

Internalization of Externalities and Local Government Consolidation: Empirical  
Evidence from Japanese Municipalities

Takeshi Miyazaki<sup>1,2</sup>

Faculty of Economics, Meikai University, Tokyo, Japan  
1 Akemi, Urayasu, Chiba 279-8550, Japan

March 2012

**Abstract**

It has been well known in the theoretical literature that one of the benefits of consolidation is to overcome externality problems in providing local public goods. Nevertheless, the earlier studies provide little empirical evidence that has evaluated the effects of spillovers in provision of public services on a boundary reform. The current study presents an empirical test of the hypothesis that the existence of spillovers gives rise to a favor of consolidation. This paper uses voting data from local referenda that distinctively identify the preferences of specific individual jurisdictions. It is shown that the municipalities that have suffered from large spillover effects of public good prefer consolidation.

**Key words:** Boundary reform, local government, public goods, externality

JEL classification: H11, H76, H77

---

<sup>1</sup>E-mail: [tmiyazak@meikai.ac.jp](mailto:tmiyazak@meikai.ac.jp) [t.: +81-(0)47-355-5120 (Ext. 1407); Fax: +81-(0)47-350-5504

<sup>2</sup> This work is supported by JPSP Grant-in-Aid for Young Scientists (B) 22730256.