rules of conduct and procedures made up by people are actually responsible for human interactions. Such perspective allows appreciating the role of informal limitations, which remain the component of cultural heritage, the system of ideas and ideologies in a particular society. Every change causes effects in the hierarchy of cities [6]. North emphasizes

that informal rules feature a specific inertia, which causes that the occurring change in formal rules (e.g. law, structures or, in a broader perspective, economic system) does not result in the expected effects [7]. Therefore the reform of local government structures should take the above mentioned determinants into account if the increase in quality of life is its goal [8]. P. Swianiewicz presented an excellent summary of the opposing arguments, i.e. for consolidation and for maintaining more fragmented structures [9].

### The Characteristics of Two-tiers Consolidation

Two-tiers consolidation is a vertical initiative resulting in the elimination of one of the local government tier structures (city-county). Usually it is the higher local government tier, i.e. a county. Its tasks are taken over by the largest municipality, i.e. the county capital. It represents the classical example of unsymmetrical decentralization of tasks within which the same tier units (municipalities) can have a varied range of competencies. Following Anglo-Saxon literature (mainly American) such activities are commonly referred to as *city-county consolidation* and the units established in this way as *two-tier cities*. The supporters of such actions highlight the potential possibilities resulting from the reduced number of tiers, which can result in lower costs of administration functioning. Such changes can also increase public orientation in the intricate structures of local administration, since the effect of offices duplication in the same city is eliminated.

Due to the nature of these changes in the countries of strong unitary traditions they can be carried out systemically, simultaneously in all units. For example, such changes were introduced from 1<sup>st</sup> January 2003 in the Czech Republic. Local government counties were liquidated and the respective tasks were distributed among municipalities and provinces. Some of the municipalities received a special category, i.e. "municipalities with extended competencies", as they were carrying out certain tasks for other municipalities [10]. A similar change was implemented in North Korea – as a result of government's decision from 1995 the consolidation of 49 cities and counties was carried out [11, 12, 13]. A reduced number of municipalities (from 114 to 22) has been functioning in Ireland since 2012, and the reduction process was accompanied by establishing joint administrative areas [14]. In the UK the restructuring processes varied depending on their components. For example, a two-tier local government system in Scotland was given up in 1996 and thus the total number of local government units was reduced from 65 to 32.

More extensive options exist in federal states, where such changes can be implemented selectively. The most of such reforms were carried out in the United States. The total of over 130 initiatives were undertaken there and about 40 of them resulted in establishing such two-tier local governments. Over a dozen of them were created in the recent 15 years [15]. An extensive action of a two-tier system development was also carried out in Canada. As early as in the 90s of the 20<sup>th</sup> century their introduction was initiated in the province of Ontario and after 2003 also in Alberta, British Columbia and Newfoundland. Canadian experiences are, however, slightly different than the American ones. The establishment of a two-tier system was simultaneously accompanied by the horizontal consolidation (consolidation of municipalities). For example, in Ontario, between 1996 and 2002, 566 small municipalities were consolidated and thus 198 new units were established [16].

### The Effects of City-county Consolidation

Many years of experience in carrying out the city-county consolidation reforms resulted in an abundant research output in terms of their effects. It remains a part of the broader research area covering economies of scale in administration. For the purposes of this article it was attempted to analyse the entire available world literature discussing this problem. It should be emphasized that this review does not refer to theoretical and model specific consolidation assumptions, but the substantive *ex-post* research findings. They carry high potential for future debates on the possible reforms. Part of them takes the form of meta-analyses evaluating several dozens of units and the effects of changes across countries (or states), other are of individual nature representing case

studies of single consolidations. The results of such review are presented in the form of very synthetic conclusions, whereas all analysed publications (including their authors, year of publication, research subject and simplified conclusions) are presented in table 1.

Table 1. The list of research findings on the effects of city-county consolidation

Year	Authors	Research location	Findings
1992	Sam Stanley [17]	Indianapolis-Marion County, IN	economies of scale recorded based on small units' consolidation
2000	Allen B. Brierly [18]	theoretical model	consolidation does not result in cost savings
2000	Dan Durning, Patricia Neobbie [19]	Athens-Clarke County, GA	opportunism of employees and costs of changes outweigh potential benefits
2000	Suzanne Leland, Kurt Thurmaier [20]	Wyandotte County/Kansas City, KS	benefits from greater administration transparency; cost reduction not recorded
2000	Sally Selden, Richard Campbell [21]	Athens-Clarke County, GA	consolidation can result in savings, but only in small municipalities, outside metropolitan areas
2002	Sammis White [22]	Louisville-Jefferson County, KY and other	there is no evidence that consolidated units are more economical; higher costs resulting from "levelling up"
2004	Jered Carr [see 16]	meta-analysis – review of existing research	consolidation does not result in cost savings, it simplifies administrative structure
2005	Frank Gamrat, Jake Haulk [23]	Louisville-Jefferson County, KY	the difference in functioning costs is insignificant
2005	Chris Pineda [24]	meta-analysis – review of existing literature	diseconomies of scale in labour-intensive services; larger bureaucracy resulting from "levelling up"
2006	John Parr [25]	Athens-Clarke County, GA and Louisville-Jefferson County, KY	recorded benefits of consolidation
2009	Beverly Cain [26]	Louisville-Jefferson County, KY, Wyandotte County/Kansas City, KS, Athens-Clarke County, GA, City and County of Broomfield, CO	consolidation does not result in savings of functioning costs
2010	Michael Chisholm [27]	meta-analysis of English local governments	merger supporters overestimate savings and underestimate transition costs
2011	Marc Holzer, John Fry [28]	meta-analysis – review of world research	no evidence of lower service provision costs
2012	Pat Hardy [see 15]	meta-analysis based on the available research findings	there is very little evidence of positive effects of consolidation
2013	Germa Bel, M. Warner [29]	analysis of two-tier units in European countries	no clear effects
2014	Mark Callanan, Ronan Murphy, Aodh Quinlivan [see 14]	Limerick, Waterford, Tipperary (IRL)	intuitive opinion that larger units are more efficient does not apply to Irish local governments
2014	Raphael Caprio, Marc Pfeiffer [30]	counties and municipalities in New Jersey	larger size is insignificant in terms of costs and focusing on consolidation effectiveness is a folk hypothesis

Source: author's compilation.

The surprising effect of the aforementioned analyses is the absence of any conclusive confirmation of the seemingly sensible opinion that large units are more efficient. The researchers agree that the experience gained in consolidating local government tiers suggests that savings are not guaranteed and their planned level is most often missed. It is a standard, however, not to recognize both costs and time spent on their consolidation. Therefore, the aspects which according to reform drafts are supposed to result in significant savings, after their implementation frequently bring about higher costs. Many authors are careful in summarizing their research findings which are inconclusive, some of them conclude that consolidations did not result in desirable effects in terms

of relatively cheaper functioning, others point out that the differences in unit costs of small and large administrative units are insignificant. The opinions are also heard that the costs of institutional memory problems and employees' opportunism costs are significantly underestimated by the authors of reforms and, by far, exceed the achieved consolidation effects. The specific effect of "levelling up" was also noticed, i.e. both salaries and services provided by a consolidated unit present the highest level of all the constituent units. In such cases the diseconomy of scale can turn out a common phenomenon, where the functioning costs of large municipalities are significantly higher than in case of smaller ones. Many studies recognize it as the most important effect of consolidation. Thus a specific paradox takes place here, as the largest advantages are not achieved in the scope which was supposed to be the primary consolidation incentive.

## Conclusions

In accordance with the new public management, taking the liberal approach to consolidation reforms in public sector is the effect of one-sided view, which narrows down an objective picture of the functioning of institutions. If the complex character of the discussed units is not taken into account, the suggested changes may not result in the assumed outcomes. The actual threat is that the rationalization measure will be focused on incorrectly identified causes. In contrast, the economies of scale achieved with structure changes are usually overestimated. The authors of the research studies presented in the article do agree that city-county consolidation reforms do not result in the assumed effects in terms of reduced functioning costs. In spite of these results, it is difficult to penetrate the well-established paradigm, that consolidation is the cure for many problems. It has the nature of the seemingly rational folk hypothesis which, however, is very difficult to support by *ex-post* research findings.

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