Cost Reductions from Municipal Consolidation: Evidence from Japan

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October 2012

Abstract

In countries such as Sweden, Denmark, and the United Kingdom, for example, more than three-quarters of local governments have disappeared through boundary reforms over the past 50 years. The consolidation of local government is acknowledged to deliver public services more efficiently and effectively. This paper investigates the financial impacts of local government consolidation using data on Japanese municipalities. Specifically, the difference-in-differences (DID) and instrumental variable (IV) methods are used to estimate the coefficients of the cost-reduction effects of municipal consolidation. This paper presented two important findings. First, the results provided no evidence that efficiency rises following consolidation. Second, the evidence presented herein found that the economies of scale attained from consolidations lower per capita expenditure. These estimation results are robust to simultaneity bias and the choice of IVs. Moreover, these results are consistent with conventional wisdom and support the theoretical prediction that municipalities seek to consolidate because of the efficiency gains generated from consolidations.