

BETTER ALONE? EVIDENCE ON THE COSTS OF INTERMUNICIPAL COOPERATION

While central governments tend to encourage intermunicipal cooperation in order to achieve economies of scale, municipalities are often reluctant to integrate. Exploiting a 2010 reform in France that forced non-integrated municipalities to enter an intermunicipal community, this paper provides causal evidence that resistance is driven by local costs of integration. Using a difference-in-differences strategy, I first find that municipalities forced to integrate experienced a 12.4 percent increase in the number of building permits delivered. This effect is driven by high-demand and densely built municipalities, consistent with NIMBYsm (Not In My BackYard) explaining the opposition of urban municipalities. Second, I find that rural municipalities experienced a decrease in the number of public service facilities located within their territory, increasing the distance to public services for their residents. Additional results suggest that these costs are sufficiently high to offset the benefits of integration in terms of better access to public transport and higher fiscal revenues. These findings shed new light on the factors explaining municipalities' resistance while stressing the consequences of changing the scale of decision making.

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economics, political economy, urban economics and applied microeconomics.

Publications

Articles:

Pons, V., Tricaud, C. (2018). Expressive voting and its cost: Evidence from runoffs with two or three candidates. *Econometrica*, 86(5), 1621-1649.

Working papers:

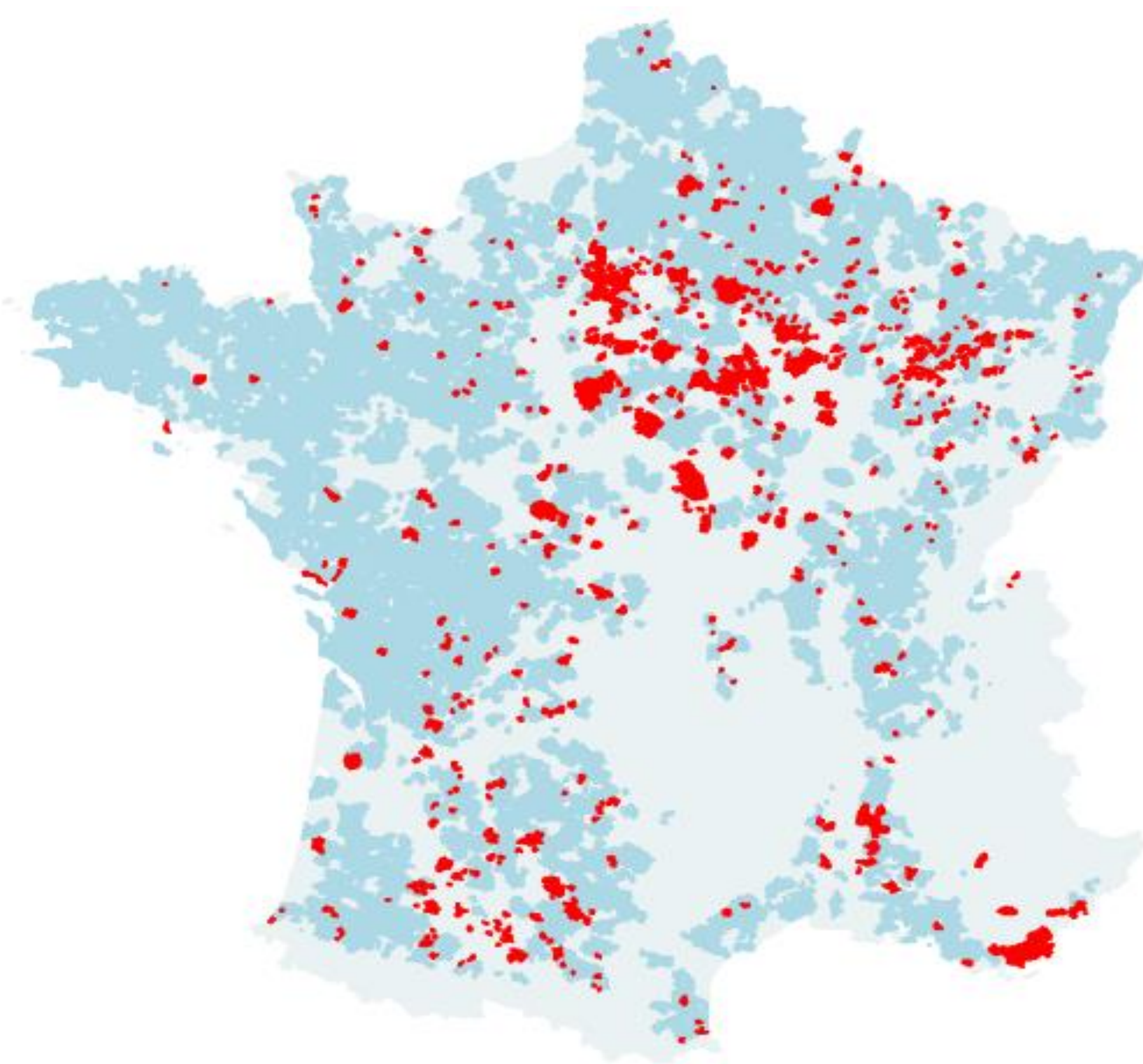
Tricaud, C. (2019). Better Alone? Evidence on the Costs of Intermunicipal Cooperation

Pons, V., Tricaud, C. (2019). Rankings matter even when they shouldn't: bandwagon effects in two-round elections. *NBER Working paper* n° 26599.

Institutional setting

Intermunicipal cooperation in France

France is divided into about 36,000 municipalities which makes it the most fragmented European country. In the 1970's, the French government tried but failed to merge municipalities. Instead, it promoted the creation of intermunicipal communities (IC), allowing neighboring municipalities to jointly finance and provide public services. By law, ICs are also in charge of "territory and economic development", or the promotion of local businesses and urban planning. The IC thus decides here and how much to build in each municipality within the community.



Main results – urban planning

Municipalities forced to enter an IC experienced an increase of 12.4% in the number of building permits delivered per year, on average. Supporting the fact that this is a cost of integration, I show that municipalities that instead voluntarily integrated did not experience any change in their housing supply following integration. Hence, only municipalities that did not want to join an IC faced an increase in construction. Moreover, the impact is driven by densely built and high-demand municipalities, and is the strongest for urban municipalities located in the core of their urban area, the closest to the employment center (+37,7%). In contrast, the impact on housing is not stronger for municipalities whose neighbors are more different (in terms of income for instance), nor for municipalities where the share of homeowners is particularly large. Altogether, these results suggest that NIMBYsm ("Not In My BackYard") accounts best for urban municipalities reluctance to integrate.

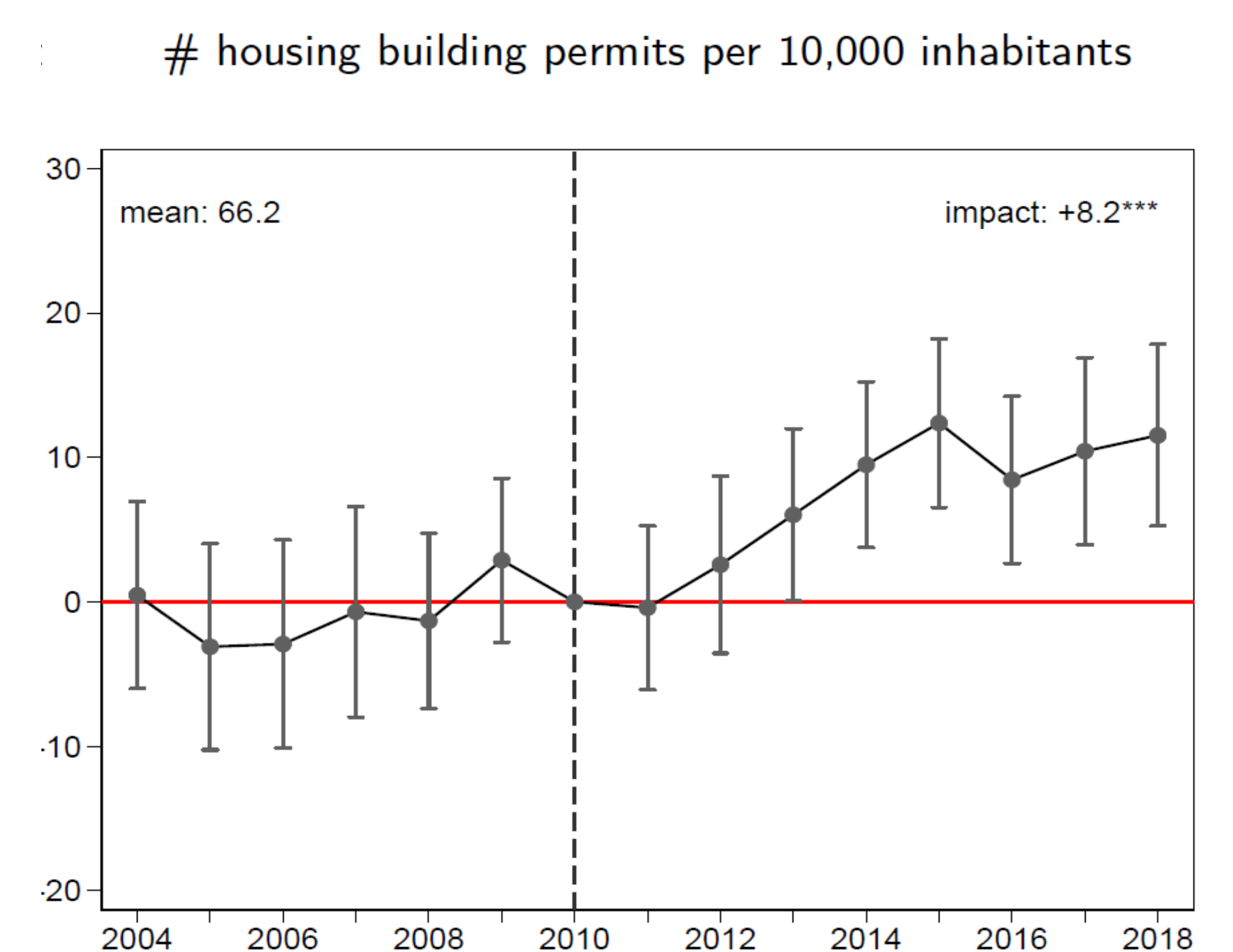
The 2010 law

In 2010, a new law passed requiring all municipalities to be part of an intermunicipal community. It forced the 5% isolated municipalities (~1,800) to enter an IC. The map below shows the geographic distribution of municipalities: the ones in red are the municipalities forced to enter an IC in 2010, municipalities in blue were instead already part of an IC in 2010, and the gray areas are municipalities excluded from my sample (law exceptions in particular).

Empirical strategy

Difference-in-Differences

I compare before and after 2010, municipalities forced to integrate (treatment group) to municipalities already part of an IC before the law (control group). Under the common trend assumption, any changes in trajectory between these two groups after 2010 can be interpreted as the causal impact of forced integration on treated municipalities. The absence of pre-trends in the graphical evidence provides support for the identification strategy.



Conclusion

This paper helps understanding better municipalities' reluctance to cooperate. It also stresses the prevalence of housing restrictions when the decision is made by small local jurisdictions and highlights new consequences of intermunicipal cooperation: while intermunicipal cooperation imposes negative externalities on some municipalities by rising the housing supply, it also enables to overcome local housing restrictions, plausibly leading to a better allocation of the workforce across the territory.