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► **To cite this version:**

Clémence Tricaud. Better Alone? Evidence on the Costs of Intermunicipal Cooperation. 2021. ⟨halshs-03243307⟩

HAL Id: halshs-03243307

<https://shs.hal.science/halshs-03243307v1>

Submitted on 31 May 2021

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Better Alone? Evidence on the Costs of Intermunicipal Cooperation

IPP Policy Briefs

n°66

May 2021

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www.ipp.eu

While central governments encourage intermunicipal cooperation to achieve economies of scale, municipalities are often reluctant to integrate. This policy brief analyses the local consequences of integration and assesses whether they help explain municipalities' resistance. I focus on the 2010 reform in France that made intermunicipal cooperation mandatory, forcing around 1,800 municipalities to enter an intermunicipal community (IC). Results first show that municipalities forced to enter an IC experienced a large increase in construction following their integration. This impact is driven by urban municipalities where the demand for housing is high and where residents are likely to oppose new construction to preserve their quality of life. Second, the study finds that rural municipalities ended up with fewer local public services, increasing the distance to public services for their residents. Only municipalities forced to integrate faced such consequences of integration. In particular, I find no evidence that municipalities that had voluntarily joined a community before the 2010 law experienced the same adverse effects of integration. Yet, both types of municipality enjoyed similar benefits of integration, in terms of better access to public transport and higher fiscal revenues. These results suggest that resisting municipalities did not oppose integration due to lower benefits, but to avoid the costs associated with increased construction for urban municipalities and with the loss of public services for rural municipalities.

- Municipalities forced to join an intermunicipal community after the 2010 law faced an increase of 12.5 percent in the number of building permits delivered on their territory per year. This increase in construction is mainly driven by high-demand urban municipalities.
- Rural municipalities forced to integrate experienced a loss of public services: they ended up with about 20 percent fewer daycare spots and public libraries after integration.
- While only municipalities forced to integrate faced such consequences, they enjoyed similar benefits of integration as municipalities that voluntarily integrated before the law: they became twice as likely to have access to public transport and experienced an increase of 14.5 percent per year in fiscal revenues.
- Overall, this study provides new evidence that municipalities' opposition to consolidation is driven by local consequences of integration, beyond ideological or political considerations.



The Institut des politiques publiques (IPP) has been created by PSE and is developed through a scientific partnership between the Paris School of Economics (PSE) and the Groupe des écoles nationales d'économie et de statistique (GENES). The aim of the IPP is to promote quantitative analysis and evaluation of public policy using cutting edge research methods in economics.

Over the last century, the developed world has experienced an unprecedented wave of municipal consolidation, leading to a significant increase in the size of local governments. Municipal mergers usually follow periods of financial tensions, the main goal being to achieve economies of scale in the provision of public goods. We can thus expect more consolidation reforms in the aftermath of the Covid crisis.

However, municipalities are often reluctant to cooperate, slowing or even blocking the consolidation process: despite the large financial incentives introduced by the Japanese government in the 2000's to encourage municipalities to merge, many refused to do so; other countries, such as Denmark and Sweden, instead decided to force mergers; in France, the government failed to impose mergers in the 1970s and then strove to promote the formation of intermunicipal communities.

This opposition reflects the fundamental tradeoff of jurisdiction size. On the one hand, intermunicipal cooperation may generate overall efficiency gains in the provision of public services. On the other, cooperation can be costly for municipalities, as they lose autonomy over local policies, reducing their ability to tailor policies to local preferences and protect local interests. This study takes advantage of the unique French setting to provide new evidence on the local consequences of this loss of autonomy. The results reveal that the local costs of integration—unwanted construction and loss of public services—are key to understanding municipalities' opposition to integration and thus to understanding why consolidation policies might fail.

Intermunicipal Cooperation: The French Case

Intermunicipal Communities

France is highly fragmented, with around 36,000 municipalities accounting for 40 percent of all municipalities in Europe. In the 1970s, the French government intended to pass a law that would have reduced the number of municipalities by 20 percent through mergers. Mayors massively blocked the reform and only a few mergers took place, reducing the number of municipalities by only 3 percent.

Following this failure, the government decided to pivot toward promoting the creation of a new administrative structure: intermunicipal communities (IC). When entering an IC, the municipality does not disappear as in mergers; it continues to exist under a new level of local governance. The mayor and municipal council stay in place, but

the municipality has to share some public services with the other municipalities part of the same community. Decisions at the IC level are taken by a board made up of members of the municipal councils of all participating municipalities. The number of seats held by a municipality on the intermunicipal council is proportional to its population.

Until 2010, municipalities were free to decide whether or not to create or join an IC. However, the financial incentives to integrate into an IC were high: since the “Chevènement law” in 1999, ICs receive a state transfer on top of the individual transfers to each municipality, which remain unchanged whether the municipality integrates or not. This law marked a turning point: whereas half of the municipalities were part of an IC in 1999, 95 percent were by 2010. Still, 5 percent of the municipalities—about 1,800—remained isolated.

The 2010 reform

In December 2010, a new law passed requiring that all municipalities must be part of an IC, forcing isolated municipalities to enter a community. I call them “resisting municipalities,” given that they chose not to join any IC until forced to.¹ Figure 1 shows the geographic distribution of French municipalities depending on their integration status in 2010. Municipalities in red were isolated in 2010 and thus forced to integrate. Even if many of them are located in the center-north, they are present in all French regions.

Implementation of the reform took place between 2011 and 2014 and was conducted by the departmental prefect. In 2010, municipalities forced to enter an IC shared a border with 1.7 intermunicipal communities on average. Those neighboring more than one IC could choose which to join, but the decision had to be approved by the prefect. When possible and if allowed by the prefect they could also create a new IC with neighboring isolated municipalities. In 2014, all isolated municipalities were part of community and the average IC included 17 municipalities. The majority of municipalities (73 percent) joined an existing community; the rest created new ICs. As shown in the reference study, the consequences of integration do not depend on the number of options the municipality had or on the type of IC it was forced to enter. This is consistent with all the integration options being considered equally undesirable and with resisting municipalities' decision not to join any neighboring ICs before the law.

¹In particular, it never happened that one of these municipalities tried to integrate before 2010 but was rejected by an IC. More generally, an IC can refuse the entrance of a municipality only under very specific conditions and under the approval of the prefect. In practice, it almost never happened.

goal of this study is to measure the local consequences of municipalities' loss of autonomy, and assess whether it can explain their resistance to integration.

The potential costs of integration

What do municipalities inside the same IC have to share and what are the potential costs of intermunicipal cooperation?

First, urban planning policies become subject to the guidelines set by the IC, which decides where and how much to build in each member municipality. This can be costly for high-amenity municipalities that have been using local housing regulations to prevent outsiders from coming in and to prevent further increases in housing density. This local opposition to new construction is commonly referred to as NIMBYism ("Not In My BackYard"). Sharing their housing and zoning policies might lead to unwanted housing development, as outsiders and would-be residents can then impose construction on their territory.

Second, integrated municipalities jointly finance and provide local public services: waste management, road maintenance, public transport, daycare facilities, and social, cultural, and sports facilities. While pooling resources for large-scale services such as public transport seems generally beneficial, sharing decisions over the location of public services can be costly for some municipalities. With the aim of achieving economies of scale, ICs seek to rationalize the supply of public services and thus to concentrate resources on facilities in high-density areas. As a result, low-density municipalities might end up with fewer facilities, increasing the distance to public services for their residents. The loss of local public services is an important source of discontent, as evidenced by the recent demonstrations and blockades of the yellow vests movement, which was tightly linked to the loss of public service facilities in peripheral places (Algan et al., 2020; Boyer et al., 2020).

This study takes these two predictions to the data and shows that both dimensions help explain municipalities' resistance, but that urban and rural municipalities face different consequences.

Methodology: Assessing the Local Consequences of Integration

Existing studies have mainly focused on the aggregate impact of consolidation, assessing whether intermunicipal cooperation reduces overall spending and tax competition. The lack of evidence on the local consequences of integration reflects in part the general focus on mergers: after consolidation, administrative data are collected at the

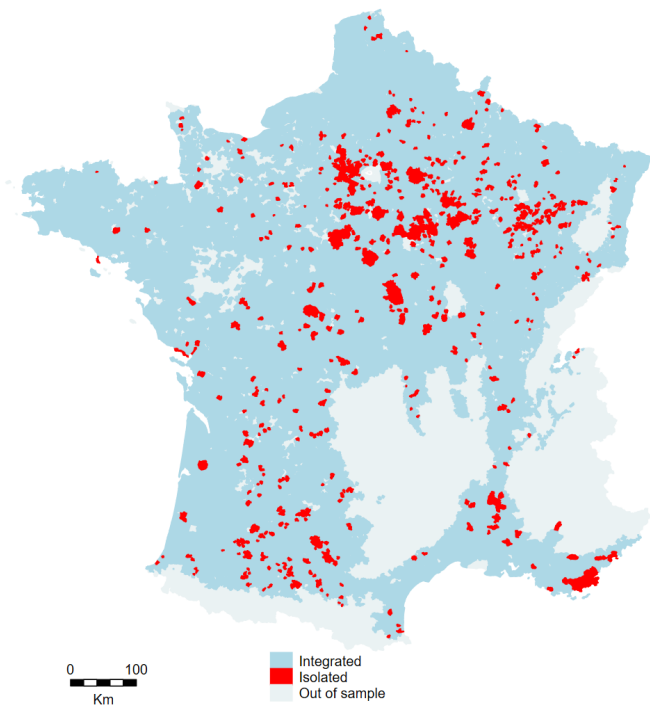


Figure 1: French municipalities depending on their integration status in 2010

Notes: Municipalities in red were not part of an intermunicipal community in 2010. Municipalities in blue were already integrated. Grey areas represent municipalities excluded from the sample of analysis due to law exceptions: municipalities exempt from the 2010 law (Paris and municipalities in three départements around Paris—Hauts-de-Seine, Seine-Saint-Denis, and Val-de-Marne), and where the law applied differently (municipalities in mountain zones).

Sources: IGN (municipalities' coordinates), DGCL (municipal composition of ICs and mountain zones).

Integration policies since 2010

The consolidation process is still on-going. In 2017, the government drew a new map of ICs by requiring that each IC must have at least 15,000 inhabitants (law "NOTRe"). There was widespread complaint from mayors, leading to multiple revisions of the law with additional room for exceptions. Still, about half of ICs had to change boundaries. A year after the implementation of the reform, a 2018 survey run by the AMF ("French Mayors Association") and the Cevipof revealed that 75% of French mayors still disapproved of the reform.² Further changes will soon come from the new "4D" law on decentralization, which has been delayed by the pandemic but is on the government's upcoming agenda. In particular, this reform might affect the division of competences with regards to housing and transport policies among the different tiers of local government (regions, départements, ICs, municipalities).

Despite the proliferation of consolidation reforms and the repeated municipal opposition, there is still little evidence on the actual impact of intermunicipal cooperation. The

²<https://www.amf.asso.fr/documents-les-maires-france-entre-resignation-incertitude/39095?>

post-merger level, making it challenging to compare the situations of preexisting municipalities before and after integration. Moreover, cooperation is usually voluntary, implying that we observe the consequences of integration only for municipalities that were willing to cooperate and are thus least likely to bear the costs of integration.

The 2010 reform is particularly well-suited to assess the local consequences of integration. The law made intermunicipal cooperation mandatory, forcing isolated municipalities to join an IC. As municipalities do not disappear when joining a community, it is possible to compare their situation before and after their integration. Moreover, by focusing on municipalities forced to integrate, I can assess the impact of integration on municipalities that refused to cooperate to better understand their resistance.

Many things other than integration are likely to change before and after 2010 in municipalities forced to integrate, so this simple comparison might lead to wrong conclusions. To isolate the causal impact of integration, I use a difference-in-differences methodology and compare two groups of municipalities before and after 2010: municipalities forced to integrate by the law (treatment group), and municipalities that joined an IC long before the law (control group). This comparison relies on the fact that municipalities in the control group were already integrated in 2010, and thus not affected by the law. Assuming that municipalities in the treatment and control groups would have evolved similarly absent the law, any differences in the evolution of the treated municipalities compared to the control ones can be interpreted as the causal impact of their forced integration. I provide support for this assumption by showing that these two groups were evolving similarly before the law. Along with extensive data collection at the municipal level, this methodology enables me to measure the causal impact of integration on a large set of outcomes, including housing, economic activity, local public services, public transport, and fiscal revenues.

Finally, after having assessed the causal impact of integration on resisting municipalities, I compare their experience to that of municipalities that had voluntarily joined a community before the 2010 law. To measure the consequences these municipalities faced, I focus on those that integrated between 2000 and 2010 and I use the fact that they entered an IC at different points in time during this period.³ Through this comparison, I can identify the local consequences of integration that explain why resisting municipalities opposed integration in the first place.

³The reference research paper provides more information on the specific methodology used to assess the effect of integration on municipalities that voluntarily integrated before the 2010 law.

Results: The Local Consequences of Integration

Increase in housing supply

Municipalities forced to enter an IC experienced a large increase in construction: the number of building permits delivered on their territory increased on average by 12.5 percent per year after the 2010 law. Figure 1 represents this result visually. Each point represents the effect of being in the treatment group (being forced to integrate in 2010) on the number of building permits delivered in a given year. All points before 2010 are close to 0, meaning that the number of building permits delivered was following the same trend in control and treated municipalities before the law. In contrast, after 2010, we observe a large increase in the number of building permits delivered in treated municipalities compared to control ones. As nothing prevented resisting municipalities from building more before the law, this rise in construction is unlikely to reflect their preferences; it is best interpreted as a consequence of their loss of autonomy.

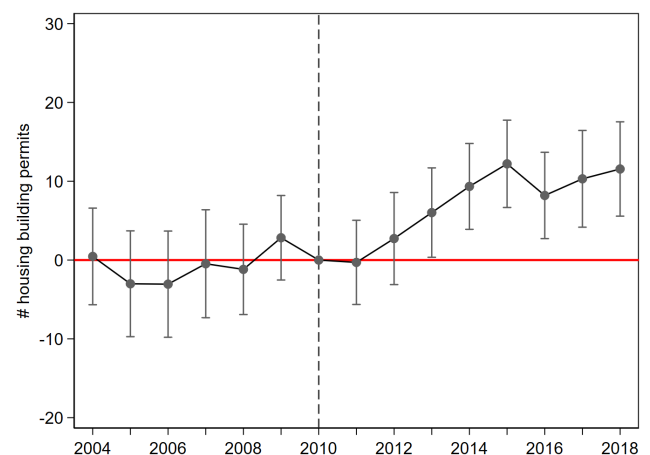


Figure 2: Impact on housing supply

Notes: The sample is a balanced panel of 16,396 municipalities: 15,097 in the control group (municipalities that were already integrated by 1999 and thus had entered an IC long before the law) and 1,299 in the treatment group (municipalities isolated at the time of the law and thus forced to integrate). The outcome is the number of housing building permits delivered in the municipality per year per 10,000 inhabitants (using the 2010 population). Each dot represents the interaction between an indicator variable equal to 1 for treated municipalities and an indicator variable equal to 1 for a given year, all relative to 2010. Vertical lines are 95-percent-confidence intervals. The formal estimation indicates that, after the law, the number of building permits increased by 8.1 per year per 10,000 inhabitants on average in treated municipalities compared to control ones. As, on average, municipalities forced to integrate were delivering 65 building permits per year per 10,000 inhabitants before 2010, their integration led to a yearly increase of 12.5 percent. Source: Ministry of Sustainable Development (sit@del2 database).

To investigate further whether such an effect can explain their resistance, I turn to municipalities that voluntarily joined an IC before the law and I find that they did not experience a significant change in their housing supply

following their integration. Only municipalities that did not want to enter an IC experienced a large increase in construction. This differential impact supports the view that resisting municipalities refused to integrate to avoid a rise in housing supply. I also show that the increase in building permits is driven by municipalities in which the demand for housing is high and that are already densely built up. Hence, municipalities that resisted integration to keep control over their housing supply are mainly urban “NIMBY” municipalities opposing further increase in density to preserve their residents’ quality of life.

Loss of local public services

I gathered data on two different public services transferred to the community level after integration: daycare services and public libraries. The results suggest that, after 2010, rural municipalities forced to integrate ended up with 20 to 30 percent fewer daycare spots and public libraries, compared to rural control municipalities. Urban municipalities, however, did not experience any decline in local public services. These results are consistent with ICs concentrating resources in denser municipalities and help explain rural municipalities’ resistance to integration.

Benefits of integration: public transport and fiscal revenues

Finally, I investigate the benefits of integration in order to assess what municipalities forced to integrate were willing to give up by not integrating. By enhancing cooperation and enabling municipalities to pool resources, integration is likely to improve large-scale public services. Specifically, it might help neighboring municipalities build larger and more efficient public transport networks. Moreover, ICs are likely to generate extra fiscal revenues through a decrease in tax competition and thanks to the additional grants provided by the government to ICs. In line with these predictions, I find that municipalities that were forced to enter an IC became twice as likely to have access to public transport. They also experienced an increase of 14.5 percent per year in the fiscal resources available per resident.

Crucially, those benefits are similar to those experienced by municipalities that voluntarily integrated before the law. While resisting municipalities experienced costs that other municipalities did not face, they entered ICs generating at least as much revenue and they benefited equally from an increased access to public transport. This suggests that they did not resist due to lower benefits, but to avoid the costs associated with increased construction for urban municipalities and with the loss of public services for rural municipalities.

Why are resisting municipalities the only ones bearing the costs of integration?

The results presented above suggest that municipalities forced to integrate opposed cooperation knowing that they would face some costs in terms of housing supply and local public services. This begs the question of why they are the only ones bearing the costs of integration and of how other municipalities were able to avoid them?

One possible explanation is that the costs of integration apply only to municipalities with specific characteristics. However, municipalities forced to integrate are on average quite similar to municipalities that integrated voluntarily, based on both socio-demographic and political characteristics. For instance, they have a similar population size, share of immigrants and unemployment rate in 2010 as any other French municipality. Their mayors also share similar characteristics as the average French mayor: while they are slightly more likely to be affiliated to a right-wing political party, they are of the same average age and they are as likely to be the incumbent, and thus in place for a long time.

A more likely explanation is that the resisting municipalities are the ones losing the most autonomy when integrating. This can be the case if such municipalities, although on average similar to the rest of the country, tend to be smaller than their neighbors and thus less able to fight their IC’s decisions. Looking at the composition of ICs in 2014—that is at the end of the period of integration— I show that resisting municipalities have a 15-percent lower share of the seats in the IC council on average, and thus a 15-percent lower bargaining power. They are also more likely to end up in an IC encompassing large municipalities that can impose their decisions: 51 percent of them are part of an IC encompassing a big city (of more than 5,000 inhabitants) in 2014, versus 42 percent for the full sample.

All together, these results suggest that municipalities resisted integration knowing that they would not be able to prevent their neighbors from imposing new construction or decreasing the availability of public services on their territory. This also suggests that the costs identified in this study can explain resistance beyond the specific case of municipalities forced to enter an IC in 2010. In particular, the local consequences of integration help explain why the vast majority of French municipalities recently opposed the law “NOTRe”. Many municipalities lost bargaining power following the increase in ICs’ size and they might soon start to suffer from costs they have been able to avoid so far.

Conclusion

This study provides new evidence that municipalities' opposition to consolidation is driven by local consequences of integration, beyond ideological or political considerations.

These results open the avenue to a comprehensive welfare analysis of consolidation reforms, where the potential efficiency gains of consolidation should be weighted against the local costs of integration borne by the municipalities with the lowest bargaining power. Moreover, if consolidation is proven welfare enhancing, these findings could help policymakers design better compensation schemes to implement consolidation policies more effectively. In future attempts to increase the size of ICs or to incentivize municipalities to merge, it is important to take into account that rural and urban municipalities do not face the same costs of integration. To overcome municipalities' resistance, policymakers might need to ensure that some lands will remain unbuilt in urban municipalities, and that rural municipalities will be able to keep some of their most valued local services.

This study also stresses the consequences of changing the scale of decision making. In particular, the results show that transferring urban planning to a higher level—allowing outsiders and would-be residents to participate in the decision making—increases construction in high-demand places. These results highlight the prevalence of local housing restrictions and are particularly policy-relevant in light of the growing literature showing their overall negative impact. Local regulation reduces productivity and intergenerational mobility by limiting the movement of workers, while increasing greenhouse gas emissions through urban sprawl. The consolidation of housing and zoning policies could be used to increase housing supply in areas with strong economic growth, where housing regulations keep workers from moving in.

Author

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Reference Study

Tricaud, Clemence. "Better alone? Evidence on the Costs of Intermunicipal Cooperation." (2021) CEPR Discussion Paper No. 15999 (Also CESifo Working Paper No. 9000).

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