

# **Asymmetric local government consolidations with heterogeneous local public goods**

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## **Abstract**

This paper analyzes the consolidation of a city and village. Inhabitants of a village benefit from the city without bearing the city's tax burden. Therefore, a village is likely to oppose municipal consolidation because city citizens want a free ride. Conversely, a city favors consolidation because a village shares the cost of services provided by the city after consolidation. This paper analyzes that merger. From the social welfare point of view, it analyzes whether or not consolidation is desirable.

The result depends on the fixed cost for producing public goods and the commuting cost between districts. Consolidation is socially desirable. However, it is not always realized. When the fixed cost is very high or very low, the small district opposes consolidation and it is not realized. Moreover, there exists a range of fixed costs within which consolidation may be realized. In this case, when the commuting cost is very low, consolidation is realized. But when the commuting cost is very high, consolidation is not realized. Only when fixed costs exist within that range and the commuting cost is very low, is consolidation realized. In an alternate case, consolidation does not occur although it is desirable. In that case, the national government should encourage consolidation via a redistribution policy.

JEL classification: D71, H41, H73, R53

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