

Local municipal competition good for taxpayers

The path to lower costs for local governments requires allowing new municipalities to form.

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Residents in Estero have the opportunity in November to form their own new incorporated municipality.

The increased control over how their local tax dollars are used would be good for those in Estero. The increased competition it would create among local governments would be good for all taxpayers across Southwest Florida.

Producers that face more competitors face greater pressure to innovate and identify new ways to deliver goods and services at lower costs. As a result, consumers get better quality goods and services at a lower price.

For example, think about the quality of service you receive from your local monopoly provider of cable television, electricity, or telephone service. If you need to request a service call, once you finally get through to talk to a live person, you're usually told something like "We'll be there sometime between 9 a.m. and 1 p.m." on some date farther in the future than you'd like. And sometimes, they don't even arrive within that time range.

Contrast that with the service you get from someone like a plumber. They know that "We'll be there sometime between 9 a.m. and 1 p.m." simply won't cut it, because they face competition from dozens of other plumbers. Nor can they just charge you any price they want. That competition forces them to provide prompter service, and to do so at a lower price, than they would otherwise.

That same idea applies to the providers of local government services. Local areas that have more public sectors that are competitive tend to have slimmer government budgets, and thus lower tax burdens and economies that are more prosperous.

In contrast, residents in those areas with less competition have fewer choices in their provider of local government services, and they often end up with service quality closer to that provided by one of the local monopoly utilities than that provided by a plumber.

There have been dozens of independent academic research articles that have examined this issue. My own published research found that areas with more competing local governments tend to have slower government spending growth and faster economic growth. That means more economic opportunity and higher standards of living for local residents. Other research has come to similar conclusions.

Critics often say that having "too many" local governments leads to wasteful duplication and an inability to take advantage of what economists call "economies of scale." Economies of scale exist when producers are able to have lower per-unit costs when they expand their operations. This is particularly true of capital-intensive goods and services (those that involve large quantities of machines and equipment to produce). There are a few local government services for which that is true, like water and sewer services.

However, many studies have shown that for most of what a local government does, the advantage of having larger size operations disappears at population levels well below the size of most major cities. That is, most cities tend to experience dis-economies of scale, higher per-unit costs with a larger scale of operations, rather than lower costs.

The path to lower costs for local governments (and thus higher economic prosperity for their residents) requires allowing new municipalities to form (and even breaking up large cities into multiple municipalities), rather than fighting those new incorporations (or, worse, consolidating local governments into one large monopoly provider).

What this means for Southwest Florida is that we should welcome the incorporation of Estero, and any other area in which residents wish to establish their own municipality. (For example, there have been efforts in Lehigh Acres to incorporate as well.) It would increase consumer choice and force existing local governments to provide better service at a lower cost, a win-win scenario for all of Southwest Florida.

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