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Essays on Local Government Organization in the United States, 1940-2000

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THE FLORIDA STATE UNIVERSITY
COLLEGE OF SOCIAL SCIENCE AND PUBLIC POLICY

ESSAYS ON LOCAL GOVERNMENT ORGANIZATION
IN THE UNITED STATES, 1940–2000

By

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I dedicate this dissertation to Silvia Sáenz, Agustín José León, Nicolás León, Ramiro León, and
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ABSTRACT

This dissertation investigates the formation and change of city boundaries in the United States since World War II (WWII). Drawing on previous literature, the dissertation extends a political economy perspective that emphasizes trade-offs in the configuration of municipal boundaries and investigates the role of ethnic diversity in the formation of municipal jurisdictions since WWII. This research advances, theoretically and empirically, our understanding of local government organization in recent history. The dissertation builds on institutional foundations of local government organization and incorporates the role of homeowner associations as alternative institutions of governance. Boundary change is framed as bottom-up initiatives constrained by institutions of American federalism. An empirical study of boundary change from 1940 through 2000 puts together local government datasets on population, socioeconomic, and institutional factors influencing boundary formation events over the postwar period. The datasets have been particularly constructed to facilitate future replication and dissemination efforts. The central findings are that boundary formation is influenced by racial stratification, legal constraints, increasing homeownership, and asymmetric population growth across U.S. unincorporated areas.

CHAPTER 1

INTRODUCTION

1.1 Research Problem

Almost 40 years ago, Dahl and Tufte (1973) argued that the configuration of political boundaries deals with “the very question of how and indeed whether democratic systems with a high degree of autonomy or sovereignty can survive in a world of great interdependence” (p. 2). They acknowledged, however, that problems of size and scope of political jurisdictions have been actually debated for at least two millennia. For example, both Plato and Aristotle praised the *polis*¹, the classic city-state that exemplified the virtues of a small democratic polity. More recently, questions of boundary size and configuration have been taking center stage in various literatures such as that of metropolitan governance, on the one hand, and state borders, on the other (Feiock & Carr 2001; Alesina & Spolaore 2003).

This dissertation investigates how municipal boundaries are endogenously formed and changed. Are boundaries configured in a strategic and deliberative manner? What factors dominate boundary change efforts? What institutional and socioeconomic forces shape those initiatives?

Interestingly, about 50% of the U.S. urban population resides in incorporated municipalities while the other half remain unincorporated in urban, suburban, and urban-rural fringe areas. Relatedly, processes of boundary change have puzzled students of urban governance for decades (Miller 1981; Burns 1994). Previous studies in urban policy address the different social, political, and institutional factors that underlie these rare events of jurisdictional change. Similarly, studies in political economy focus on local government jurisdictions as means

¹ It literally means *city* in ancient Greek (c.f. Aristotle, trans. by Ernest Barker, 1998).

of public goods provision (Alesina et al. 2004). Specialists of urban policy particularly emphasize the role of entrepreneurs as well as of local interest groups in episodes of boundary change (Feiock & Carr 2001). To answer the questions raised previously, this dissertation will argue that boundary formation (incorporation) and adjustment (annexation) decisions can be theoretically explained through a trade-off between scale economies and policy costs, the latter broadly encompassing service delivery costs as well as heterogeneity costs (Alesina et al. 2004).

Problems of local government organization have been central to scholarly research in urban policy. Boundary fragmentation is deemed critical in constraining the possibilities for local and regional collective action (Feiock 2004c). This dissertation addresses positive and normative arguments that have typically appeared in urban reform analysis. It thus contributes to theoretical and applied literatures with general explanations of constitutional rules, collective action problems, and costs and benefits of municipal boundary arrangements. In particular, we emphasize the role of ethnic diversity in the formation of municipal boundaries. Toward the end, we discuss the emergence of the homeowner association as an alternative form of local governance.

1.2 Plan of this Dissertation

In the next sections, we develop in detail the conceptual foundations of the research program offered through this dissertation, which is organized as follows. First, we discuss major theoretical perspectives on boundary change. We not only acknowledge their contributions but also suggest their possible limitations toward the development of a general theory of boundary formation. The previous literature has certainly provided useful insights to understand why and how urban communities determine boundary configurations. Nonetheless, we discuss how we can integrate previous perspectives into a working theory of municipal boundaries. Thus, we

propose a synthesis of boundary organization based on a fundamental trade-off between the benefits and costs of self-government in urban jurisdictions.

Building on previous literatures, we thus propose a theory that explicates boundary configurations based on a trade-off between the benefits of coordinated authority and the transaction costs of public sector organization. These political and economic benefits and costs address different factors that in practice interact and determine whether forming urban communities are likely to approve incorporation, annexation to established municipalities, or the *status quo* in the form of unincorporated settlements. Generally, the benefits of self-governance include centralized policy-making attuned to the particular preferences of populations. When these benefits override the transaction costs of governing a political jurisdiction, boundary formation becomes a viable option for unincorporated areas.

Urban growth at the outskirts of metropolitan areas and its influence on the delineation of city boundaries are also examined. We argue, among other things, that suburbanization and the formation of political boundaries of cities have co-evolved in the post-World War II era. In addition, constitutional powers regarding local government boundary change have been altered – discouraging annexation and facilitating incorporation, which have in turn influenced the contemporary organization of local government jurisdictions.

We thus report historical evidence, and test key predictions derived from our theoretical analysis. Chapter III empirically examines municipal fragmentation from WWII to the Civil Rights Era. Chapter IV investigates new incorporations among unincorporated places since 1980. Chapter V discusses the emergence of the homeowner association, as an alternative governance structure, in recent decades. Chapter VI outlines conclusions. Based on the various results and findings, we conclude by discussing the theoretical and methodological leverage that this

dissertation provides toward our attaining a better understanding of local government organization in the United States. The dissertation wraps up by suggesting next steps for future research as well as connections to other social science literatures.

In brief, this dissertation is primarily linked to three strands of literature. First, it relates to traditional urban policy studies, which have typically emphasized the role of entrepreneurs and local interest groups in instances of municipal incorporation. Studies by Burns (1994) and Feiock and Carr (2001), among several others, are seminal in this branch. A second strand has developed in the form of economic models of political jurisdictions, which emphasize the role of preference heterogeneities (of ethnic origin, for example) in the population. The work of Alesina, Baqir, and Hoxby (2004) is representative of this approach. Third, a recent literature in public administration explains the homeowner association as an alternate local governance structure. Scholars in this tradition contend that homeowner associations are increasingly occupying the governing and service delivery roles of municipalities, yet they remain under-investigated (McCabe 2011; McKenzie 2011). We begin with a brief discussion of representative literatures, which provide some foundational ideas that this dissertation extends.

CHAPTER 2

THEORETICAL ANTECEDENTS

2.1 Burns' Thesis

The Formation of American Local Governments (Burns 1994) is one of the most influential explanations of local boundary formation in terms of collective action theory, an approach that was further extended by Feiock and Carr (2001). In her monograph, Burns presents an actor-centered explanation of local government creation. She focuses on municipalities and special districts. Burns puts much emphasis on business people, e.g. developers and manufacturers, being the key actors in episodes of local government formation. According to her logic, a friendly business environment is a crucial motivator for these entrepreneurs to lead government creation efforts. In particular, manufacturers and business interests in outlying areas typically become entrepreneurs by providing resources and overcoming the collective action problem in initiatives of municipal incorporation.

Burns also emphasizes the role of race and ethnicity. For example, she identifies that, particularly during the 1960's and on, white, upper income groups systematically pursued boundary changes in order to wall out other groups. Burns argues that African Americans have been the major targets; however, she also suggests that Hispanic immigrants have more recently become the objects of these political strategies. Burns makes the case that income-distributional conflict explains only part of government formation politics. Further, she suggests that explicit racial and ethnic prejudice has motivated boundary change processes.

Burns provides some quantitative evidence to illustrate her thesis. Nonetheless, her study employs sampling and estimation strategies that may not fully support her otherwise insightful

theoretical contributions. On the theoretical side, Burns perhaps overemphasizes the role of business entrepreneurs as the causal force behind local boundary change. From her analysis, the reader can imagine these entrepreneurs as strategic actors actively manipulating instances of institutional change to secure special interest benefits. While focusing on businesses, Burns' study leaves unexplained alternative factors. For example, Fischel suggests that it is not necessarily corporations, but rather resident groups (homeowners) that should be at center stage in theories of local government boundary change (2005). We return, in later sections, to these issues.

2.2 Political Economy of Boundaries

Subsequent to Burns' monograph and extensions by Feiock and Carr (2001), the question of boundary formation has attracted attention from distinct inter-disciplinary literatures. Visibly, there has been an emerging strand in political economy that studies the endogenous formation of political jurisdictions. In contrast to the urban politics literature, economic models focus primarily on the effect of preference heterogeneities in the configuration of jurisdictional boundaries. This latter literature is thus less interested in actor-centered accounts of boundary change, and is more linked to models of collective choice as well as macroeconomic perspectives on state borders.

According to the political economy literature, one rationale for boundary formation relates to potential benefits of scale in public goods provision. A related trade-off thus suggests positive and prescriptive implications in relation to government organization. Economies of scale considerations pervade not only municipalities, but government organization at any level of federalism (Oates 1977). Nonetheless, economies of scale play a fundamental role for local governments for special reasons. Municipal services are influenced by spatial agglomeration

economies. Critical municipal functions such as law enforcement, zoning, or physical infrastructure are influenced by those forces.

Though benefits of scale provide a key logic for government organization, heterogeneous resident preferences shape political jurisdictions at different levels (Alesina & Spolaore 2003). Generally, more populated communities deal with increasingly heterogeneous preferences for local public goods and policies. Such heterogeneity exacerbates transaction costs in local government decision-making. As a result, heterogeneity may spur boundary fragmentation. In recent history, urban heterogeneity has often been associated with ethnic and other socioeconomic factors (Alesina et al. 2004).

Thus, theories of local public goods points to trade-offs in governmental provision. In particular, political economists explain that government jurisdictions trade off scale benefits against costs in policy production (Alesina et al. 2004). Alesina et al. introduce a seminal model of endogenous jurisdictions based on heterogeneity of preferences for public goods. These authors explain political boundaries as endogenous institutions influenced by competing, heterogeneous communities. Alesina and colleagues actually discuss a broad set of political jurisdictions, including not only municipalities, but also special districts, school districts, and school attendance areas. Clearly, these authors suggest that similar explanatory mechanisms underpin choices of local boundaries regardless of seemingly qualitative differences in types of government. In contrast to Burns and other actor-centered accounts, Alesina et al. argue that structural preference heterogeneities explain choice of political boundaries.

2.3 Regional Decentralization

As Alesina et al. (2004) argue, the size of municipal boundaries can be explained by a trade-off between economies of scale and transaction costs in municipal goods provision. Our previous

discussion introduced the role of heterogeneous preferences over public goods. We thus hinted that components of heterogeneity should be associated with jurisdictional fragmentation. Nonetheless, the preceding conceptual discussion leads us to evaluate, more specifically, how economies of scale break down in regional economies.

Theories of regional growth point to sprawl as a central problem linked to the breakdown of economies of scale (Fujita & Thisse 2002). Because municipalities take advantage of scale economies in public goods provision, sprawl co-evolves with jurisdictional arrangements for service delivery. Therefore, the formation and adjustment of municipal boundaries can be traced back to spatial and inter-temporal determinants of sprawl. For example, the regional organization of economic activities and technological transformations influencing urban growth at certain historical junctures may have ultimately altered the jurisdictional organization of U.S. local governments.

This literature suggests various determinants of urban sprawl that could in turn influence the endogenous formation of municipalities (Burchfield et al. 2006). First, local geographies may affect the location of economic activities. Natural barriers, such as streams, rugged terrain, and temperate climate, should lead to the breakdown of economies of scale. The effect of streams and rugged terrain is intuitive since they naturally reduce the incentives for economic activities to agglomerate. Temperate climate, on the other hand, seems to influence sprawl by facilitating open-space activities and amenities. In contrast, colder climate seems to encourage more compact development of cities.

The composition of employment in the region may be another relevant explanatory factor of sprawl (Burchfield et al. 2006). The spatial location of major industries should influence residential choice and, more generally, levels of sprawl. For example, regions that economically

rely on manufacturing (or other economic activities typically located on the fringe) may be correlated to less compact urban growth. Conversely, regions that primarily rely on central city activity (for example, New York City) should experience denser urban development. Therefore, decentralized employment in regions may encourage sprawl and, in turn, the fragmentation of municipalities.

2.4 Homeownership and Homeowner Organizations

Previous research on boundary change have treated residents, particularly homeowners and homeowner organizations, as transparent actors that have been thus overlooked in theoretical explanations as well as in empirical investigations. The absence of these crucial, pivotal actors in institution and policy-making in urban and forming residential areas has limited the development of robust theories of local government organization.

Several authors contend that decentralized majoritarian decision-making can be adequately understood through median voter models (Persson & Tabellini 2002). Among others, Fischel (2001) suggests that this approach is crucial to understand homeowners' influence over local government. Homeowners, individually and collectively, should be pivotal players in the local political processes for several reasons. First, real property is typically the largest asset of most local residents; as a result, they pay disproportionate attention to policies that may affect property values. In the collective protection of their assets, homeowners and homeowner organizations appear to be conservative actors in the sense that they are skeptical of institutional reorganizations, such as municipal boundary changes (Fischel 2001).

Among their various responsibilities, the regulation of property in land relates to one of the most critical areas in local government (Miller 1981; Fischel 2001). Therefore, control of zoning powers becomes a primary motivator for boundary formation efforts. Homeowners and

homeowner organizations arguably pay disproportionate attention to policies affecting property values, which are crucially contingent on the implementation of land use policies. Clearly, the politics of boundary change seems to be influenced by actors' economic concerns regarding their assets' value over time. Policy deference to local government over zoning has been historically reinforced through consistent judicial precedent (Fischel 1995).

Homeowners in unincorporated areas typically oppose incorporation efforts (Fischel 2001). They should face credible threats such as likely annexation by neighboring cities in order to consider incorporation as a preferable alternative. Because unincorporated places are typically governed by county authorities, policies from these bodies that challenge homeowners' interests can also prompt incorporation initiatives. For example, county growth plans could generate opposition on the part of homeowners due to their potential impact on property values. Therefore, residents' expectation of gain from grabbing control over land use policy should thus become apparent and facilitate incorporation episodes.

Municipal incorporation is sometimes regarded as an option of last resort due to the availability of substitute governing and service provision arrangements (Feiock & Carr 2001). For example, a recent literature has documented the growth of condominium, cooperative, and homeowner associations—more generically, common interest developments (CID) (McKenzie 2011). These newer organizations of local governance structures are deemed attractive due to their flexibility in accommodating emergent needs and services in residential neighborhoods. Interestingly, some local governments have explicitly encouraged the creation of homeowner associations in order to transfer responsibilities and fiscal burdens to developers and residents.

Although these 'private governments' may be flexible arrangements for new residential developments, scholars and policy specialists are documenting problems of accountability, fiscal

sustainability, and other implications for local democratic governance. Clearly, homeowner associations are increasingly collecting large tax-like revenues that, in contrast to those of governmental jurisdictions, are not subject to similar oversight procedures (McKenzie 2006). Their governing arrangements, such as board and leadership structures, vary widely across different types of associations. For example, voting rights differ based on ownership and property values. Nonetheless, some of these arrangements seem to be increasingly challenged in courts as well as in the different political venues of American federalism (McKenzie 2006).

Consequently, homeowners and homeowner organizations can be pivotal actors in boundary change, such as annexation or incorporation processes. Residents seem to trade off the benefits of self-governance against various transaction costs from organizing governments. Typically, transaction costs exceed the benefits of self-government in boundary formation processes. Homeowners nevertheless seem to be increasingly opting for alternate service delivery arrangements such as special districts, mandatory homeowner associations, and others. Unincorporated residents seem to give serious consideration to formal incorporation if the benefits of scale and policy control become apparent. These incentives appear to be typically induced from either annexation threats or growth plans that seemingly pose threats to property values.

2.5 Policy Discretion

Substantial advancements have been made on theoretical explanations of policy making under separation of powers (Epstein and O'Halloran 1999). This literature has largely focused on the federal policy process, however. Although important ideas can be drawn from this research, studies at the state and local levels seems to be less developed. Nonetheless, problems of policy making at higher political levels actually resemble those of state-local relations. A critical aspect

of the federal policy process relates to the question of how much legislatures delegate discretionary authority to administrative agencies. Thus, strategies of policy delegation pervade subnational intergovernmental relations (Feiock 2001).

A traditional notion of American federalism relates to the idea that local governments are creatures of their parent state governments (Feiock 2001; Barron 2003). Therefore, it has been typically accepted that states have the authority to delegate authority at will. This issue is perhaps best represented in the so-called Dillon's rule, which presupposes that local governments should perform only those powers strictly allowed by state authority. Although this rule has proved controversial in policy debate, states have in practice granted their local governments different degrees of administrative and policy discretion. Like policymaking at higher levels, states have found it politically attractive to rely on local expertise in various areas. Due to its connection to critical economic outcomes, for example, regulation of land use is considered a key local function (Fischel 2001). In contrast to other functions, states and courts have largely deferred to local governments in the area of zoning. At the level of theory, problems of information intensity and specialization could explain why zoning remains a local policy domain. Concomitantly, boundary configuration initiatives have been associated with residents' motivation to grab localized control of this policy arena.

In contrast to rights to land use, local autonomy over fiscal policy has been increasingly restricted by state legislation (Joyce & Mullins 1991). The role of state versus local governments in budgeting for local public goods has thus been historically contested. In the Antebellum era, for example, states typically overshadowed both federal and local governments in the financing of capital-intensive projects such as physical infrastructure (Wallis and Weingast 2008). At the turn of the twentieth century, strict limitations on state finances incentivized devolution of

responsibilities to local governments. Nonetheless, property tax reforms starting in the 1970s have critically constrained local fiscal autonomy and induced the centralization of public goods financing at the state level.

The impact of constitutional and other institutional limitations to local fiscal capacity has attracted attention in some recent literatures. Most visibly, the rise of special districts as alternate financing arrangements has been associated with tax and expenditure limitations (TELEs) on general-purpose governments (Carr 2006).

2.6 Organizational Costs

Government reorganization is affected by various types of costs. Theoretically, transaction cost analysis provides useful lenses to understand delegation dilemmas in intergovernmental relations (Feiock 2001; Epstein and O'Halloran 1999). Although first devised to understand boundary configurations of firms, transaction cost theory has been extended to political arenas such as institutional design and policy making. This theory has emerged from an agency-contractarian view of exchange in social, economic, and political transactions. It has thus become a useful theoretical approach in explanations of institutional and policy development.

Agency problems have not been sufficiently studied in previous research of home rule and boundary change. Clearly, rules of incorporation and annexation may involve strategic choices to influence the jurisdictional organization of local government. State rules governing boundary formation, for example, affect the range of policy choices available to residents and local organizations (Feiock 2001). Agency and transaction cost theories suggest that decision makers retain policy-making powers in critical, uncertain areas (Epstein & O'Halloran 1999). Therefore, a related question should be why some states constrain more strictly local actors' ability to draw political boundaries (Feiock & Carr 1996).

Costs of local policy production may be explained as transaction costs. In a Dillon's rule world, states should strictly retain policy making over local matters with little or no delegation of authority to localities (Barron 2003). In practice, states have devised various degrees of delegation over different policy domains. On the other hand, local government organizations do not develop themselves in an anarchic fashion even though this notion has been sometimes implied in policy debate. Thus, the question why and how state-constitutional rules constrain some aspects of home rule over others may be explained as transaction cost problems (Feiock 2001).

Agency costs relate to a similar type of problems in institution and policy delegation in federalism (Horn 1995). Intergovernmental relations are pervaded with agency issues, not only between public officials, but also between those officials and their constituencies (Feiock 2001). The notion of agency problems presupposes that hierarchical relations exist between these multiple political actors. In practice, however, it is not completely obvious who are the agents or the principals in these political exchanges. Therefore, it seems more realistic to assume that these competing actors are endowed with different degrees of autonomy and discretion in their respective decision spheres.

Monitoring costs encompass two distinct stages of oversight procedures (Horn 1995). First, *ex ante* monitoring introduces costs before implementation. For example, these costs may relate to detailed procedures in policy development. Compliance with *ex ante* oversight requirements may substantially generate costs for both local administrators and state regulators. Alternatively, *ex post* monitoring engender costs after implementation. Posterior oversight allows state officials to delegate 'fire-alarm' type controls to third parties (p. 92). In the case of state-local relations, states may rely on appointive boards, citizen groups, courts, and other corporate

actors to facilitate monitoring of policy-making delegation. What areas of home rule have been affected by these types of oversight procedures is a question that deserves further research, but which lies beyond the scope of this dissertation.

2.7 Constitutional Federalism

Transaction costs may help explain strategies of delegation of powers from states to local governments (Feiock 2001). The idea of federalism as a hierarchical relationship has been theoretically developed on several fronts (Ahmad & Brosio 2011). Some authors explain federalism as a self-enforcing institution in which actors at different levels bargain over overlapping jurisdictional authority (de Figueiredo & Weingast 2005). The structure of American federalism over time is an equilibrium outcome that, nonetheless, has proved malleable to political contingencies. Constitutionally protected federalism has been argued to be a self-sustainable, welfare-enhancing institution capable of supplying local as well as broader public goods (Weingast 1995).

States as so-called laboratories of democracy have recurrently experimented with different approaches to delegation of powers to local government (Krane et al. 2001). These delegation systems lay out the basic rules of the game in which actors interact and pursue their goals (Feiock 2001). Constitutionally-protected local autonomy is a fundamental mechanism of these delegation structures in state-local relations. Furthermore, home rule encompasses various policy areas. State and local actors pay different levels of attention to policy arenas based upon their specific constituencies and incentive structures in place.

In particular, analysts of urban policy argue that local actors pay disproportionate attention to regulatory powers related to the use of land (Lubell et al. 2009; Fischel 2001). These analysts contend that the role of zoning stems from the critical role of homeownership.

Historically, states have granted broad regulatory powers to local governments in this area. On the other hand, closer examination reveals that states do intervene in land use policy through different legislative and judicial mechanisms. As a result, much variety exists in the actual delegation of authority to local governments in this important area.

In contrast, states have critically constrained local governments on other substantive areas (Krane et al. 2001). As suggested above, powers of taxation and revenue generation have been increasingly limited in recent decades. Fiscal limitations have typically targeted the property tax system, which paradoxically represents a fundamental component of local autonomy. In this area as well, states have placed different degrees of limitations on debt, tax, and expenditures. These rules differ, not only across states, but even for type of local government unit within states. These fiscal institutions of federalism seem to be particularly successful at undermining the actual autonomy available to local governments.

Nonetheless, home rule powers are probably most influential through rules of incorporation and annexation, among others, which allow residents to draw political boundaries (Feiock 2001; Carr & Feiock 2001; Krane et al. 2001). Even though some observers regard the organization of American local government as fragmented, residents may play a strategic role in initiatives of boundary formation. The ability of these actors to draw boundaries, however, is critically restrained by state-constitutional rules. Constraints on boundary change may be reinforced by other incentives related to zoning, taxation, and related powers.

In summary, state-constitutional and statutory provisions on home rule critically shape the incentives associated with boundary change (Feiock 2001). Local autonomy through home rule should thus increase stakeholders' incentives for boundary change efforts. Although we have stressed the role of provisions on incorporation and land use regulations, other home rule

powers may also affect the potential gains from boundary reorganization. In synthesis, states set up key rules of the game for local government organization.

2.8 Ethnicity, Race, and Institutions

In comparative perspective, the study of ethnic and racial divisions and their social consequences is well established in the social sciences. Nevertheless, recent literatures, including political sociology and comparative political economy, have substantially redirected attention to questions of ethnicity. These literatures, for example, have been focusing on the role of ethnic divisions in relation to public goods provision, distributive policy, and other social effects (Hero 1998). Many of these studies emphasize ethnic cleavages across national borders, while others pay attention to ethnicity in the context of political behavior. For example, a well-developed literature has investigated the role of fractionalization in relation to puzzles of representation, participation, and related topics (Alesina and La Ferrara 2000).

Students of ethnicity and race have traditionally focused on the formation and persistence of ethnic groups. Typically in comparative perspective, their research points out to the role of formal and informal boundaries in conflicts of ethnic origin. Much of this literature focuses on the evolution of ethnic and racial divisions in relation to colonialism, migration, and other social episodes of recent history (Wimmer 2009). Specialists of ethnic groups have also become interested in how state institutions intervene in the management of disputes of ethnic and racial origins. Nevertheless, political institutions have been of secondary importance to this literature as it tends to emphasize informal social relations across ethnic groups.

Although some work has attempted to link ethnic and racial divisions to the design of political institutions, this line of research is still in its infancy in relation to studies focusing primarily on political behavior. Our interpretation is that the study of political institutions is

pervaded with certain research obstacles that have proven to be intractable to many researchers. First, formal institutions, such as constitutions, forms of government, borders, and so forth, change slowly over time and space. This means, for example, that social scientists have met problems of identification of causal effects in empirical research that have been difficult to resolve through cross-sectional research designs. Other research has looked for answers through intensive case studies that, however, face limited external validity.

This dissertation will emphasize the role of ethnic and racial sorting in the design of local institutions. We focus on a particular form of institution—municipal boundaries (Burns 1994). Students of political institutions emphasize the formal and durable character of formal institutions in the form of laws, political organizations, and other institutional arrangements that are typically long-lived and hard to change (Rhodes et al. 2006). Political boundaries such as national borders or city limits are particularly important institutions because they enclose the benefits and costs associated with political rights within jurisdictions. For example, nation states impose a variety of civil rights and duties within their borders; they also provide for public goods, such as national defense, welfare programs, etc., as well as revenue to support those goods.

Similarly, cities allocate bundles of political rights and duties within their boundaries, including law enforcement, residential services, etc., as well as revenue to support those local goods. What explains city boundary size and change? City or municipal boundaries rarely follow the geographic boundaries of urban settlements. Other than national borders, city boundaries are among the most important modern political institutions because they define the benefits and costs of citizenship in a political jurisdiction. They also affect public policy by fragmenting local authority and hindering policies of regional scope. Furthermore, city boundaries have been

argued to have exclusionary effects, such as excluding populations based on income, ethnic, and other social characteristics (Burns 1994).

While city boundaries seem to conform to various socioeconomic and constitutional influences, ethnic and racial divisions appear to be crucial historical drivers of institutions and social life in American cities (Burns 1994). We suggested at the outset that social science research has faced a number of obstacles to disentangling, empirically, the effects of ethnicity on the configuration of political institutions. This dissertation particularly contributes to this literature by documenting the effect of ethnic and racial change on political boundaries in American cities since World War II. This historical template provides an ideal setting to investigate the role of ethnic and racial stratification on political boundaries for several reasons. First, the postwar decades brought the most rapid and largest movement of African Americans from the rural South to large metropolitan areas in U.S. history. Second, this period includes major institutional transformations such as the Civil Rights Movement. These factors and others, further discussed in subsequent sections, interacted to create a unique historical period of ethnic, racial and political strife in American cities.

In American government, ethnicity has been critical in domestic social and policy processes. In particular, race has been central to American society and politics due to historical reasons. For example, critical historical episodes have related to institutional reforms aimed at providing political rights to African Americans, including the Civil War and the Civil Rights Movement. As a result, the American literature on race is essentially the study of race relations and their implications for domestic policy (King & Smith 2005). A more specific literature focuses on the role of ethnicity in urban policy, a body of work that has been largely influenced by the dramatic racial reconfiguration of cities since World War II (Burns 1994; Dilworth 2009).

While the study of race in the nineteenth century was motivated by the issue of slavery and African Americans in the rural South, the contemporary study of race has been influenced by their migration to cities and the resultant impacts on local government organization (Burns 1994). This dissertation, thus, will focus on the dynamics of ethnic and racial stratification in relation to the formation of municipal boundaries.

CHAPTER 3

CITY BOUNDARIES AND RACIAL CHANGE DURING THE U.S. SUBURBAN BOOM, 1940–1970

We empirically investigate whether racial turnover determined the formation of municipalities in the U.S. post-World War II. We examine social, economic, and political factors, from 1940 to 1970, leading to large-scale racial change of U.S. cities and metropolitan areas. In particular, we examine the role of the Great Black Migration, White Flight, and suburban boom on municipal incorporations. Our findings suggest that city boundaries may have been deliberately established to delineate communities based on racial considerations. We also discuss the contribution of this empirical study to the literatures on suburbanization, racial stratification, and local government boundary change in the United States. We exploit longitudinal data that account for record numbers of municipal incorporations during the postwar period—possibly the highest frequency of incorporations in American urban history.

3.1 Introduction

We investigate how racial change, particularly as a consequence of the migration of African Americans to central cities and Whites to suburbs, influenced the formation of municipal jurisdictions during the postwar suburban boom in the United States. Based on longitudinal data from 1940 to 1970, this study documents the role of racial turnover on the configuration of city boundaries. While a well-established literature has discussed the role of racial divisions in American cities, the present study complements this literature by specifically assessing the effect of the Black Migration, White Flight, and suburban boom on the formation of U.S. municipalities. Fundamentally, the present study illustrates how the recent historical organization

of American local government has been shaped by racial and jurisdictional structures inherited from postwar suburbanization.

We identify at least three strands of literature related to the present study. First, this study builds on American urban history (Jackson 1987; Teaford 1979). This literature provides rich case analyses of suburbanization as well as narratives on the Great Migration and the Civil Rights Movement during the postwar period. Second, this paper builds on the literature on residential segregation in urban economics and sociology (Cutler et al. 1999; Massey & Denton 1993). This interdisciplinary research is more empirically grounded and focuses on metropolitan-level dynamics of racial stratification. Third, this paper is related to the literature on local government boundary change in urban politics/public administration (Burns 1994; Carr & Feiock 2002, 2004). This latter research emphasizes, among other aspects, the role of institutional entrepreneurs—public officials, interest groups, and others—in overcoming collective action obstacles to initiatives of boundary change (Feiock & Carr 2001).

We focus on the role of racial turnover in the formation of municipal boundaries. While ethnicity and race have pervaded urban dynamics throughout U.S. history, the postwar brought about long-term racial changes that ultimately influenced the configuration of municipal boundaries. While suburbanization has been a phenomenon common to most industrialized nations, the Great Black Migration and the White Flight were large-scale migratory movements that specifically affected the United States (Mieszkowski & Mills 1993). The Black Migration—prompted by technological changes in U.S. Southern agriculture—resulted in institutional and policy reforms at all levels of American government (Alston & Ferrie 2007). For example, the U.S. federal government established welfare programs to alleviate increasing urban problems during the 1960s, while several states passed laws reforming local home rule powers. These

policies were arguably influenced by racial turnover in U.S. cities and forming suburban jurisdictions.

The postwar was a critical period for U.S. local government for additional reasons. Overall, those were years of rapid demographic, economic, and political change. Demographically, the Second Great Migration introduced long-term changes in the racial composition of cities (Trotter 1991). The largest outmigration of African Americans from the rural South eventually occurred since WWII due to the collapse of farm employment, while Northern and Western metropolitan areas were receiving large numbers of African American migrants.

The primary focus of the present study is the role of racial change on the formation of American municipalities; nonetheless, the thesis that race has played a critical role on city boundaries may also be relevant to explaining other local political jurisdictions such as school districts, special purpose districts, and perhaps common interest communities (homeowner associations). The historical evolution of American school districts, for example, illustrates the impact of racial change on their reconfiguration. This literature suggests that the school district consolidation movement, one of the most critical institutional reorganizations in U.S. local government, has been restrained by racial considerations (Fischel 2009). Empirical studies indeed provide evidence regarding the role of racial diversity on limiting school district consolidations (Alesina et al. 2004). Here, we highlight city boundaries in relation to racial turnover in U.S. metropolitan areas.

In addition to contributing to the aforementioned literatures, the present study is also related to research on the formation of U.S. local governments. In an insightful monograph, Miller (1982) examines municipal incorporations in Los Angeles metropolitan area. He

emphasizes that fiscal redistribution was crucial in motivating incorporation of suburban municipalities through the so-called Lakewood Plan. Burns (1994) advances an interest group account of the formation of American local governments and argues that local elites have used political jurisdictions as mechanisms for economic and racial exclusion. She emphasizes the role of institutional entrepreneurs in exploiting business and racial concerns that motivated the creation of local government jurisdictions. Although the contributions of these scholars have been seminal, the present study specifically investigates the role of racial turnover on city boundaries during the U.S. postwar. The interplay of the Great Black Migration and the White Flight during postwar suburbanization is a crucial historical setting to assess such thesis.

This paper is organized as follows. Section 3.2 discusses the main drivers of racial turnover in the postwar, particularly the Black Migration, White Flight, and suburban boom. It explains the role of these factors on the formation of municipal boundaries. This section also offers an alternative perspective in the spirit of American political development. Section 3.3 presents the empirical study and results from longitudinal data. Section 3.4 outlines conclusions.

3.2 Conceptual Perspectives

3.2.1 City Boundaries and Race in Socio-economic Perspective

The U.S. postwar is possibly the best historical setting for students of urban change and local government organization. Thousands of new cities were literally formed during the immediate postwar. Why were so many municipalities incorporated in this short period? A first obvious answer is rapid population growth as a result of various factors, including the baby boom and the return of veterans from World War II. Still, the formation of municipalities occurred in large numbers and very rapidly; these events therefore raise the question of why urban growth was not absorbed through extant city boundaries at the time; rather, new communities actively

established new municipal jurisdictions. Prior to WWII, urban growth was regularly accommodated through extant cities and, thus, unincorporated areas were annexed to those cities.

The nature of legal constraints on boundary adjustment provides a partial answer. Certainly, state laws have constrained residents' ability to change boundaries through annexation or incorporation proceedings. These laws have nevertheless been changed as well—largely reflecting the distribution of political power in state legislatures at the time. In the U.S. postwar, state legislatures were increasingly dominated by representatives from new suburban areas (Schattschneider 1962). Judicial landmarks, such as *Baker v. Carr* (1962), further influenced the structure of political representation in state legislatures. During this rapid period of suburbanization, therefore, state lawmakers may have purposively altered laws on boundary change to ease incorporation yet constrain annexation efforts.

Even though the legal frameworks for boundary change played a critical role, changes in the population structure of American cities also influenced suburbanization and the concomitant formation of municipalities. We focus, in particular, on two interrelated urban phenomena: racial stratification and homeownership patterns. These have been two key factors influencing the decentralization of new housing and the racial configuration of cities and suburbs in the U.S. postwar. As a result of the Great Migration, Black migrants from the South relocated into central cities, while Whites relocated in large numbers to new suburban neighborhoods that ultimately opted for establishing new municipal jurisdictions.

Suburbanization thus went hand in hand with the political fragmentation of metropolitan areas during the twentieth century (Teaford, 1979). In particular, the urbanization of African Americans and the suburbanization of Whites led to conflict over the role of central cities as traditional service providers. It is, therefore, not surprising that suburbs increasingly opted for

establishing new municipalities rather than being annexed to older cities. Suburban representatives also exerted influence on state legislatures in order to weaken annexation powers and ease incorporation ones. Thus, demand forces (suburban growth) and institutional supply (legal constraints on annexation) interplayed to constrain the possibilities of central city expansion. In particular, boundary laws may have been reformed to isolate central cities, both geographically and politically, vis-à-vis suburban jurisdictions.

We could alternatively postulate that the postwar boom of municipal incorporations reflected transparent institutional reorganizations in response to population growth rather than collective actions to exclude racial minorities. Recent studies, however, show that the White Flight and suburbanization went hand in hand (Boustan 2010). Additionally, this research suggests that that White suburbanization rates could be predicted based on Black urbanization rates. As a result, suburban decentralization appears to have been most acute in those metropolitan areas receiving the largest proportions of Black migrants. Suburbs, in turn, were willing to give up economies of scale in service provision by establishing independent municipalities. On the other hand, areas less ‘impacted’ by the Black Migration may have maintained central city influence, territorially and politically.

An additional thesis is that municipal fragmentation was a result of diverse preferences for public goods related to socioeconomic stratification. Income rather than ethnicity, therefore, should have affected the configuration of municipal jurisdictions. Some studies suggest that residents are willing to pay a premium for living in municipalities that provide highly selective packages of municipal services and taxation (Boustan 2013). There is also evidence of racial minority families that attempted to move from segregated neighborhoods as their incomes were rising (Clay 1979). High-income racial minorities, however, have faced multiple obstacles to

doing so. Prior to Civil Rights legislation, African Americans—and to some extent other ethnic minorities—were excluded from White neighborhoods by collective actions as well as by institutional means. Whites employed collective actions to intimidate potential racial minority neighbors (Cutler et al. 1999). Institutionally, governmental and private organizations—primarily related to the housing loan industry—devised procedures to prevent African Americans from owning property in White areas.

Neighborhood segregation thus persisted despite rising incomes among racial minorities. The theory substantiated here suggests, consequently, that racial stratification was a key factor in the postwar formation of suburban municipalities. Rapid racial turnover of cities accelerated the decentralization of housing and, ultimately, municipal incorporations on the fringes of metropolitan areas. Black urbanization and White suburbanization were obviously not the only forces underpinning such decentralization; suburban development has been a general trend in metropolitan areas of industrialized nations (Mieszkowski & Mills 1993). Nonetheless, the postwar suburbanization of U.S. metropolitan areas resulted in the reconfiguration of their jurisdictional structure, where racial sorting played a fundamental role.

We suspect that racial stratification played a greater role on the formation of suburban municipalities in the postwar as opposed to other historical periods due to the interaction of multiple factors exacerbating racial stress in U.S. cities. For example, the urbanization of African Americans occurred at the same time that the Civil Rights Movement was gaining momentum (Burns 1994). In turn, civil rights legislation substantively weakened the institutional means traditionally used by Whites to exclude African Americans. School desegregation, for example, comes to mind as an institutional reform that should have accelerated White Flight. Federal

policy benchmarks, from *Shelley v. Kraemer* (1948)—judging racially restrictive covenants to be unenforceable—to the Fair Housing Act (1968), should have produced similar effects.

In short, the formation of municipalities in the postwar stemmed from the interplay of unique historical forces. As noted previously, racial turnover in U.S. metropolitan areas was a crucial element. The migration of African Americans from the rural South to central cities influenced the movement of Whites to suburbs. Coincidentally, such turnover occurred at the height of the suburban boom, a historical process aided by additional factors. First, technological progress—such as the popularization of the automobile—reduced costs of transportation in metropolitan areas. Second, intergovernmental funding for infrastructure further facilitated the decentralization of economic activity. Finally, housing programs substantially expanded homeownership, particularly in new residential developments on the metropolitan fringe.

Even though race and housing patterns were crucial, industrial interests also played a role in the formation of suburban municipalities during the postwar period (Burns 1994). Industrialists often looked for business-friendly jurisdictions; as a result, many city incorporations essentially resulted in boundaries for industrial zones. Business interests often exploited lax legal procedures available in some states; for instance, the formation of industrial cities under the Lakewood plan in California suggests a failure of sound boundary change procedures (Miller 1981). State laws, therefore, were crucial to the mediation of incentives and outcomes in initiatives of boundary delineation.

Availability of land and water for residential use was also critical in the formation of suburban municipalities (Burchfield et al. 2006). Scarcity of those resources on the metropolitan fringe should have precluded suburbanization in some regions. Residential decentralization implied that extending service provision by central cities to suburbs was increasingly costly. This

theoretically led to a breakdown of economies of scale in key lines of service delivery, such as municipal utilities. As a consequence, suburban jurisdictions increasingly relied on alternative forms of resource provision, such as extracting water from aquifers on the fringe (Rome 2001). This might explain why suburban development often took place on water-rich land that was previously used for agricultural activity. Similarly, open land for complementary neighborhood goods should have influenced suburban development patterns.

The preceding discussion, largely grounded in economic factors, is agnostic of other, sociopolitical determinants potentially influencing municipal fragmentation. Nancy Burns (1994), for example, contends that racial exclusion has historically played a role in the formation of local governments. As a result of the movement of African Americans from rural to urban areas in the twentieth century, the recent American urban history has been, to a great extent, a history of ethnic conflict. Similarly, William Fischel (2009) argues that White elites established racially based jurisdictions despite substantial loss in economies of scale, particularly in the pre-Civil Rights Era. We further elaborate this reasoning in subsequent paragraphs.

3.2.2 City Boundaries and Race in Socio-political Perspective

In a recent contribution, Desmond King and Rogers Smith (2005) outline a ‘racial institutional orders’ framework for evaluating the role of race in American political development. According to King and Smith, racial orders are one sort of institution adopted by social actors in order to bind together political coalitions. These authors contend that the American state is composed of competing institutional orders, including a set of racial orders, thereby challenging the notion of a unified racial state (Omi & Winant 1994). The perspective of racial orders, they argue, could be useful to explicate the evolving use of race to frame control of political institutions in

American history. In this perspective, racial frames have co-evolved with ideology and social discourse to accommodate the interests of incumbent political elites.

King and Smith (2005) present the racial orders approach as a conceptual framework that can guide research on racially-based policy and institutions, expressly in the context of American political development. They contend that a racial orders perspective is crucial to study specific empirical episodes of institutional change. Thus, these authors explicate the framing and use of race to comprehend critical historical junctures in American politics, such as the break-up of elite consensus on slavery rights leading to the Civil War or the reconfiguration of political parties since the Civil Rights Movement. King and Smith also link the racial orders perspective to classic works in urban politics, notably Ira Katznelson's (1973, 1982), and suggest that this latter literature may more specifically address the racial logics of American political institutions in cities. The present study therefore examines city boundary change in the postwar by incorporating insights from a racial orders perspective.

In addition, King and Smith (2005) place the racial institutional orders perspective in the new literature on American political development. As these authors argue, this scholarly strand is substantively related to historical and comparative research on political institutions. They nevertheless contend that this new, institutionalist literature has largely emphasized institutional orders as explanatory factors of political economy phenomena. King and Smith argue that the American political development literature may be expanded by centering attention to core aspects of political conflict, including race, in relation to institutional questions. As a critical example, these authors discuss the Black migration to cities in the twentieth century and its still unfolding effects on American political development.

Furthermore, King and Smith (2005) frame the history of White-Black relations as a clash between a ‘white supremacist order’ and an ‘egalitarian transformative order.’ While scholars tend to associate these orders with slavery and the ‘Negro problem’ in the Old South, King and Smith persuasively argue that political actors and organizations in the United States, more generally, have typically embraced practices and policies that, albeit apparently transformative, provided a tutelary role for African Americans. In the empirical study that follows, we thus pay attention to whether city boundaries in the postwar period were drawn to advance egalitarian orders or whether they still accomplished a race-exclusionary role in the different regions of the United States.

A central argument of the racial institutional orders framework is that racial divisions have been a historically distinct factor in the development of American institutions. This perspective thus suggests that the development of political institutions cannot be comprehended through the lens of economic interests only. While economic incentives have indeed played an important role in institutional development, through land ownership and other factor endowments (Engerman & Sokoloff 2011), there is substantial historical evidence that race has played a distinct role in the formation and shaping of American political institutions (Lowndes et al. 2008). White-Black relations have been used to define the scope of policies and institutions at the different levels of American government, even though those policies often introduced substantial distortions to the American economic system.

Race and income stratification have been historically correlated in the United States (Burns 1994). If the racial orders logic is correct, race is a distinct ingredient in explaining the development of American political institutions, possibly even more relevant than socioeconomic factors in specific critical junctures. At the level of theory, racial orders can be framed as meta-

constitutional institutions that critically shape the configuration of political institution details (Ostrom 1976). Racial order institutions, even though economically distortive, have advanced the interests of White elites of the time. The influence of racial orders has been nonetheless diminished as a result of the increasing political power of African Americans and probably due to international pressure. Some scholars, for example, argue that the empowerment of Black citizens in the United States was greatly influenced by the Cold War as American political elites tried to avoid criticism of domestic racial policies by the Soviet Union (Dudziak 2011).

While the racial orders perspective attempts to explain the development of American political institutions generically, the influence of race may have been even more critical in shaping the political configuration of American cities. Municipalities are particularly important political institutions, perhaps the most important subnational institutions, due to their policy authority over land-use rights and other critical policy domains. For instance, Nancy Burns (1994) argues that White elites have historically relied on municipal incorporations as racial exclusionary means. Exclusionary institutions in the Old South have been most clearly documented; nonetheless, racial motivations in the formation of municipalities in other regions also operated. If race motivated municipal boundary choice in regions other than the South, we may need to re-evaluate whether racial institutions were not Southern aberrations only but rather intrinsic orders of the American society.

In the postwar period, several economic forces influenced patterns of racial change at the national and regional levels. Alston and Ferrie (2007), for example, posit that new farm technologies, particularly the mechanization of the cotton crop, freed Black labor from Southern farms. The racial paternalistic system that had persisted throughout the first half of the twentieth century became obsolete and ultimately permitted the expansion of the welfare state during the

1960s. These authors thus explicate that Southern elites and their representatives in the U.S. Congress no longer resisted the implementation of welfare programs that had been previously deemed detrimental to the paternalistic farm system. Therefore, both the collapse of the traditional crop system and the introduction of urban welfare programs were crucial in encouraging the movement of African Americans to metropolitan locales. Even though the collapse of the traditional farm system minimized Southern opposition to welfare initiatives, other federal reforms of the 1960s were politically imposed, including the Civil Rights Act of 1964 and subsequent federal provisions.

Racial egalitarian orders arguably achieved several victories through federal legislation in the 1960s. Nonetheless, other institutional changes, notably the reapportionment revolution, could have reduced the pace of racial egalitarian reforms. The U.S. Supreme Court-mandated reapportioning process shifted the balance of political influence from rural and core urban areas to suburban districts. Scholars suggest that the historical rural dominance of state legislatures ended as a result of the reapportionment process, and reallocated political power toward suburban interests (Schattschneider 1962). Indeed, central cities have been regarded as the losers of the reapportionment revolution, and the increased representation of suburbs in states legislatures may explain stricter rules for municipal annexation and other state-local policies intended to limit the political influence of central cities.

We draw insights from the racial institutional orders perspective and the American political development literature by placing city boundaries at center stage in the political economy of race relations in the postwar. We suggest that the rapid advancement of racial egalitarian orders at the federal level shifted the locus of racial strife onto states and, particularly, cities. In fact, egalitarian transformations were already in progress since at least the 1920s, when

Black organizations were established and racial zoning laws were struck down by courts (Fischel 2004). Nevertheless, the Great Depression of the 1930s and WWII temporarily displaced civil rights legislation by highlighting economic and security concerns among elites. Once WWII hostilities ended, White and Black veterans resumed social life in American locales, and political agendas were ripe for civil rights fights.

If racial change underpinned city boundaries in the postwar period, are race and ethnicity (more generally) key explanatory factors because they merely portrayed heterogeneous preferences for public goods or because they prompted political exclusionary ends? We conjecture that city boundaries were drawn according to racial lines, not because Whites and Blacks (as well as other ethnic groups) preferred bundle *A* of public goods to bundle *B*, but because some White groups attempted to use local institutions as one of the tools in the unfolding civil rights fight and the redistribution of political power in the postwar U.S. government (Burns 1994). Therefore, boundary lines were one arena of racial conflict among others, including courts, state legislatures, and the U.S. Congress.

3.3 Empirical Study

3.3.1 Historical Setting and Data

At the end of World War II hostilities, millions of Americans returned home from military deployment overseas. The war had temporally interrupted the normal flow of economic activity and, but most war veterans resumed their regular life in cities across the United States. Nonetheless, the massive return of veterans introduced enormous pressure upon local jurisdictions to accommodate an increasing need for local goods and services (Jackson 1987). Cities responded in part by allowing new real estate developments within established boundaries.

This response was, however, seemingly insufficient to accommodate the demand for new neighborhoods and municipal services during the postwar period.

At the same time, the economic recovery was encouraging a massive demand for labor, particularly in the largest metropolitan regions of the United States (Heim 2000). The postwar economic growth was, to a great extent, of industrial character due to the production of defense-related manufacturing output that the Cold War and the arms race were promoting. In the South, the postwar brought racial and economic change, in part as a result of the collapse of traditional agricultural activities such as cotton and tobacco. These societal changes prompted large-scale movement of rural African Americans into major urban centers of the Northeast, the Midwest, and the West Coast.

Consequently, U.S. central cities were subject to large population shocks throughout the 1940s, the 1950s and the 1960s. Increasing racial diversity and limited housing stock placed dramatic pressure upon established political jurisdictions in metropolitan areas. Some literature suggests municipal secession debates in those decades as a response to urban changes (Alesina et al. 2004). Nonetheless, partition of established jurisdictions was rare; rather, threats of secession were more effective for resisting consolidation efforts as well as promoting the incorporation of new municipal jurisdictions at the outskirts of metropolitan areas. The largest numbers of municipal incorporations in American history are probably recorded in the post-WWII decades.

We examine these events of boundary formation by putting together historical data from the U.S. Census of Governments, the U.S. Census of Population and Housing, and state laws on boundary change from comparative inventories, particularly those of the National League of Cities (1966) and Melvin Hill, Jr. (1978). We trace municipalities sorted by county areas from 1942, the earliest year of available data, to 1972—about the end of the Civil Rights Era and the

Great Black Migration. For every decade, we match data from the Census of Governments with the closest data from the Census of Population and Housing. For example, the Census of Governments of 1942 is matched with the Census of Population and Housing of 1940 and likewise for other decades. State laws are time-constant indicators of constitutional and statutory constraints on incorporation and annexation powers available to local jurisdictions.

3.3.2 Measurement and Estimation Methods

To formalize the preceding discussion, we test the *hypothesis that more racially heterogeneous county-areas will be more likely to incorporate higher numbers of municipal jurisdictions*. We compute a *Herfindahl* index to operationalize racial heterogeneity within county areas. We build on Alesina et al. (2004), who introduce this index in their study of school district consolidations. By replicating such a measure, we contribute to knowledge accumulation and comparability. Intuitively, the index of racial heterogeneity portrays the probability that two residents, when randomly sampled from the population, will come from different races. Formally, the index is computed as,

$$r = 1 - \sum_j \left(\frac{\text{race population}_j}{\text{total population}} \right)^2 \quad (1)$$

The summation operator in equation (1) comprises squared proportions of the population of each racial group over the total population. Nonetheless, since Whites are the racial majority in most U.S. counties, higher values of the heterogeneity index may generally be interpreted as higher proportions of African Americans. Data on other ethnic minorities (for example, Hispanics) were not collected until the U.S. Census of Population and Housing of 1970; we thus focus on racial turnover among Whites and African Americans during the suburban boom of the

immediate postwar. To estimate explanatory effects on the outcome of interest—formation of municipal jurisdictions, we lay out the following conditional expectation:

$$E(y_{it} | \mathbf{x}_{it}, \alpha_i) = \exp(\alpha_i + \gamma_t + X'_{it}\phi + \beta_t r_{it} + \rho_t y_{i,t-10}) \quad (2)$$

In equation (2), y_{it} represents the number of incorporated municipalities by county area, r_{it} represents the index of racial heterogeneity, X'_{it} represents several population and socioeconomic controls, γ_t represents time fixed-effects, and α_i represents legal constraints on boundary change. The main coefficient of interest is therefore β_t , which denotes the effect of racial heterogeneity on the number of incorporated municipalities. Note that we include a ten-year lag of the dependent variable in equation (2). The lagged dependent variable is important for two reasons. First, it helps us control for possible, time-variant omitted variables (Wooldridge 2010). Second, this lag allows us to isolate boundary changes during the period of study by controlling for the past history of municipal jurisdictions within counties.

Table 1 presents summary statistics (means and standard deviations) for the data we assemble. The U.S. Census of Population and Housing (1940 through 1970) and U.S. Census of Governments (1942 through 1972) are the original sources. We also use inventories of state boundary laws from the National League of Cities (1966) and Hill, Jr. (1978) to code legal constraints on boundary change. The summary statistics show the influence of U.S. suburbanization throughout the period of study. Most variables grow through decades due to population and socioeconomic change. Note, in particular, that homeownership grows sharply from 1940 to 1970, while racial heterogeneity remains relatively constant across the entire United States. This has important implications for our subsequent empirical analyses because it means that, while homeownership grows consistently, there were dramatic interregional shifts of

Black populations during the postwar. Prior to WWII, most African Americans lived in the rural South; by 1970, however, they have re-located into central cities of U.S. metropolitan areas.

3.3.3 Cross-section Results

Table 2 presents cross-section results for each decade. The explanatory variables are population and socioeconomic factors measured at 1950, 1960, and 1970; the outcome variable is the number of incorporated municipalities at 1952, 1962, and 1972 respectively. We consequently match the population data with the municipal data that were most closely collected by the U.S. Census. The U.S. Census of Governments is conducted two years after the U.S. Census of Population and Housing². We estimate coefficients from Poisson quasi-maximum likelihood (QML). We rely on this estimator for two reasons. First, Poisson QMLE more properly accounts for the nonlinearity of the outcome variable. Second, this estimator is generally more robust than alternatives by assuming correct specification of the conditional mean only (Wooldridge 2010). We also report standard errors that are fully robust to arbitrary under or over-dispersion.

Table 2 illustrates the high number of municipal incorporations throughout the 30-year period subsequent to 1940. The number of incorporations is particularly high during the 1950s when over one thousand new municipalities were formed in the United States. The fifties were at the peak of the postwar suburbanization and, at the same time, of the Black migration from the rural South to cities across U.S. metropolitan areas. The effect of racial heterogeneity on the number of incorporated municipalities is thus larger and statistically significant at the 5 percent level during the 1950s. This effect is also positive during the other decades, yet the effect is smaller and loses statistical significance. This first picture, therefore, shows that racial turnover may have motivated the formation of new municipalities.

² The U.S. Census of Governments also conducts another census of government jurisdictions in years ending “7”.

We also observe that homeownership rates are always positive and statistically significant at the 1 percent level. This result is consistent with the idea that municipalities were formed on new suburban areas, where most new housing stock was being developed. In particular, this housing growth went hand in hand with record homeownership rates. Although multiple factors explain the rise of homeownership in the postwar period, suburbanization experts typically emphasize the role of some key governmental policies. In particular, Federal Housing Administration (FHA) programs and complementary state-level initiatives substantially facilitated homeownership by middle-class residents. At the same time, these programs seemingly exacerbated disparities in homeownership and, concomitantly, residential segregation according to racial lines. Researchers consequently argue that housing policies encouraged racial segregation in U.S. cities and metropolitan areas during the postwar period (Massey & Denton 1993).

Even though the focus of this study is racial turnover, we briefly discuss significant findings from other control variables. We do not find conclusive evidence about the effect of median income levels or the proportion of college education attainment, because their coefficients change sign depending on specification. On the other hand, the proportion of manufacturing employment appears to have a negative effect on the number of municipalities within counties. We suggest that this result may reflect the increasing location of manufacturing activity on fringe, unincorporated areas—an interpretation we further discuss below in the section presenting panel data results. In contrast, the proportion of retail-trade employment has a positive effect on the number of incorporated municipalities, even though this coefficient is statistically significant in the 1950s only.

The proportion of agricultural employment is negative and statistically significant in the 1960. This result is consistent with prior expectations because agriculture largely proxies for rural rather than urban populations. The natural logarithm of population has a positive, statistically significant effect on the number of incorporated municipalities. This result shows that, on average, larger populations eventually result in higher numbers of municipal jurisdictions. In contrast, population density has a negative effect on municipal fragmentation, even though its coefficient appears to be significant in the 1960s only. This result is consistent with the idea that denser places are better able to exploit economies of scale and less likely to break up into multiple jurisdictions. Finally, the ten-year lag of incorporated municipalities is always positive and statistically significant at the 1 percent level.

We also included two indicator variables (1 or 0) for legal constraints on municipal incorporation and annexation, following prior studies (Burns 1994; Alesina et al. 2004). First, we classified observations according to whether they belong to states where state (or county) authorities must approve incorporation proceedings. Second, we classified observations according to whether they belong to states where unincorporated residents must vote prior to being annexed to cities. The coefficients on these indicators are consistent with prior expectations. The number of incorporated municipalities is lower in states that place higher-level constraints on incorporation initiatives. On the other hand, the number of incorporated municipalities is higher in states where unincorporated residents must vote prior to being annexed to cities. In this latter situation, state laws implicitly discourage annexation and favor incorporation of new jurisdictions.

3.3.4 Longitudinal Results

The preceding discussion provides a big picture of causal forces of municipal fragmentation during the suburban boom. We can, nonetheless, extract more robust conclusions based on an extended time frame; we therefore estimate the same empirical model for the entire period of study. Table 3 presents pooled estimation coefficients from Poisson quasi-maximum likelihood and standard errors fully robust to arbitrary under or over-dispersion. By pooling the data from 1940 to 1970, we find that the statistical significance of racial heterogeneity increases to the 1 percent level. Both the larger sample and the introduction of time fixed-effects attenuate the standard error of the racial diversity coefficient. We also confirm the positive effect of homeownership rates on the number of incorporated municipalities, which remains statistically significant at the 1 percent level. Based on this complete panel, therefore, we observe that both racial turnover and homeownership growth are leading explanatory factors of municipal incorporations in the postwar period.

Our previous analyses used samples including all possible U.S. county areas. Nonetheless, processes of municipal formation should have substantively differed based on the size and structure of a regional area. We consequently split the dataset by metropolitan versus non-metropolitan counties to assess whether our previous findings are general or differ depending on these two types of county areas. Interestingly, we find that the effect of racial heterogeneity increases for metropolitan counties, yet it loses statistical significance for non-metropolitan counties. We similarly find that the effect of homeownership increases for metropolitan counties. We find these highly significant results for metropolitan counties even though the metropolitan sample is substantially smaller ($N=1,306$) than the non-metropolitan sample ($N=6,845$).

We therefore conclude that racial heterogeneity and homeownership rates became more crucial explanatory factors of municipal fragmentation in rapidly urbanizing places around metropolitan rings. These results are also consistent with the post-World War II patterns of racial segregation in the largest metropolitan areas of the United States (Massey & Denton 1993). We alternatively suggest that the formation of municipalities in non-metropolitan counties should have been driven by long-run processes of population growth as opposed to racial and neighborhood turnover in metropolitan areas. These findings also suggest that racial stratification became severe in large areas where resident sorting along ethnic and socioeconomic lines was feasible. This further raises the question of whether racially delineated municipal boundaries simply reflected divergent preferences for public goods or whether municipalities were created for explicit exclusionary purposes.

Even though the present study focuses on racial change, we also provide a concise discussion of other control variables. Although these are the same controls used in the cross-section analysis, it is useful to revise whether their coefficients are consistent with those from pooled estimation. The proportion of college education attainment is negative and statistically significant only when analyzing the non-metropolitan subsample. For metropolitan counties, pooled estimation suggests that this factor is not related to the number of incorporated municipalities. The proportion of manufacturing employment is always negative and statistically significant for non-metropolitan counties and the full sample, though it loses statistical significance in the subsample of metropolitan counties.

The proportion of retail-trade employment has a positive, statistically significant effect on municipal fragmentation in metropolitan counties. We suggest that this result may reflect the drastic decentralization of commercial activity into suburban jurisdictions in the postwar period.

The proportion of agricultural or mining employment has a negative effect on the number of incorporated municipalities. This finding is in line with cross-sectional results and should proxy for rural populations. The natural logarithm of population has a positive, statistically significant effect on the number of incorporated municipalities. This result is thus consistent with prior expectations. Conversely, population density has a negative, statistically significant effect on municipal fragmentation. As mentioned previously, urban density is linked to economies of scale in public goods provision because greater density implies that given municipal infrastructure may accommodate larger numbers of taxpaying residents.

The ten-year lag of incorporated municipalities is, of course, positive and statistically significant across different subsamples. The coefficients for legal constraints on boundary change from the pooled estimation are similar to those from the cross-sectional analysis. The number of incorporated municipalities is lower in states where state (or county) authorities must approve incorporation initiatives. In contrast, municipal fragmentation is higher in states where unincorporated residents must vote prior to being annexed to cities. Again, this latter finding illustrates how state law favors incorporation over annexation in jurisdictional organization. Overall, results from the cross-sectional and pooled analyses are generally consistent, while racial heterogeneity, our key factor of interest, has a distinct effect on municipal fragmentation in U.S. metropolitan areas during the postwar suburban boom.

To assess the substantive impact of racial diversity on the number of incorporated municipalities, we finally standardize the diversity index and compute average partial effects (not reported in tables). These partial effects, as we expected, vary depending on alternative models. We consequently focus on results from pooled estimation for metropolitan areas to illustrate such effects. On average, a 1-standard deviation in the racial diversity index results in

.33 additional incorporated municipalities. The effect for metropolitan counties is substantively large, particularly when compared to the negligible effect for non-metropolitan counties. For metropolitan counties, we find that this partial effect is consistently positive over a range of racial diversity observations. Nonetheless, this effect is substantively larger for the most racially heterogeneous counties in the sample or, in other words, the effect is minor for overwhelmingly (White) homogenous areas. In synthesis, racial diversity has a nonlinear, exponential effect on newly incorporated municipalities across metropolitan areas.

3.4 Concluding Discussion and Implications

The suburbanization of metropolitan areas has had a direct, lasting effect on the jurisdictional configuration of municipalities in the United States. Prior to World War II, Americans used to live in either central cities or rural communities in unincorporated counties. By 1970, a majority of Americans were living in new suburban areas. These newly developed areas, even though economically linked to central cities, were increasingly governed by new municipal jurisdictions. Urban growth prior to World War II was traditionally absorbed by central cities through annexation procedures; however, the postwar suburbanization resulted in the proliferation of municipalities. These new jurisdictions have differed dramatically from older cities in terms of their smaller size and, critically, their greater racial stratification.

We empirically document the role of racial heterogeneity and homeownership rates on municipal fragmentation in the post-World War II period by assembling a longitudinal dataset from 1940 to 1970. Clearly, the postwar suburbanization continues to be one of the most fertile historical episodes for urban researchers. Overcoming certain challenges to data collection, we provide an empirical test of suburbanization, racial turnover, and their effect on the formation of U.S. municipal jurisdictions. We analyze, in particular, the interrelations of these variables for

metropolitan areas. Our data show that racial heterogeneity and homeownership rates were key factors underpinning the configuration of municipalities in metropolitan areas. In contrast, the formation of cities in non-metropolitan counties seems to have been driven by long-run patterns of population growth.

We exploit the fact that over two thousand new municipalities were formed from 1940 through 1970—possibly the largest number of incorporations in the history of U.S. local government. By type of statistical area, over one thousand municipalities were incorporated in metropolitan counties and over one thousand in non-metropolitan areas. Note however that, because there are fewer metropolitan than non-metropolitan counties in the United States, this similar count of incorporations implies a much higher rate of incorporations in metropolitan counties. This finding is intuitive since the most critical postwar urban phenomena—the Black Migration, White Flight, and suburbanization—affected metropolitan areas. In non-metropolitan counties, municipalities were formed in territories where county governments were possibly the only existing governance structure at the time. In metropolitan areas, however, municipal incorporations were explicit initiatives to break away from central city influence.

Future research may analyze whether other components of ethnic heterogeneity, more generally, influence the configuration of city boundaries. Recent census databases may provide more detailed information (at the place level, for example) that could be used to study the configuration of city boundaries in relation to different ethnic groups. Researchers may thus be able to study whether ethnic sorting on a neighborhood basis is still reflected in contemporary city boundaries. With the help of the latest data, researchers may also be able to extend the analysis beyond race and incorporate additional variables that are not usually available in early postwar censuses. This in turn could allow us to make stronger conclusions about the effect of

ethnic and other determinants of heterogeneous preferences for public goods on the delineation of municipal boundaries.

CHAPTER 4

CITY BOUNDARIES AND ETHNIC DIVERSITY IN THE USA, 1980–2000

We empirically investigate municipal incorporations in the United States since 1980. We focus, theoretically and empirically, on unincorporated areas as the units of analysis in order to explain municipal boundary change in recent decades. We put ethnic diversity at center stage as a key explanatory factor for municipal boundary formation in unincorporated areas. Consequently, we show that ethnic heterogeneity may be linked to new incorporations and associated boundary arrangements. We focus on African Americans and Hispanics, the largest ethnic minorities in the contemporary United States. We empirically examine new incorporation events among census-designated places (CDPs), a unit of observation created by the U.S. Census of Population and Housing to track statistical information from unincorporated areas. We therefore demonstrate that municipal boundary configurations are better explained in the context of ethnic stratification in cities and metropolitan areas.

4.1 Introduction

Urban growth in unincorporated areas is one of the most complex policy problems in metropolitan regions of the United States. Located outside of traditional municipal service boundaries, unincorporated places are increasingly served by county authorities, alongside rural communities. Nonetheless, unincorporated areas have often become battle fields for city and county governments, as these areas may critically affect a government's socioeconomic base through boundary adjustment (Miller 1981; Feiock & Carr 2001). Central cities and counties frequently disagree regarding alternative initiatives of boundary change, such as annexation versus incorporation. Typically, cities bypass low-income unincorporated neighborhoods and, at

the same time, attempt to annex high-income ones into their jurisdictional boundaries. Unincorporated areas sometimes play a passive role in these political exchanges; nevertheless, they may act strategically by endorsing annexation or incorporation initiatives.

This paper investigates whether ethnic sorting explains the boundaries of newly incorporated municipalities. Building on Alesina, Baqir and Hoxby (2004), we postulate that government boundaries are shaped by a trade-off between benefits of scale and policy costs from heterogeneous populations. Fundamentally, unincorporated places at risk of boundary change contemplate three alternate scenarios: status quo (that is, permanence in the county), incorporation, or annexation to an older city (when it exists). These alternatives bring about uncertain outcomes for unincorporated areas. Thus, we explore the hypothesis that municipal incorporations may reflect strategic configurations toward ethnic homogeneity.

Alesina et al. (2004) argue that choice of political boundaries is shaped by a trade-off between economies of scale and heterogeneity costs in public goods provision. Focusing primarily on school districts, they explain that consolidation efforts have aimed to take advantage of scale benefits from larger districts. Nonetheless, these authors contend that various dimensions of preferences heterogeneity for public goods have restrained consolidation initiatives. In particular, Alesina et al. suggest that race, rather than religion, labor, and even income heterogeneity, provides robust explanatory power for cross-local opposition to school district consolidation. Thus, they pose the thesis that race, more than other types of stratification, predicts resistance to consolidation efforts.

We empirically assess the effect of ethnic diversity measures upon probabilities of municipal incorporation. We focus fundamentally on cities and leave other forms of boundary change (for example, special district formation) for other lines of research. The formation of new

municipalities deserves particular attention for at least two reasons. First, new cities are often deemed as sources of political fragmentation undermining regional integration efforts. Second, state laws have made it more difficult for central cities to annex unincorporated territories over time, while related laws seem to facilitate incorporation. Consequently, we also discuss how legal procedures have shaped boundary formation in unincorporated places.

Although our focus on unincorporated areas is novel, the present study builds on and complements earlier literatures on local government boundary change. For example, Miller (1982) studied the politics of municipal incorporation in postwar California, and he demonstrated the fiscal motivations of suburban incorporations in Los Angeles County. He observed the role of the so-called Lakewood Plan in service delivery contracting for newly incorporated cities. Burns (1994) analyzed the formation of American local governments by emphasizing the role of policy entrepreneurs and organized interests such as manufacturers and developers. She also suggested that these actors exploited racial divisions in order to gain support for incorporation initiatives. Carr and Feiock (2004; see also 2001) discussed alternatives to city-county consolidations, such as special districts, interlocal agreements, municipal annexation, and related topics. Their monograph is, to our knowledge, a recent survey of local government boundary change and thus provides a point of entry to this literature. As noted previously, Alesina et al. (2004) introduce a cost-benefit theory of political boundaries that emphasizes, fundamentally, costs on collective action imposed by heterogeneous populations.

This paper is organized as follows. Section 4.2 extends the theory explaining municipal incorporation in unincorporated areas. It develops the framework in the context of previous research, building particularly on Alesina et al. (2004). Section 4.3 presents the empirical study and the data. It describes the use of census-designated places to better examine empirically

recent incorporation events. Then, this section analyzes and discusses the study results. Section 4.4 outlines conclusions.

4.2 A Cost-Benefit Theory of City Boundaries

The preceding literature on local government boundary change has provided valuable insights toward an understanding of municipal jurisdictions and boundaries as governance institutions (Burns 1994; Carr & Feiock 2004; Alesina et al. 2004). Boundary and service delivery arrangements on unincorporated areas, however, have been understudied problems in spite of their critical policy implications. This literature may be substantively expanded by examining unincorporated areas as the key units of observation in processes of boundary redrawing. We suggest that the study of unincorporated areas is crucial because it is in these areas that many problems of growth and regional externalities have been emerging. At the level of theory, trade-offs over alternative governance structures for unincorporated areas need to be more explicitly analyzed in the context of their heterogeneous populations. We thus extend, in subsequent paragraphs, a cost-benefit theory that explains delineation of municipal jurisdictions based on trade-offs in boundary configurations.

4.2.1 Benefits of Size

Building on Alesina et al. (2004), we postulate that the formation of municipal boundaries is determined by a trade-off between the costs and benefits of size. In historical perspective, city boundaries have indeed reflected costs and benefits of municipal goods provision. Cities, for example, traditionally exploited economies of scale in service delivery by expanding their jurisdictional boundaries. Prior to the suburbanization of U.S. metropolitan areas, central cities played a dominant role, while forming neighborhoods at the fringe were typically annexed through straightforward annexation procedures. Throughout the twentieth century, however,

cities gradually lost their central role as public goods providers. Both population and institutional transformations have underpinned the demise of central cities in U.S. metropolitan regions.

First, development of suburbia implied that new neighborhoods were locating increasingly away from central cities (Jackson 1987). This development took place at the same time that technological changes were making less costly decentralized provision of public goods. Suburbs have, therefore, been able to arrange for municipal service delivery without the assistance of central cities. Modern transportation, including the diffusion of the automobile, spurred suburban growth and, at the same time, federal and state programs were boosting intergovernmental aid for local infrastructure. As a consequence, the potential benefits of pooling resources for municipal service delivery among central and suburban jurisdictions diminished.

Second, institutional reforms have augmented suburbs' capacity of municipal goods provision without central city assistance (Barron 2003). It is not coincidental that the idea of home rule, while originally championed by central cities, was quickly embraced by suburbs. Home rule thus became a broad agenda for the diffusion of local powers on different policy areas. Zoning clearly comes to mind as a key policy innovation of the twentieth century; nonetheless, other institutional reforms were also fundamental for expanding the scope of municipal authority. To achieve economies of scale, suburbs needed alternative systems of service delivery. Special purpose districts and interlocal service agreements have been some alternative institutions that have substantively allowed for economies of scale among otherwise fragmented municipal jurisdictions (Feiock 2004b; Carr & Feiock 2004).

To provide public goods, therefore, municipalities exploit economies of scale by pooling resources and overriding fixed costs in service delivery (Feiock & Carr 1997). Metropolitan districts, for example, may take advantage of benefits of size in providing regional services. Not

surprisingly, policy reformers typically emphasize the potential economies that could be achieved through consolidation of political jurisdictions. Nevertheless, some research of city-county consolidations suggests that purported fiscal savings are not always achieved (Carr & Feiock 1999, 2004). Still, the intuitive idea of scale returns in public goods supply pervades explanatory and normative theories of municipal boundary change.

Modern theories of urban systems explain cities and regions as polycentric socioeconomic entities (Fujita & Thisse 2002). Reformers, in contrast, regard municipal boundaries as idiosyncratic political structures introducing fragmentation in regional economies (Carruthers 2003). Specialists of urban policy, for example, decry the seemingly inefficient uses of land within suburban municipalities (Downs 1994). They likewise criticize zoning policies of suburban jurisdictions that seemingly induce scattered urban development. Additionally, these reformers point to the potential benefits of coordinated zoning policy. In such a perspective, consolidated jurisdictions are theoretically better equipped to internalize externalities in land uses (Dur & Staal 2008); consequently, consolidated municipalities or counties should more effectively carry out policies of regional scope minimizing inefficient uses of land.

4.2.2 Costs of Heterogeneity

Our explanatory trade-off implies that boundaries bear costs (Alesina et al. 2004). It is costly for populations to agree on common policy. Municipal policies can be contentious as they affect the property rights—broadly understood—of residents and communities. City boundaries, in particular, put together residents of various socioeconomic, ethnic, and other population characteristics. As a consequence, collective decision-making may result in policy levels or choices substantively different from those preferred by fractions of the population. At some

point, divergent preferences over policies should motivate initiatives of boundary redrawing as the history of municipal incorporations suggests.

Although the theoretical benefits of municipal boundary size are intuitive, the centrifugal effect of heterogeneity costs is influenced by various factors. When considering the service boundary of a newly incorporating municipality, for example, residents and public officials evaluate the potential benefit of adding outlying tracts into a jurisdiction. Thus, city limits should be theoretically delineated on neighborhoods where marginal service costs equalize benefits of scale (Brierly 2004). This analysis, to some extent, abstracts from alternative institutional arrangements that may provide local and regional service delivery, for example special purpose districts (Carr & Feiock 2004). Nevertheless, even though these alternative systems of governance may supplement municipal goods provision, they cannot replace key municipal functions—notably zoning—that are institutionally vested upon general purpose jurisdictions (Feiock et al. 2008).

Urban communities, though linked through regional economies, have consequently been able to delineate boundaries reflecting localized preferences for municipal public goods. On the other hand, municipal incorporation portrays an implicit collective choice of giving up economies of scale in favor of homogeneous policies (Alesina et al. 2004). This raises the question of what those sources of heterogeneity are in the population and how they translate into configurations of municipal boundaries. In the context of American cities, ethnic or racial heterogeneity has been typically associated with neighborhood turnover and, relatedly, delineation of city boundaries. We, consequently, analyze whether the increasing presence of Hispanics and African Americans in cities explains recently formed boundaries in the United States.

We focus on Hispanics and African Americans as they are the largest ethnic minority groups in the contemporary United States. The presence of these minorities in American cities has seemingly influenced the development of suburban jurisdictions of disproportionately White composition (Rothwell & Massey 2009). According to the cost-benefit theory, ethnic or racial heterogeneity may have motivated configurations of recently formed municipal boundaries. In particular, we might expect that new incorporations reflect collective choices where residents of similar ethnicity cluster into new, more homogeneous jurisdictions. Multiple studies indeed document ethnic or racial sorting in American neighborhoods (Massey & Denton 1993); here, we investigate whether these urban patterns further affect choice of political boundaries.

Why would communities opt for giving up benefits of scale in public goods provision in favor of smaller, more homogeneous jurisdictions? A first answer could be avoiding redistribution because municipalities, to some extent, redistribute resources through tax-and-service levels (Miller 1981). Since income stratification has been correlated to ethnic diversity in the United States, newly-incorporated municipalities might reflect a desire to minimize urban income redistribution. Studies of residential segregation, nevertheless, document that ethnic or racial sorting persists—even across ethnically diverse groups of otherwise similar income (Massey & Denton 1993; Charles 2009). This therefore implies that many residents are willing either to avoid interaction by sorting themselves into ethnically homogeneous jurisdictions or to enforce homogeneity via municipal boundaries.

In historical perspective, municipalities have certainly played an exclusionary role (Burns 1994). Up to the 1920s, for example, cities zoned on the basis of race—typically in order to keep African Americans (and, to some extent, other ethnic minorities) away from White neighborhoods (Fischel 2004). Racial zoning is legally no longer possible; however,

municipalities can still zone out many forms of land use that indirectly prevent ethnic or racial integration. For instance, cities may zone in favor of neighborhood amenities that are largely preferred by White residents while, at the same time, zone out industrial activities that might potentially attract minorities.

Ethnic and racial minorities may also profit politically from homogenous municipalities. Some authors argue that the popularity of municipal annexation has diminished over time in the United States, in part because of the unwillingness of African Americans to lose control over central city politics if incorporating White neighborhoods (Jackson 1987). In practice, then, both self-sorting and exclusionary policies should explain the ethnic underpinnings of city boundaries. This further implies that municipal jurisdictions help institutionalize given patterns of ethnic stratification in U.S. cities and metropolitan areas.

4.2.3 Causal Mechanisms within the Cost-Benefit Trade-off

Residents incorporate local governments for multiple reasons (Burns 1994; Feiock & Carr 2001; Carr 2004), certainly not for ethnic and racial exclusion only. In other words, residents look for a variety of benefits associated with the incorporation of a municipality. Examples include enhanced service delivery, neighborhood amenities, and municipal policies that positively affect the value of residents' property over time (Fischel 2001). Nonetheless, ethnic stratification should be a crucial consideration in the delineation of municipal *boundaries*. Ethnic or racial sorting may thus underpin selection of jurisdictional borders, that is, the size and configuration of city limits. If this reasoning is correct—as the historical record suggests, we then naturally inquire as to why residents delineate boundaries in order to enforce degrees of ethnic stratification.

We posit two working mechanisms of causality in ethno-political boundary configurations. First, citizens may look for homogeneous polities in order to agree on common municipal policies. This line of reasoning is closely related to the insight introduced originally by Tiebout on the mobility of households within metropolitan areas (1956). Tiebout celebrated municipal decentralization in order to accommodate diverse preferences of citizens as consumers of public goods. In such a perspective, city limits should reflect boundaries of homogeneity for packages of taxation and public goods. The Tiebout literature, however, has apparently emphasized socioeconomic stratification and, concomitantly, municipal secession as a mechanism to avoid fiscal redistribution.

A cost-benefit theory of municipal boundaries therefore builds on research in the tradition of the Tiebout model (1956). Tiebout's insight was that households shop around a metropolitan area based on their preferences for housing and related amenities. The early version of the Tiebout model put citizens-as-consumers at center stage and relied on mobility only as the causal mechanism in neighborhood sorting (Fischel & Oates 2006). More recent extensions have added 'politics' in the sense of incorporating voting as another mechanism for determination of public goods packages. Still, ethnic sources of heterogeneity seem to be understudied in the Tiebout literature. The present study may consequently be seen as an ethnic substantiation of Tiebout predictions regarding choices of municipal public goods and boundaries.

The Tiebout mechanism explains neighborhood choice and, subsequently, municipal configurations primarily through self-sorting (Fischel & Oates 2006). It stresses choices of taxpaying residents who, more or less, cluster together based on homogeneous tastes for municipal goods. In some ways, Tiebout sorting is therefore also associated with club-theoretic explanations of collective decision-making (Sandler & Tschirhart 1997). Homogenous

households may rely on club-like goods provision through decentralized municipal jurisdictions. The club analogy is, we suspect, more obvious in small, high-income municipalities, where selection of neighborhood amenities is possible. In such settings, the property tax may be likened to a fee-for-service rather than a redistributive instrument of political jurisdictions (Fischel 2000).

As for a second causal mechanism, residents may value homogeneous neighborhood interaction itself. This alternative explanation of ethno-political boundaries implies a more fundamental social source of stratification (Van Kempen & Özüekren 1998). Residents may be willing to self-sort or exclude others simply to avoid interaction with ethnic others. This line of reasoning is more sociological in the sense of focusing on the dis-utility that residents derive from interacting with ethnic others. On the other hand, this explanation goes beyond municipal arrangements for public goods; it suggests that citizens value ethnic homogeneity itself. Even as ethnic others eventually rise through socioeconomic strata, people still cluster together based on ethnic lines. As a result, municipal jurisdictions should help enforce—through subtle yet exclusionary policies—ethnic and racial homogeneity (Burns 1994).

The persistence of residential segregation in U.S. metropolitan areas, despite integrationist policies, seems to be consistent with this latter mechanism. Related studies have found that, in particular, African Americans are hyper-segregated even if they eventually rise through socioeconomic strata (Massey & Denton 1993). Intra-group mechanisms appear to hold African Americans together at the neighborhood level, while substantive misconceptions also persist among Whites in relation to African Americans (Cutler et al. 1999). The related literature also shows that African Americans comprise the most disadvantaged group; Hispanics eventually overcome stratification barriers. As an interesting example, many Black Puerto

Ricans appear to endure segregation because of being Black rather than Hispanic (Massey & Denton 1993).

In synthesis, municipal incorporation is an exercise of self-determination that may be influenced by ethnic considerations. On the other hand, newly incorporating places typically surmount substantial economic and political obstacles in order to achieve municipal status. Economically, boundary formation efforts are costly because they require large start-up costs in implementing new administrative complexes. Politically, these initiatives require the building of minimum voting coalitions among heterogeneous populations. It is there that the trade-off between scale economies and heterogeneity costs, as outlined at the outset, should be relevant to motivate unincorporated populations to endorse incorporation initiatives (Alesina et al. 2004). When the benefits of self-government override heterogeneity costs, episodes of boundary formation are likely to appear in the political market.

4.2.4 A Note about Legal Constraints on Boundary Change

The cost-benefit trade-off implies a collective action problem in the formation of municipal boundaries (Feiock 2004b). City limits are not distribution neutral; rather, they allocate exclusionary rights and duties across boundary lines. Bottom-up initiatives of boundary change may open the door to special interest biases (Miller 1981). Processes of boundary change often become zero-sum games where organized interests prevail over other groups. This has been more evident in states where lax annexation or incorporation laws have permitted fragmented patterns of municipal boundaries. Islands of unincorporated areas are often one problem derived from failure of state policy oriented toward orderly boundary configurations. Laws on boundary change, therefore, crucially mediate the cost-benefit tradeoff underpinning municipal boundaries.

We emphasize the costs implied by heterogeneous populations—ethnic or racial for the purposes of the present study—toward the determination of city boundaries. In the United States, however, the possibilities of boundary formation are critically mediated by state laws (Feiock & Carr 2001). Thus, the fifty U.S. states have different legal procedures for initiatives of boundary change. This means that it is substantively easier (or harder) to change city boundaries in some states. At one extreme, for example, the state of Hawaii does not permit the formation of municipal jurisdictions. At the other extreme, the state of Texas provides straightforward procedures for boundary change (Krane et al. 2001). In short, U.S. states have different laws for boundary determination.

A comprehensive discussion of the body of state laws regarding municipal corporations is beyond the scope of this paper. We, however, provide a synthetic overview here, not only because these laws practically constrain boundary change, but also because they may have been strategically reformed with an eye on ethnic or racial considerations. As result of the migration of African Americas to cities during the postwar, states lawmakers may have deliberately reformed annexation laws to constrain central city expansion and, in turn, limit racial integration. At the same time, states have seemingly eased incorporation procedures, thereby facilitating municipal fragmentation (Krane et al. 2001). Although laws differ across the states, the trend has generally been to favor incorporation rather than annexation powers of cities.

Local autonomy—home rule—is at the core of U.S. federalism since ‘progressive’ reformers developed the idea at the turn of the twentieth century (Feiock 2004a; Barron 2003). Home rule is a fundamental aspect of U.S. federalism, yet devolution of authority has been traditionally contested between state and local governments. In its attempt to purge ‘politics’ from city government, the progressive movement was however successful in advancing the idea

of local autonomy. For example, many states greatly expanded municipal incorporation powers. Although home rule affects various aspects of local governance, it is most critical in the area of boundary change—the key collective action processes that ultimately determines the role of municipalities in American federalism (Feiock & Carr 2001; Krane et al. 2001). State delegation of powers to local governments particularly influences actors' incentives associated with boundary change efforts.

Home rule relates to sets of formal powers determining how local governments deal with internal concerns (Feiock 2001; Krane et al. 2001). Those powers further affect local government interactions with other authorities at the different levels of American government. Home rule includes specific procedures for annexation, consolidation, and incorporation constraining the matrix of alternatives available to residents. Other home rule provisions have related to powers of taxation, service delivery, and rights to land use. Historically, debate on local government autonomy has centered attention on rights to boundary adjustment as well as the scope of land use controls. In American federalism, policy reform has obviously focused on the institutional framework established by state constitutional and statutory provisions on home rule. In practice, states have established distinct approaches to local rights on boundary and land use choice.

Regarding municipal jurisdiction, more specifically, states define constitutional and statutory procedures that have ultimately shaped contemporary arrangements of city boundaries. As noted above, these state laws range from lax to hard constraints on initiatives of boundary change. Thus, the formation or adjustment of city boundaries has been influenced by legal institutions inherited from state governmental history. Home rule provisions, established at key political junctures, have shaped the contemporary configuration of municipalities and unincorporated areas (Barron 2003). Therefore, any explanation of municipal boundaries needs

to consider these legal institutions of American federalism (Feiock 2001). Although the political organization of metropolitan areas owes to a complex interaction of historical forces, state laws on boundary change are especially relevant to explain perceived problems of fragmentation and the empirical record of municipal incorporations in the United States.

4.3 Empirical Study

4.3.1 Longitudinal Setup and Data

To formalize the preceding discussion, we test the *hypotheses that 1) the probability of municipal incorporation will be lower from more racially heterogeneous CDPs, and 2) the probability of municipal incorporation will be lower from more ethnically (Hispanic) heterogeneous CDPs*. To empirically assess the effect of ethnic or racial diversity on probabilities of municipal incorporation, we examine statistical information on unincorporated areas collected by the U.S. Census of Population and Housing of 1980 and 2000, as well as complementary datasets from the U.S. Boundary and Annexation Survey throughout this period. In particular, we exploit and investigate place-level data from the aforementioned decennial censuses. Due to population growth in unincorporated areas, the U.S. Census has designed statistical units for those areas that may then be comparable to data on incorporated municipalities. Over recent decades, the U.S. Census has thus been reporting information on census-designated places (CDPs), the intended statistical counterparts of incorporated municipalities.

We are aware of no previous research on municipal incorporations that uses data from census-designated places. Earlier studies largely relied on county-area measures to investigate boundary change events. County-level research was necessarily the default methodological approach due to the lack of dis-aggregated information on municipalities and, notably,

unincorporated areas from past censuses. CDPs are therefore crucial empirical units of observation to track incorporation events on a longitudinal fashion. Fundamentally, research utilizing these new data overcomes the loss of information and quality of inference that plagued county-level studies. Admittedly, census-designated places proxy for unincorporated areas at risk of incorporation. On balance, nevertheless, CDP-level research substantively improves upon county-level research by isolating episodes of incorporation based on a more precise unit of analysis.

The primary empirical contribution of this study is therefore the introduction of disaggregated data on unincorporated places and new municipalities—data we have assembled and make readily available for replication or extension efforts by colleagues. The research strategy introduced here, consequently, extends earlier research by using a more precise unit of observation—CDP—to observe more directly causal dynamics. The present study also shows the possibilities that now become available for further lines of research on urban and metropolitan areas.

As introduced previously, we analyze place-level datasets from editions 1980 and 2000 of the U.S. Census of Population and Housing. Our empirical strategy is, to some extent, dictated by the availability of quality place-level data since 1980. To identify new incorporation events since that year, we also extract information on newly incorporated municipalities from the annual Boundary and Annexation Survey of the U.S. Census. While the Census of Population gathers comprehensive cross-sectional data on American jurisdictions each decade, the Boundary and Annexation Survey more specifically tracks down incorporation events every year. Consequently, matching data from both census databases allows us to isolate newer episodes of municipal incorporation.

Furthermore, we examine municipal incorporations by using both cross-sectional and panel data methodology. Longitudinal analysis of municipal jurisdictions has been previously precluded due to changes in their boundaries from one decennial census to another. The boundaries of all statistical units below the county level (places, tracts, etc.) have typically changed across census decades. This naturally compelled earlier research, as acknowledged above, to employ county or state-aggregated data. To overcome this limitation, we employ normalized data from the U.S. Census of Population and Housing of 1980 in terms of 2000 boundaries. The final database from such normalization procedures is the “Census CD 1980 in 2000 Boundaries” developed by GeoLytics, Inc. In essence, we use the boundaries of unincorporated areas and municipalities from the U.S. Census of Population of 2000 in order to trace such places back to 1980. Finally and as noted above, we use dates of municipal incorporations reported through the Boundary and Annexation Survey in order to code newly incorporated municipalities throughout the period of study.

4.3.2 Measurement and Estimation Methods

To contribute to knowledge accumulation and comparability, we lay out an empirical model that follows closely that of Alesina et al. (2004). These authors empirically investigate the number and size of U.S. local government jurisdictions based on a set of population and socioeconomic factors extracted from historical censuses. We consequently assume the following model, expressed as a linear projection for clarity, to estimate the probability of municipal incorporation from U.S. unincorporated places,

$$P(y_{it} = 1 | \mathbf{x}_{it}) = \alpha_i + \gamma_t + X'_{it}\phi + \beta_h h_{it} + \beta_r r_{it} + \varepsilon_{it} \quad (1)$$

Here, α_i represent individual fixed-effects, γ_t represents time fixed-effects, and X'_{it} represent a vector of population and socioeconomic controls. The subscripts i and t denote cross-

section and time observations respectively. The key coefficients of interest are β_h and β_r , which represent the effect of Hispanic and racial heterogeneity, respectively. In order to compute measures of ethnic diversity, Alesina and coauthors use *Herfindahl* indices that we also replicate here. Intuitively, these indexes yield the probability that two residents, when randomly sampled from the population, will belong to different ethnicities or races. Formally, we estimate these indexes as,

$$r = 1 - \sum_j \left(\frac{\text{race population}_j}{\text{total population}} \right)^2 \quad (2)$$

$$h = 1 - \left(\frac{\text{hispanic population}}{\text{total population}} \right)^2 - \left(\frac{\text{nonhispanic population}}{\text{total population}} \right)^2 \quad (3)$$

Other control variables are measures for population, preferences for public goods levels, and legal constraints on boundary change. The population measures are population size and population density of places. We operationalize measures for public goods preferences through median family income, education, and age of residents. Additional controls relate to proportions of industry employment that may be correlated to the formation of municipalities, such as manufacturing, construction, and others presented in tables. Finally, we proxy for legal constraints on boundary change, following prior studies (Burns 1994; Alesina et al. 2004), through indicator (dummy) variables (1 or 0) for the presence or absence of key law provisions. Except for these latter indicators, all variables are time variant based on each decennial census. Table 4 presents summary statistics on the aforementioned data.

4.3.3 Cross-section Results

We first present and discuss cross-sectional results based on data from the U.S. Census of Population and Housing of 2000. This first set of results is obtained from a linear probability model, logit, and penalized logit methods. A linear probability model applies ordinary least

squares (OLS) to the dataset. A linear probability model provides a first benchmark in order to compare results against alternative methods introduced subsequently. The dependent variable—probability of incorporation—comes from a binary response; therefore, some researchers may not regard OLS as the ideal approach to fit this kind of data. Still, a linear probability model provides consistent estimates, on average, that do not depend on the stronger distributional assumptions of maximum likelihood estimation (MLE) typically used for binary response models (for a robust defense of OLS, even for nonlinear models, see Angrist & Pischke 2008). For valid statistical inference, we compute standard errors that are fully robust to arbitrary heteroskedasticity (Wooldridge 2010).

The second column of table 5 presents results from MLE logit. Commonly, logit is the method of choice in regression analysis of binary responses; therefore, we use it as a second approach to analyze the dataset. The third column of table 5 presents findings from penalized MLE logit in the spirit of David Firth (1993). The advantage of this latter method is that it may reduce possible finite sample bias associated with traditional logit. Since municipal incorporations are rather rare events, penalized logit estimation serves here as a robustness check. Regardless of estimation approach, nevertheless, all three aforementioned methods yield similar results as we discuss subsequently.

The first coefficient of interest relates to the index of racial heterogeneity. The big picture shows that, on average, racial heterogeneity in unincorporated places has a negative effect on the likelihood of municipal incorporation. In other words, new incorporations since 1980 have mostly comprised racially homogeneous populations. All three methods of estimation imply that heterogeneity of races reduces the probability of incorporation. This finding appears to be robust to the use of three different estimation methods—LPM, logit, and penalized logit—even though

the coefficient somewhat loses statistical significance when we use logit (from 1 to the 10 percent level). It is thus useful to compare results based on the aforementioned alternative methods in order to assure ourselves that the findings do not depend specifically on distributional assumptions.

The second coefficient of interest relates to the index of Hispanic/non-Hispanic heterogeneity. In contrast to racial heterogeneity, the coefficient for Hispanic heterogeneity is positive and statistically significant at the 1 percent level. This implies that, on average, a higher proportion of Hispanics appears to have a positive effect on the probability of municipal incorporation. In short, increasing rates of Hispanics seem to have an *opposite* effect to that of racial (Black) heterogeneity. This result may be explained by the higher presence of Hispanics in newly incorporated municipalities. Comparatively, African Americans appear to be overrepresented in unincorporated places that have not been incorporated since 1980. These findings may be consistent with recent studies on residential segregation, which show that African Americans are much more segregated among urban places (Rothwell & Massey 2009).

Interestingly, income level seems to be negatively related to the probability of incorporation. We suggest that this finding may be due to the presence of affluent populations in some unincorporated areas. Some studies indicate that high-income homeowner associations are typically located in unincorporated areas (McCabe 2006). We suspect that this may explain in part the negative effect of income on the likelihood of incorporation, even though we cannot assure it conclusively based on our data only. On the other hand, the median age of residents appears to be positively related to the probability of incorporation. This result implies the presence of younger populations, on average, among unincorporated places as opposed to new municipalities.

High-school education attainment appears to be negatively related to the likelihood of municipal incorporation. We will show, however, that this coefficient changes direction when using panel data; therefore, we postpone further discussion of this factor. College education attainment has a positive effect on the probability of incorporation, particularly when we employ logit and penalized logit approaches. This result suggests that new municipalities comprise populations of higher-educational attainment. Similarly, homeownership rate has a positive effect on the probability of incorporation. Its coefficient, however, is statistically significant only when using a linear probability model. These interrelated findings imply that, on average, new incorporations are likely to occur from urban places of higher homeownership rates.

Even though the focus of the present study is ethnic diversity, we briefly discuss results on other control variables incorporated into every analysis. Our empirical models control for a set of potentially relevant explanatory factors related to economic activity. The proportion of the population employed in construction appears to have a positive effect on the incorporation of municipalities. Similarly, the proportion of the population employed in manufacturing appears to have a positive effect on the likelihood of incorporation, even though this coefficient has an opposite sign when using panel data. Additionally, we included controls for population size and density. Population size appears to have a negative effect, thereby suggesting municipal incorporations among small urban places. Interestingly, density has a negative effect on the probability of incorporation. This suggests that newly incorporated municipalities tend to occur from low-density unincorporated areas.

Finally, we included indicator (dummy) variables for relevant legal constraints on boundary change. First, we classified observations according to whether state (or county) authorities must approve incorporation initiatives. According to this first set of cross-sectional

results, however, this indicator does not appear to be statistically significant. Second, we classified observations according to whether unincorporated residents must vote prior to being annexed to cities. Interestingly, the coefficient for this indicator is negative and statistically significant, particularly when using a linear probability model. This result suggests that incorporations are less likely when unincorporated residents can prevent forcible annexation via referenda. In other words, this is consistent with the idea that, under annexation threats, residents are likely to rely on defensive incorporation.

4.3.4 Longitudinal Results

The preceding cross-sectional results provide a big picture of the influence of ethnic diversity and other explanatory factors on municipal incorporations. In this section, we exploit changes in longitudinal data on unincorporated places from 1980 to 2000. Here, we primarily rely on linear fixed-effects models. Our choice is grounded on both practical and robustness reasons (Angrist & Pischke 2008). Practically, we are precluded from employing maximum likelihood methods for panel data because they would require variation on the dependent variable in both the 1980 and 2000 panels (we only observe new incorporations through the 2000 panel). On robustness grounds, linear fixed-effects estimation allows us to immediately control for time-constant unobserved heterogeneity. Results from linear fixed-effects should thus be more robust as opposed to *any* cross-sectional method of estimation.

When controlling for fixed effects, all time-constant variables automatically drop out from the analysis. For our purposes, this means that the fixed-effects methodology purges our indicators for legal constraints on boundary change as well. This does not mean, however, that these factors are not accounted for in the analysis. It means that fixed-effects estimation effectively controls for *all* time-constant factors, including legal constraints. Consequently,

fixed-effects analysis is a much more robust control, as opposed to dummy variables that just imperfectly proxy for laws in cross-sectional analyses. To further check for the robustness of fixed-effects estimation, however, we split the dataset into subsamples of observations from states of lax versus hard incorporation laws. Results based on these subsamples are reported in columns one and two of table 6, while the last column reports results for the full sample.

The fixed-effects methodology confirms a negative effect of racial heterogeneity on the likelihood of municipal incorporation. In all three subsamples—lax incorporation states, hard incorporation states and the full sample, racial heterogeneity has a negative, statistically significant effect at the 1 percent level. These panel data results, therefore, reinforce the conclusions derived from the preceding cross-sectional analyses. New municipalities are more racially homogenous as opposed to unincorporated places. This finding implies that African Americans have been substantially underrepresented in newly incorporated municipalities since 1980. Thus, panel data confirms that recently formed municipal boundaries still reproduce racial stratification in the United States.

Interestingly, the effect of Hispanic-ethnic heterogeneity is no longer significant when controlling for place fixed-effects. The apparent statistical significance of Hispanic heterogeneity in the cross-sectional analysis was merely coincidental. Because fixed-effects estimation uses changes within each unit of observation rather than cross-sectional variance only, an increase or decrease of Hispanic population in unincorporated places does not predict events of municipal incorporation. This result seems to be consistent with findings from residential segregation studies. This literature shows that Hispanics are typically less segregated relative to African Americans (Massey & Denton 1993). Instances of Hispanic segregation seem to reflect segregation by income, which tends to disappear as Hispanics attain higher levels of income.

Conversely, racial segregation persists even as African Americans eventually rise through socioeconomic strata.

Although the present study focuses on components of ethnic diversity, we briefly discuss findings related to other control variables. The proportion of high-school attainment appears to have a positive, statistically significant effect on the probability of incorporation. This result may reflect the presence of large populations without high-school education in some unincorporated areas. Related studies show that this problem is largely associated with some immigrant groups, who also tend to locate in specific ‘points of entry.’ Many immigrant groups, for example, have been identified in unincorporated places (Waldinger 1989). This may also explain the role of high-school attainment in newly incorporated municipalities. The proportion of college education attainment is likewise positively related to the probability of incorporation, even though its effect is only statistically significant in the full U.S. sample.

Homeownership rate has a positive, statistically significant effect on the likelihood of municipal incorporation. This finding is consistent with cross-sectional results; this effect becomes stronger when we apply panel fixed-effects. Furthermore, homeownership rates seem to be lower in unincorporated places. The proportion of agricultural or mining employment has a negative, statistically significant effect in either subsample analysis. We suggest that this reflects the presence of rural remainders in some unincorporated areas. Manufacturing appears to have a negative, statistically significant effect on the probability of incorporation, except when looking at the lax incorporation subsample. We also interpret this as a result of the presence of manufacturing activity on the unincorporated fringe. Finally, retail-trade employment has a positive effect on municipal incorporation, even though such an effect is statistically significant only when looking at the subsample of lax incorporation states.

The natural logarithm of population has a positive, statistically significant effect on the likelihood of incorporation. This result is consistent with prior expectation, as municipal jurisdictions should reflect population growth in addition to heterogeneous preferences for public goods. Interestingly, the density of an urban place has a negative, statistically significant effect on its probability of incorporation. This result suggests that new incorporations are occurring in rather sprawled or low-density areas. In contrast, there seems to be a substantial proportion of unincorporated areas that are, on average, more densely populated than new municipalities.

To assess the substantive impact of racial diversity on the probability of incorporation, we finally standardize the diversity index and compute average partial effects (not reported in tables). These partial effects, as we expected, vary depending on alternative methods. For example, when we use a linear probability model, a 1-standard deviation reduction in diversity raises the probability of incorporation by .03. When we use a logit model, a 1-standard deviation reduction in racial diversity similarly raises the probability of incorporation by .02. Interestingly, when we use panel fixed-effects, a 1-standard deviation reduction in diversity raises the probability of incorporation by .12—a substantively larger effect compared to partial effects from cross-sectional models. As noted previously, this difference among alternative partial effects demonstrates the utility of controlling for time-constant factors, which otherwise bias cross-sectional estimates. In other words, panel estimators, by isolating time-variant effects, confirm that racial homogeneity is a substantive predictor of municipal incorporations, in addition to being a statistically significant one. We conclude by suggesting that these results support the thesis that municipal jurisdictions reproduce institutional boundaries for racially homogeneous communities.

4.4 Concluding Discussion and Implications

When organizing municipal boundaries, there is a fundamental trade-off between costs and benefits of size (Alesina et al. 2004). In essence, a large municipality exploits economies of scale in public goods provision by incorporating taxpaying residents within their boundary. On the other hand, a large municipality bears costs of collective choice stemming from a heterogeneous population. A city boundary should be theoretically delineated in places where costs equalize benefits of size. In practice, this trade-off is mediated by legal constraints on boundary change. Although the cost-benefit tradeoff may help explain various forms of political boundaries (Alesina et al. 2004), this theory is particularly useful to understand the organization of municipalities in the United States. Under home rule provisions, U.S. cities enjoy boundary determination powers that are comparatively much stronger than those of cities in other nations.

The present study highlights ethnicity and race as crucial sources of heterogeneity in U.S. cities and metropolitan areas. This focus is grounded on the theoretical literature as well as on the history of urban conflict in the United States (Burns 1994). In particular, interactions between Whites and African Americans have evolved through different stages where cities have been traditional theaters of social conflict. Hispanics have more recently become a sizable ethnic group influencing urban dynamics in the United States. We find that the traditional racial division among Whites and African Americans continues to shape newly formed municipalities. We find less evidence, however, for the role of Hispanic-ethnic heterogeneity in the formation of city boundaries. These findings appear to be consistent with residential stratification studies, which have documented the more pronounced spatial segregation of African Americans, as opposed to that of other ethnicities, in U.S. metropolitan areas.

We also make an original contribution to the related literatures by analyzing boundary formation from U.S. unincorporated places since 1980. We are aware of no previous research that uses dis-aggregated, CDP data to study municipal incorporations. Furthermore, we put together longitudinal data to explore the inter-temporal dynamics underpinning processes of municipal boundary formation. The present study therefore illustrates the research possibilities offered by using data from census-designated places for the study of other urban policy problems related to unincorporated areas. In particular, we suggest that increased attention should be paid to institutional and policy problems associated with the growth of unincorporated populations. We also point out that new, small-scale municipalities appear to recreate institutional arrangements for communities that can afford incorporation processes—often resulting in ethnically stratified communities, while unincorporated areas remain unevenly served by county authorities in metropolitan regions of the United States. Further research is needed in relation to these important policy and institutional aspects of U.S. local government.

CHAPTER 5

HOMEOWNER ASSOCIATIONS AS ALTERNATIVE MODES OF GOVERNANCE: AN INSTITUTIONAL PERSPECTIVE

Homeowner associations (HOAs) are alternative governance structures that increasingly provide for local public goods and service delivery. This essay presents an institutional perspective to explain why and how HOAs solve collective action dilemmas in neighborhood organization. It begins with an analysis of homeowner associations as providers of public and club goods. Homeowner associations are a hybrid form of local governance structure that integrates elements of public governments and private clubs. The essay also analyzes the formation of homeowner associations from the perspective of heterogeneous resident preferences in metropolitan regions. It discusses the governance challenges resulting from the partition of service delivery into governmental and corporate arrangements. Because HOAs as alternative institutions aim to mitigate collective action dilemmas, the configuration of state laws—through servitudes doctrine—critically shapes the scope and efficiency of HOA governance. This essay further examines the interrelations of government jurisdictions with HOAs. It analyzes whether the emergence of homeowner associations brings about a replacement effect on traditional local government jurisdictions. The paper finally discusses the role of property rights in community governance in the United States.

5.1 Introduction

The emergence of homeowner associations (HOAs) is one of the most revolutionary transformations in U.S. local government (McCabe 2011). According to the now defunct Advisory Commission on Intergovernmental Relations (ACIR), HOAs account for the most

radical experiment in the privatization of public services that were traditionally provided by local governments (1989). State by state, specialists of local government have documented the gradual yet rapid change in service delivery arrangements through homeowner associations. On the other hand, the literature on local governments has yet to explicate theoretically the factors underpinning the formation of HOAs as alternative local governance structures. This essay develops a new, institutional framework for explaining the foundations and consequences of governing through homeowner associations.

The proliferation of homeowner associations (HOAs) or, more generally, common interest communities (CIC) accounts for one of the most profound revolutions in urban governance. This rapid growth has occurred in a relatively short historical period, particularly the last three decades (McKenzie 1994). Originally considered exotic modes of governance, homeowner associations have become pivotal organizations in cities and unincorporated areas, and especially so in new communities around the fringes of metropolitan areas. Interestingly, these community organizations are more prevalent in certain regions; for example, they are much more widespread in U.S. Sunbelt states such as California and Florida.

Homeowner associations, though popular among new residential consumers, have been criticized on the grounds of promoting exclusion (Strahilevitz 2005). The most visible forms of exclusion have been through gates, walls, waterways and other systems of land demarcation intended to establish boundaries to separate HOA neighborhoods from the rest of the community. In this light, students of urban sociology and geography have been recently investigating the effects of such 'gated communities' on social life (Blakely & Snyder 1997). We contend that the time is ripe for the literature on U.S. local government to undertake a research program aimed at explaining the origins and dynamics of this new form of community governance. Nevertheless,

we realize that the study of homeowner associations is not without obstacles, both theoretically and empirically.

Students of local government have just started to give serious attention to the far-reaching impacts of this massive privatization of local government, and we still know little about these new institutional actors of U.S. local government. This essay lays out an integrative conceptual framework for explaining the emergence and evolution of homeowner associations in recent U.S. history. Fundamentally, we bring an institutional perspective to interpret private government and discuss its different political, economic, and administrative dimensions. Our analysis of homeowner associations as residential governments builds upon the emerging literature on the subject matter and points out some new directions for a research agenda.

We build on and extend the literature on homeowner associations, common interest communities, and their role in metropolitan governance. We identify at least three strands of literature related to this essay. First, a recent literature in urban policy/public administration focuses on homeowner associations as alternative service providers (McCabe 2011). This scholarship raises interesting questions regarding tradeoffs involved in the shifting of public service delivery to private HOAs. Second, a literature in law and economics analyzes common interest communities by emphasizing the contracting institutions supporting their evolution (Fennell 2004). Thus, the doctrine of servitudes is one of the major topics in this strand. Third and finally, there is a growing literature in urban studies that is concerned with various social and economic consequences of homeowner associations. Typically, this research focuses on housing markets and other socioeconomic outcomes related to the development of private neighborhoods in metropolitan areas (Cheung 2008).

This essay is organized as follows. Section 5.2 introduces socioeconomic factors underpinning the emergence and growth of homeowner associations. It discusses the economics of club and neighborhood goods, and how HOAs represent a market response to a demand for such goods. In addition, we analyze how HOAs tailor service packages to supply distinct market niches. We use these economic factors to explain how HOAs and complementary government jurisdictions, for example special districts, determine service delivery mechanisms. Section 5.3 examines institutional supply aspects. In this section, we contrast HOAs against traditional municipalities and examine whether there is a substitution effect among these alternative forms of governance. Finally, we discuss how property rights institutions have evolved to solve collective action dilemmas in neighborhood governance. Section 5.4 outlines conclusions.

5.2 Socio-economic Foundations

5.2.1 Housing Markets for Neighborhood Organizations

HOAs are essentially a market response to a demand for housing and complementary neighborhood goods (Nelson 2005). Thus, homeowner associations supply the housing market with an attractive alternative to traditional housing options. The primary benefit stemming from HOA service delivery relates to their ability to internalize both the costs and benefits of neighborhood goods. The traditional role of municipalities, as well as county authorities in unincorporated areas, has been to raise property taxation in order to supply bundles of local services. Local governments accomplish this economic purpose by drawing boundaries that have geographic and political meaning. In this light, municipalities produce policies to preserve the economic value of land and provide neighborhood-enhancing goods.

To understand the economic rationale of HOAs, we need to examine whether municipalities effectively accomplish one of their roles, which is, theoretically, protecting

property values (Fischel 2001). Cities and, in some areas, county governments rely on zoning and associated land use policies in order to control real estate development. According to the political economy of collective choice, municipalities should establish land use regulations that closely match the preferences of the median voting resident (Fischel 2001). In most municipal jurisdictions, a middle-class homeowner typically represents this median voter. Municipal zoning is consequently intended to preserve property assets of homeowners—the crucial stakeholders in urban policy and government.

By regulating the rate and kind of real estate development, zoning policy maintains neighborhood homogeneity on different dimensions (Eberts & Gronberg 1981). The first and most obvious dimension is income homogeneity, which is typically correlated with homogeneity in landownership and related amenities. Homogenous household income allows for uniform taxpayer contributions to municipal finances as well as the finances of other relevant local governments such as school districts. By enforcing homogeneity, municipalities are also able to stem redistribution among households and neighborhoods. Therefore, zoning allows for more uniform taxation and consumption of local public goods. The opposite situation would occur when low income residents are able to take advantage of local amenities without paying proportionate shares of taxation.

For several reasons, small municipalities are not always able to accomplish this theoretical role. Ideally, policies of land use, including property taxation and zoning, should allow for neighborhood stability and uniform consumption of neighborhood goods. Local government autonomy allows residential communities to use policy tools in order to match revenue and service bundles. Nonetheless, states critically constrain the repertoire of policy tools available to local governments (Krane et al. 2001). First, states affect land policy by supporting

regional plans. Also, state lawmakers, including courts, influence land policy by arbitrating disputes on rights to land use. Second, states constrain local policy by imposing limits on public finances. For example, most states have established property tax limitations affecting local public service delivery. Finally, states influence the provision of neighborhood goods by funding or mandating local policy outcomes such as achievement standards in public schools or environmental standards in cities.

Due to these constraints, city or county jurisdictions may not effectively accomplish the aforementioned theoretical purpose—stability of property values. In addition, incorporating a municipality is often too costly, politically and economically, for unincorporated communities. Therefore, homeowner associations may become an alternative, *ex ante* institutional arrangement for the administration of community policy. Residential government has thus various advantages in relation to traditional local government (Nelson 2005). Incorporating a nonprofit entity, the most common legal form of homeowner association, is clearly a more expeditious process as opposed to incorporating a local government. A nonprofit organization, often through principles of corporate governance, also minimizes the administrative costs associated with local government.

Similarly, homeowner associations can be regarded as economic entities providing neighborhood goods and policies. Historically, urban communities have relied on either municipal or county authority in order to meet those economic goals. Nonetheless, residential government has rapidly become a popular governance structure in growing metropolitan regions (McKenzie 1994). Interestingly enough, homeowner associations appear to be much more prevalent in some states, in some regions, and in some neighborhoods. What factors could explain these divergent patterns of HOA formation? In the following paragraphs, we postulate

some possible factors that should explain the emergence and regional dynamics of homeowner associations.

First of all, residential government seems to be much more prevalent in metropolitan regions rather than in small urban or rural areas. Specifically, homeowner associations appear to be growing in suburban and fringe communities surrounding large central cities (Webster 2006). Indeed, one of the most acute problems in U.S. metropolitan areas is scarcity and high cost of residential land. Scarcity of land has forced local authorities to cluster developments into small tracts (McKenzie 1994). This seems to be a plausible factor of HOA growth for several reasons. In particular, land scarcity has been a major policy problem in growing metropolitan areas. Such a problem has affected, for example, metropolitan areas in the U.S. Sunbelt region. As population and economic activity has shifted to Southern and Western states, local authorities have found it increasingly difficult to accommodate competing demands for developable land. At the same time, demand for neighborhood, often selective, goods has also increased due to rising resident incomes. Thus, we suggest that the interplay of these two factors—land scarcity and demand for neighborhood goods—explains much of the popularity of homeowner associations.

Furthermore, homeowner associations can accommodate higher housing densities, thereby overcoming the fundamental scarcity problem in metropolitan land (McKenzie 1994). Suburban neighborhoods have typically been associated with sprawl and inefficient use of developable land. In contrast, HOAs manage to supply both denser neighborhoods and suburban amenities such as parks, malls, and club-type goods. On theoretical grounds, therefore, homeowner associations may be regarded as an alternative institution of governance that spontaneously resolves competing demands in metropolitan areas. More importantly, HOAs internalize the benefits of neighborhood goods by limiting access and use of such goods to

property owners. For example, homeowner associations are frequently gated communities, while municipalities are open-access jurisdictions due to both federal and state constitutional provisions.

If homeowner associations are alternative institutions of governance among others, how can we explain their market popularity? In the analysis of alternative governance structure, we extend a theoretical trade-off between economies of scale and transaction costs in public goods provision (Alesina et al. 2004). Among all possible arrangements, each governance structure brings about different benefits and costs that are further influenced by the state-local institutional environment. Broadly defined, this trade-off is useful to synthesize seemingly competing explanations for alternative institutional arrangements in the provision of local public goods.

In service provision, jurisdictions trade off scale benefits and transaction costs of different social, economic, and political nature. First, various public services involve start-up costs of production that may be more efficiently managed at different jurisdictional levels (Oates 2003). Utilities, for example, involve large fixed costs justifying municipal ownership. Economies of scale in municipal utilities, however, should theoretically diminish over outlying neighborhoods. More importantly, transaction costs are likely to increase over policy choices as different communities hold heterogeneous preferences regarding the configuration of public goods. HOAs therefore take advantage of homogeneous populations in local service delivery arrangements.

Residential neighborhoods are nested within regional environments. Thus, choice of governance structure is critically affected by the structure and diversity of regions. As a result, the heterogeneity of a region is a key explanatory factor in selection of service delivery arrangements, including homeowner associations. Researchers have demonstrated the role of

ethnic or racial heterogeneity in affecting collective support for public goods (Alesina et al. 1999). Concomitantly, homeowner associations have been used in the past to segregate communities along racial or ethnic lines. Racially restrictive covenants are no longer possible; however, urban housing experts still argue that HOAs serve exclusionary goals in practice, primarily through the use of ‘exclusionary amenities’ (Strahilevitz 2005). In short, high levels of inter-neighborhood diversity seem to encourage the formation of public and private governments alike, even though such fragmentation brings about loss in economies of scale.

Some analysts criticize homeowner associations because they often seek to minimize contributions to municipal finances. Since their residents usually receive better services through associations, organized homeowners may not benefit from services provided at broader jurisdictional levels. This gap of service quality, among organized and non-organized neighborhoods, further reproduces perceptions of inter-community isolation. Indeed, all communities may be worse off as neighborhood fragmentation reduces economies of scale in public goods provision. In particular, homeowners who join an association due to limited housing alternatives end up subsidizing homeowners who truly derive utility from consuming selective goods. For example, prospective homeowners might join an association that provides world-class golf facilities because golf hints at racial homogeneity (Strahilevitz 2005). In this case, homeowners seeking homogeneous communities may end up subsidizing owners who truly use such a class of facilities.

Finally, the imposition of tax and expenditure limitations has been suggested as another factor encouraging formation of homeowner associations (Cheung 2008). Through homeowner associations, local communities can overcome service delivery and fiscal capacity constraints of traditional local governments. The property tax revolts of recent decades hardened the budgetary

constraints of municipalities and county governments in several states. HOAs and property tax limitations have coincidentally come up hand in hand. By shifting fiscal burdens to these private communities, state and local policies may bear some responsibility in HOA proliferation. Nonetheless, we suspect, community associations would still be popular even assuming a counterfactual scenario of absence of tax and expenditure limits. In fact, researchers have traced neighborhood covenants back to the nineteenth century, when developers devised such covenants to preserve the stability of nascent suburban subdivisions (Fogelson 2007). The latter fact demonstrates that residential covenants were already diffusing through metropolitan areas, well before the most recent tax revolt.

5.2.2 Industrial Organization of Private Government

Types of goods provided through homeowner associations depend on market and policy factors (Glasze 2005). First, population size and income level should explain types of private developments within metropolitan areas. Intuitively, larger HOAs—those providing more complete service packages—are more visible in more populated regions. In those cases, developers may be able to tailor private communities that specifically target market niches. We noted previously that ethnic homogeneity may be a motivation; nevertheless, preferences for other community attributes should likewise induce development of communities accommodating specific preferences of prospective homeowners. This is obviously more feasible in large housing markets and less so in small ones.

We draw on insights from the theory of the firm to explain types of neighborhood goods supplied through HOAs (Chen & Webster 2005). We are especially interested in the boundaries of the firm concept in order to explain corporate decisions on divisional arrangements of nongovernmental entities. For example, a traditional focus of this literature relates to make-or-

buy and contracting out decisions. Similarly, this perspective has been interested in corporate reorganization processes involving mergers, spin-offs, and others. Here, we build theoretical bridges with that literature to explain choice of services delivered through homeowner associations.

There is substantial variation in the size and complexity of homeowner associations in the United States. Of course, all types of associations—from small to large-scale ones—rely on enforceable covenants to provide for neighborhood goods. In theory, homeowner associations can take advantage of benefits of size when configuring their boundaries (Alesina et al. 2004). Such benefits include economies of scale and scope derived from the fiscal structure supporting a HOA. On the other hand, size implies increasing costs related to congestion and heterogeneous preferences over service packages. The implicit trade-off affects HOAs' ability to add services; this should explain why an association needs to be large enough to provide club-type goods such as golf or polo facilities. This cost-benefit tradeoff further explains why most HOAs are small sized, and they largely provide for neighborhood maintenance rather than exclusive amenities (McCabe & Tao 2006).

In practice, homeowner associations offer a vast array of services that are typically tied to their size (McCabe & Tao 2006). The largest homeowner associations in the United States appear to offer goods packages that may be even more complete than those of municipalities. For instance, they go beyond security, infrastructure, utilities, and offer club-type goods as well (Warner 2011). On the opposite side, small HOAs just provide for maintenance of common facilities and a minimal administrative organization to run the association. What either type of association has in common is a focus on strict enforcement of covenants, such as those related to

the external aesthetics of the community. Furthermore, service delivery through HOAs may be influenced by factors similar to those underpinning divisional arrangements of corporations.

Like business entities, homeowner associations make decisions regarding what goods should be delivered in house or through third parties. As noted earlier, this question has been traditionally associated with the make-or-buy problem. Relatedly, there is a well-established body of literature that has devised explanations for this question, where transaction-cost theory takes center stage (Chen & Webster 2005). The transaction-cost approach emphasizes, among other concerns, the potential hold-ups that may emerge among contracting parties. This aspect of the theory of the firm is perhaps less obvious to the case of HOAs since responsibilities over service delivery are largely influenced by governmental policy. For example, cities or counties often mandate that common interest developments undertake certain lines of service provision, such as maintenance of neighborhood infrastructure.

On the other hand, analyses of divisional organization, such as corporate mergers, spin-offs, and others, are relevant to explaining other aspects of neighborhood goods provision. This relates, for example, to decisions regarding what services are to be provided by the HOA or by accompanying governmental units such as special purpose districts. In this respect, there seems to be evidence that special districts are complementary institutions to homeowner associations (McCabe & Tao 2006). Particularly, special purpose districts may be established by HOAs in order to take advantage of tax-free financing through the municipal bond market. The latter argument immediately suggests that special purpose districts are providing the institutional and financial mechanisms for supporting infrastructure assets of homeowner associations.

Thus, the division of labor among homeowner associations and their accompanying special purpose districts seems to be derived from various tax incentives (McCabe & Tao 2006). We

suggested the role of special revenue debt that takes advantage of exemption from federal income taxation on government bonds. Furthermore, cities and counties have also influenced HOA organizational arrangements by imposing other fiscal burdens, such as land dedications and impact fees (Callies & Suarez 2005). Therefore, such a division of labor implies that HOAs and special districts take on distinct aspects of neighborhood governance. Special districts have typically become alternative means of finance, while HOAs are relied on due to their ability to enforce restrictions to property-related uses.

HOA formation should be consequently correlated to the usage of alternative governance structures such as special taxing districts (McCabe & Tao 2006). These interrelated instances of institutional set-up seem to be more prevalent on metropolitan fringes, where traditional municipalities are unable or unwilling to extend service provision. On one hand, matching HOA and special district jurisdictions appears to be conducive to efficient internalization of costs and benefits of neighborhood goods supply. On the other hand, this jurisdictional overlap may reinforce the concern that homeowner associations represent a form of urban secession. Such a debate thus reflects divergent perspectives on the role, societal or constitutional, of private associations in relation to the wider community.

All in all, private government becomes attractive because it accomplishes a theoretical purpose of local government—property and neighborhood stability. As an alternative system of service delivery, homeowner associations may have the edge over traditional governments because HOAs are not subject to the costly bureaucratic structures imposed on local government administration. Private government, for instance, should be able to economize on various administrative costs related to personnel or contracting procedures. Conversely, homeowner

associations also recreate negative spillovers onto the wider society, which we examine in subsequent paragraphs.

5.3 Institutions of Governance

5.3.1 Boundaries of Public vs. Private Jurisdictions

Often deemed aberrations, political boundaries play a critical role in determining community rights. Boundaries define the costs and benefits of membership in political (e.g. municipal) as well as in private (HOA) districts. In theory, local jurisdictions of either political or private origin arise from landowners' willingness to define territorial collective rights (Anderson & McChesney 2003). Boundary demarcation, via homeowner association or municipal incorporation, is thus reflective of landholders' willingness to internalize the benefits of self-rule and their associated costs. Understanding the trade-off between collective benefits and transaction costs is thus critical to explaining collective choice of boundaries.

Specialists deem mandatory community associations as substitutes for traditional political jurisdictions (Nelson 2005). Because they provide a variety of neighborhood goods, homeowner associations have become attractive governance structures for new residential developments. Specialists likewise argue that residential government is replacing local governments, particularly cities, in the provision of public goods and policies. Consequently, we discuss this replacement thesis in relation to traditional political boundaries. In addition, homeowner associations may have become pivotal players in initiatives of boundary change. Whether they promote or oppose consolidation and incorporation efforts, for instance, needs to be analyzed in light of the politicoeconomic environment of cities and unincorporated areas (Feiock et al. 2006).

Although homeowner associations are growing in many metropolitan areas, they seem to be more prevalent in new residential neighborhoods on the fringe rather than in inner cities

(Hogen-Esch 2001). For example, residential associations appear to be encouraged by suburban municipalities and county authorities in unincorporated areas. Analysts defend HOAs as self-sustaining projects benefiting all local stakeholders (Beito et al. 2002). They argue that homeowner associations benefit established local governments by alleviating fiscal and operational costs in neighborhood goods provision. These analysts also indicate that HOAs benefit overall regional growth plans by accommodating higher densities. Finally, they contend that homeowner associations benefit prospective residents by providing higher quality amenities that would not be otherwise available.

We may additionally explain the role of homeowner associations in replacing traditional local governments in light of the preferences of the median resident of a metropolitan area and its communities (Helsley 2004). A homeowner association overcomes the collective action problem by requiring new residents to become part of the association. Through a variety of institutionalized means of communication, for example, community leaders can mobilize homeowners in support of favored policies. Therefore, mandatory neighborhood associations may be able to influence local policy making compared to non-organized residents. As a result, the interests of organized homeowners are likely to prevail over those of other residents in the local political process.

Homeowner associations eventually attempt to draw political boundaries to further internalize costs and benefits of neighborhood goods (Miller 1981; Helsley 2004; Nelson 2005). In unincorporated areas, residential associations are likely to become pivotal players in resisting annexation efforts. When feasible, homeowner associations may successfully incorporate municipal jurisdictions that closely match established neighborhood limits. There is some evidence, for example, of municipalities in the American Sunbelt whose boundaries almost

exactly follow those of private communities (e.g. Sea Ranch Lakes in Florida). HOA-promoted municipal incorporations should be likely if threats of annexation by surrounding cities become credible. Alternatively, HOA-induced incorporations may be likely if county policies are 'distant' enough from those preferred by organized homeowners in unincorporated areas.

As noted earlier, special purpose districts have been growing as alternative government arrangements to finance local services. Instances of creation of special purpose jurisdictions overlapping organized neighborhoods seem to be even more frequent than those of municipal corporations (Mallet 2006). In fact, the governing practices of special purpose governments largely resemble those of existing private associations. As allowed by the law of some U.S. states, special purpose districts may rely on voting rights according to shares of property ownership (De Young 1982). Therefore, special purpose jurisdictions have naturally become complementary institutions to private government. HOA-promoted special districts may be particularly attractive for associations in established cities, where the option of municipal secession is nonexistent.

Gated communities are special cases of private neighborhoods. Not all HOAs are gated; however, those that are gated reinforce notions of inter-community isolation (Blakely & Snyder 1997). Researchers argue that crime is a key factor underpinning development of walled communities, not only in the United States, but also in other nations. Thus, gated communities are largely prevalent in large metropolitan areas where perceptions of crime or violence are high. This shows the trade-off implicit in these developments: residents obviously search for secure communities that, on the other hand, further reproduce perceptions of neighborhood fragmentation. In short, the presence of gated communities illustrates the possibly irresolvable dilemma of private versus societal values raised by HOAs.

Visibly, homeowner associations foster political fragmentation or, alternatively, self-rule depending on theoretical perspective. Whether neighborhood secession is conducive to larger goals of regional governance appears to depend on the specifics of state and local policy. Although urban specialists sometimes stress the negative effects of private neighborhoods, notably in the case of gated communities, homeowner associations contribute to municipal goods by supporting local government budgets through property taxation in addition to association assessment (Cheung 2008). More importantly, they accommodate higher household densities compared to those of traditional suburban jurisdictions. Furthermore, homeowner associations may bring about economic development through enhanced property values and neighborhood environments (Nelson 2005).

It is unlikely that homeowner associations will replace local government as ‘we know it’. HOAs have successfully replaced public provision of some neighborhood goods such as community policing, shopping malls, streets, parks, swimming pools, tennis courts, golf courses, snow plowing, and waste management. Nonetheless, there are local government policies that are truly political and, therefore, unlikely to be delegated to homeowner associations. The most obvious example is zoning and other regulations of land use that have been delegated to general purpose governments, city or county, by federal and state laws (Fischel 2003). Services that depend on costly infrastructure assets, such as utilities, are likewise less likely to be provided by HOAs. In short, homeowner associations are alternative arrangements of service delivery that contribute to the regional division of labor by providing specific neighborhood (or club) goods.

In the competitive local political process, a key question is: To what extent do homeowner associations skew local policy-making? Colleagues from the field of urban economics have recently pursued this question in the context of tax and land use policy. Cheung

and Meltzer (2012) find that the presence of homeowner associations has a positive effect on the stringency of municipal regulation of land use. Cheung also documents that HOAs impact local government budgets by affecting the local fiscal base and possibly choices of revenue instruments (2010). The economic effects of homeowner associations are thus intuitive; nevertheless, we still know little as to how HOAs influence local policy processes and institutional choice.

In short, homeowner associations can be framed as an alternative mode of governance in the institutional repertoire. The difference between a HOA and a local government is therefore one of degree, even though there is a formal difference between them in terms of legal recognition (McKenzie 1997). In practice, HOAs' nongovernmental origin makes a difference in expanding HOA rule-making powers over areas where municipalities would be constitutionally precluded to intervene, such as screening members according to individual attributes (for example, age). Entrepreneurs of urban growth, i.e. developers, understand the political economy of each governance structure and, therefore, are crucial actors in institutional setup. Nonetheless, self-rule is ultimately attained by homeowners as they gain control of HOA boards.

A crucial difference between homeowner associations and municipalities is that HOAs are essentially *ex ante* organizations (Williamson 1990). This also explains their market popularity because a homeowner association can be incorporated by developers prior to residents inhabiting it. In terms of collective action, developers' selective incentives enable the formation of these alternative organizations; in contrast, municipal incorporations depend on *ex post* efforts of coalition building that often do not succeed. This implies, as specialists argue, that collective action problems derived from bottom-up initiatives of municipal boundary change may need ultimate intervention of higher-level political authority (Miller 1981). Bottom-up processes can

additionally reproduce special-interest dynamics leading to biased arrangements of local government organization.

As several scholars have asserted, homeowner associations are quasi-governmental organizations because they provide public services that have been traditionally supplied by local governments (McCabe 2005, 2011). HOA service delivery is therefore another mode of alternative service delivery among general-purpose or special-purpose government arrangements. In particular, homeowner associations rest upon state laws in a fashion similar to traditional municipal corporations. We can conclude that HOA popularity as a mode of community organization rests upon the explicit delegation of authority granted by state institutions.

5.3.2 Self-governance through Property Rights

Internal management and governance of community affairs are among the most critical issues associated with the proliferation of homeowner associations. Traditionally, local jurisdictions have supplied public goods and policies under the institutional framework provided by the U.S. Constitution and, more directly, state constitutions and statutes. This collection of state laws, often referred to as home rule, establishes the powers available to local authorities. Notably, states constrain the ability of local governments and communities to redraw boundaries through annexation and incorporation procedures. The boundaries of homeowner associations, on the other hand, are determined by the market supply and demand for common interest developments, as well as regulation of land use (Nelson 2005).

The formation of homeowner associations has attracted attention from specialists of urban policy, we conjecture, because HOAs do not fit in the classical dichotomy of market versus government. HOAs represent hybrid institutions combining both market and political

elements. First, they are indeed market institutions in the sense that they supply club and neighborhood goods via private contractual mechanisms. Second and conversely, they resemble governmental bodies because they explicitly delegate authority to boards where collective decision-making rules are used akin those of governments. To make things more complex, HOA voting rules are somewhat unique as they are based on shares of property ownership rather than ‘one-person, one-vote’ principles traditionally associated with polities (Gillette 1994).

Collective decision-making rules are visibly different in local political jurisdictions as opposed to homeowner associations. With the exception of some special purpose districts, federal and state laws require local governments to produce governmental policies based on ‘one-person, one-vote’ procedures. In contrast, community associations can rely on voting rights based on shares of property ownership (McKenzie 1994). These different governance rules lead to substantively different policy outcomes and, therefore, lie at the core of the popularity of homeowner associations as ideal-type organizations. Property-based voting rights give developers control over the initial stages of common interest developments and, later, give homeowners control over their ongoing associations.

Homogeneity of residents further facilitates unified collective choice. Homeowner associations can stem membership according to household characteristics, such as age, while political jurisdictions are constitutionally prevented from doing so. Both demographic and socioeconomic homogeneity provide common glue for internal policy-making that is less feasible in local government. As a result, community associations are often able to establish restrictive covenants, which should be impossible to establish and maintain in political jurisdictions. It is these possible excesses in neighborhood rules that have been raising most

public criticism as well as legal challenges in different political venues of American federalism (McKenzie 2011).

HOAs as ongoing non-governmental entities critically depend on various institutions for their governance. Specialists thus focus on a distinct issue of HOA governance: association-member relations. In this subject matter, HOAs depend on a rather complex body of legal doctrine that, however, has allowed for their success as residential organizations. The doctrine of servitudes has become the foundation for HOA legal authority over community affairs (Rose 2011). Primarily under the doctrine of servitudes, HOAs have been able to set incredibly intrusive policies over homeowners that, in comparative perspective, municipalities may not be able to implement.

Here, we suggest a public-order contract enforcement perspective in order to explain the institutionalization of homeowner associations. We follow Greif (2005), who has introduced the idea of public-order contract institutions to conceptualize one of several arrangements in market contracting. Greif argues that public-order institutions are designed by purposive actors to coordinate behavior that cannot be governed through private-order arrangements. In this perspective, public-order institutions critically rely on formal legal systems to secure their success, even though they do not necessarily involve direct intervention of governmental agencies.

Thus, homeowner associations, though private entities under corporate doctrine, can be conceptualized as public-order institutions because they rest upon state laws. While HOAs are incorporated as non-governmental entities, they depend on courts and the police power of the state in order to enforce community contracts. For similar reasons, Epstein (1987) contends that covenants can be equated to political constitutions. In practice, HOAs do not always resolve

community disputes through the legal system since private-order solutions are sometimes devised; nevertheless, they are successful because they operate under the ‘shadow’ of state laws.

Long-term contracts—covenants, conditions, and restrictions—are the key legal instruments to solve collective action problems in private neighborhoods. Use of these contractual arrangements suggests that, indeed, provision of goods through HOAs brings about complications requiring third-party arbitration. This does not mean that courts frequently intervene in HOA conflicts; in fact, many community disputes seem to be solved through private negotiation mechanisms (Gillette 1994). Rather, the possibility of judicial intervention means that covenants imperfectly govern ongoing contractual transactions. Therefore, third-party adjudication, even if infrequent, substantively supports HOA governance by offering a last-resort mechanism for dispute resolution.

Covenants, conditions, and restrictions also supply a focal point for market exchange (Gillette 1994). Covenants, in particular, should provide information to prospective owners regarding key community attributes. Covenants may be designed to attract residents sharing preferences for similar types of neighborhood goods. In this sense, covenants also meet a demand for exclusivity and homogeneity among potential homeowners. This reasoning may explain in part why courts have often been unsympathetic of homeowners’ complaints, since it is presumed that they were well-aware of all obligations when they signed on contracts. On the other hand, this may also explain why homeowner associations try to strictly enforce covenants because, otherwise, lack of enforcement might imply their abandonment in practice.

In essence, laws of servitudes enable an HOA to make commitments about property that bind current and future members (Rose 2011). In addition to their ongoing corporate nature, servitude law allows HOAs to bind any prospective homeowner to an established set of

covenants. It is this inter-temporal attribute of HOAs legal authority that underpins their advantages (i.e. in terms of market popularity) as well as their complications (i.e. in terms of conflict over covenant rule-making). As a result, scholars equate HOAs to ‘private governments’ in the sense that they, like public governments, are based on perpetual ‘constitutional’ rules. In practice, it is the threat of application of law that permits HOAs to maintain order in their communities, while legal challenges to HOA policies before courts is less common.

Overall, what is the role of third-party interpretation of community covenants? We suggested previously that HOA disputes are often resolved through private negotiation mechanisms. Multiple disputes, however, end up for judicial adjudication as associations and members anticipate impossibility of private negotiation (Gillette 1994). Also, expectation of idiosyncratic gain might induce some members to pursue lawsuits as long as winning them appears to be likely. In theory, courts, by representing a higher level of jurisdictional authority, introduce external considerations reflecting institutional and societal views. Courts may decide based on what they perceive to be the preferences of the majority residents. Courts may alternatively favor protection of individual rights. We suggest that both doctrinal views are prevalent, yet courts may favor one alternative over another based on how a specific case matches a specific view.

Courts seem to be sensitive to competing doctrinal views on the reach of servitudes use. Over time, courts have restrained some perceived excesses regarding the application of servitudes through HOAs. The demise of racially restrictive covenants, following *Shelley v. Kraemer* (1948), clearly comes to mind as a historical example. In more recent years, state courts have been similarly willing to side with individual rights (Fennell 2004). In short, reliance on the servitudes doctrine, though critical to explaining HOA development, has been shaped by judicial

review reflecting societal and constitutional concerns. The evolution of servitudes doctrine, as interpreted by American judiciaries, illustrates how the institutional complex supporting homeowner associations evolves through time.

While early covenants were conducive to overt exclusion of minorities, courts have intervened to restrain covenants that have seemingly violated constitutional principles (Hyatt 1997). Thus, there is an increased perception, among both analysts and lawmakers, that homeowner associations may spur societal effects that need to be prevented. Intuitively, HOAs take over various roles of traditional municipalities; however, due to their nongovernmental origin, HOAs have gone well beyond municipalities in terms of restrictions on property use. Still, courts continue to regard homeowner associations as private, voluntary forms of community organization, which explains why they enjoy degrees of freedom not comparable to those of municipalities.

5.4 Concluding Discussion and Implications

The growth of homeowner associations accounts for one of the most revolutionary trends in U.S. local governance (McCabe 2011). Studies show that these common interest developments are expected to grow at faster rates than traditional housing projects (McKenzie 2011). As a result, HOAs will remain one of the most debated topics in urban policy and government. While much of the extant literature has focused on specific issues, for example the urban sociology of gated communities, other mainstream literatures seem to be just paying attention to the unique problems resulting from this massive privatization in local service delivery. Here, we elaborated key theoretical underpinnings through a new, institutional perspective.

Among other obstacles, empirical research is limited due to the lack of statistical data. Researchers have attempted to overcome this limitation by relying on intensive case studies of

large HOAs. In addition, researchers in the disciplines of urban geography and sociology have been trying to gain insights from cross-national investigations of gated communities. Interestingly, these comparative investigations are facing similar obstacles to empirical research, that is, lack of databases on homeowner associations. The nonexistence of systematic data on HOAs is partly a result of their nongovernmental nature, which exempts them from official census programs. However, we conjecture that homeowner associations as special interest groups might also be involved in efforts to circumvent data collection efforts.

All in all, debate on the proper role of homeowner associations on urban governance appears to be affected by competing views regarding the rights of private association. While advocates of polycentric governance stress the benefits of decentralization, proponents of regionalism suggest the perils of societal isolation derived from private jurisdictions. Such a debate will continue as long as homeowner associations take on increasingly larger shares of American neighborhoods which, at the same time, reflect enduring economic, ethnic, or social divisions. In that respect, theory and policy analysis on homeowner associations will revolve around the seemingly opposing principles of self-governance and societal integration. Paradoxically, the range of authority delegated to community associations will ultimately depend on higher-level decisions, legislative or judicial, regarding what their role is going to be in U.S. local governance. If history is any guide, these private governments will be in the urban landscape to stay as they fulfill demands for individual and community life that may not be otherwise attainable.

CHAPTER 6

CONCLUSION

6.1 Introduction

The role and organization of local government within the American Experiment relate to some of the most enduring debates since the founding. Nevertheless, contemporary problems of governance in cities and metropolitan areas make this debate more relevant than ever, and they imply that there is a need for scholarship aimed at integrating extant fragmented theories—both explanatory and normative—of government reorganization. We need to use both previous theory and history to understand the nature and evolution of American local government organization if we are to arrive at more general theory that is useful to both diagnosing problems and prescribing solutions to the challenges facing cities, counties, and other American local governments.

To synthesize major theories discussed in this dissertation, we set forth here a framework for local government organization analysis. We explain that both the history and evolving contemporary debate on local government reorganization, for example on city-county consolidations, can be analyzed through a cost-benefit framework. Though an analogy with cost-benefit analysis is apparent, the cost-benefit framework as presented here is more general. We suggest that the institutional history of local government is an outcome of fundamental trade-offs in political and administrative organization. For example, enduring factors such as ethnic diversity, income heterogeneity, and economic development problems in American jurisdictions have historically reproduced policy costs affecting choices of government organization (Feiock 2002). These costs have recurrently restrained innovation forces aimed to achieve economies of

scale in government reorganization, for example via municipal annexation or city-county consolidations.

This concluding essay is organized as follows. Section 6.2 applies the cost-benefit framework for interpreting local government organization in the United States. It does so by developing the different costs and benefits derived from alternative institutional arrangements to local government. Section 6.3 applies the conceptual framework for both historical explanation and policy alternatives to contemporary debates of government reorganization. Although we use the city-county consolidation debate as an example (Seamon & Feiock 1995; Johnson & Feiock 1999), we argue that a cost-benefit framework is more general and include institutional analysis on alternative systems of service delivery, the assignment of political and administrative responsibilities in federalism, and perhaps similar problems in comparative contexts. Section 6.4 outlines conclusions.

6.2 A Cost-Benefit Framework for U.S. Local Government Organization

We argue that, in the organization of local governments, there is a fundamental trade-off between costs of policy and benefits of consolidation (Alesina et al. 2004). This trade-off incorporates not only fiscal elements, but also costs and benefits of policy making at various jurisdictional levels. Consider the case of city-county consolidation initiatives: Reformers advocate consolidation for the possible economies that can be gained through a larger government jurisdiction. Also consider the case of municipal incorporation initiatives: These latter proposals, antithetical to consolidation efforts, aim to bring control of policy into the incorporating community. These opposite modes of government reorganization thus focus on separate aspects of our cost-benefit approach yet, at the same time, shed light on the pervasive trade-offs underpinning political and administrative organization (Feiock 2004b).

If public administration theory is to be useful, it should explain the historical record as well as imply normative possibilities. By demonstrating the general applicability of theory, policy advice becomes more meaningful in the sense that real-world constraints and feasibility are considered. In other words, a general framework of local government organization should first be able to explicate facts, and then provide a basis for what can be done, rather than what should ideally be done. Therefore, this essay will largely emphasize the theoretical relevance of a cost-benefit framework of local government organization from an historical perspective. It will illustrate how various societal factors have influenced the trade-offs involved in local government reorganization episodes. Toward the end, we will indicate how our explanatory theory also provides a pathway for assessing possibilities for institutional design.

6.2.1 Policy Costs

The organizing trade-off of local government points to certain costs in political and administrative decision-making. Policy making at any level of government is traditionally resolved through institutional mechanisms of collective choice, primarily in the form of majority rule. That is the essence of state action—delegating powers to political representatives in charge of making policy. In turn, elected officials theoretically represent the preferences of their electing constituencies. This political theory is apparently straightforward; nevertheless, problems of representation and implementation result from constitutional boundary configurations. Who is (or should be) jurisdictionally incorporated into the voting community? How are (or should be) organized the mechanisms of political representation such as the number and size of voting districts?

The boundaries of local governments, therefore, play the critical role of delimiting rights and duties for both citizenry and political representation. As for another critical implication,

boundaries have a socioeconomic effect by defining the territorial scope of service delivery. This exclusionary implication is actually the basis for strategic boundary reconfiguration, as certain populations are incorporated and others excluded from public goods provision (Burns 1994). Thus, boundaries recreate costs of collective decision-making derived from heterogeneous preferences over policies in the population. Similarly, policy costs are derived from the spatial distribution of the population and economic activity. Distance from policies, both in a geographic and a politicoeconomic sense, may induce secession or failure to cooperate among decentralized governments.

In the context of American history, ethnic diversity has played a key role in the delineation of local government boundaries (Burns 1994). The literature on municipal annexation, for example, has documented how boundaries have been used to strategically incorporate or exclude communities on racial lines (Lichter et al. 2007). This problem of municipal ‘underbounding,’ typically associated with pre-Civil Rights times, remains in U.S. metropolitan areas despite integrationist efforts. Furthermore, ethnic stratification is not only reflected in municipal boundaries. School districts have similarly served exclusionary purposes in many U.S. jurisdictions (Fischel 2009). Despite major advances on civil rights legislation, therefore, government boundaries still reflect the role of ethnic diversity in American political development.

Local government jurisdictions are also influenced by the broader socioeconomic environment, for example that of their surrounding metropolitan regions. Large metropolitan areas in the United States are noted by their highly heterogeneous structure—social, economic, and political. Furthermore, U.S. metropolitan areas are home to manufacturing and other labor-dependent industries. The heterogeneous structure of the local economy can thus influence

location decision regarding housing, employment, and industry, thereby motivating conflictive policy preferences. With the possible exception of central cities, however, municipal jurisdictions portray very homogeneous populations. Comparatively, such localized jurisdictions may be very different from the overall socioeconomic structure of their metropolitan area.

6.2.2 Benefits of Size

It is intuitive that government jurisdictions take advantage of scale in service delivery. That is the essence of boundaries—incorporating territory and populations in order to reduce costs of public goods provision. Moreover, this theoretical benefit applies, not only to local government, but also to higher-level jurisdictions. Scale considerations generally underpin the delineation of territorial boundaries and delegation of hierarchical authority through federative organization (Feiock 2001). In particular, municipalities have historically controlled policies of land use and related policy domains. Specialists have traditionally regarded zoning as a local policy; consistent with such a view, lawmakers at different levels of American government have delegated regulation of land use to municipal jurisdiction, particularly by judicial precedent. In contrast, policies of large scale are typically made at higher levels. Jurisdiction over environmental, financial and security policies exemplifies issue areas of large scale.

At the local and regional levels, jurisdiction over policies is often contested. Then, the principle of scale or subsidiarity for jurisdictional organization underpins debates on government reorganization efforts (Liesbet & Marks 2003). For example, American communities increasingly rely on metropolitan districts to coordinate regional policies and thus overcome municipal fragmentation (Carr & Feiock 2004). The territorial size of local government is influenced by both economic and political factors, as large jurisdictions can economize on fixed costs associated with public goods provision. Nonetheless, large political jurisdictions may

reproduce redistributive conflict. Benefits of jurisdictional size may similarly be influenced by economies of scope in alternative modes of organization. In U.S. local government, the formation of special purpose districts can, to some extent, be explained through scope economies.

Benefits of scale in local government organization are substantively linked to the spatial location of economic activity and populations (Burchfield 2006). Central cities, for example, are more likely to take advantage of benefits of jurisdictional size. This explains why such cities have been historically the largest municipalities in the United States, both in terms of territorial and population size. In contrast, suburban jurisdictions, characterized by their low-density structure, benefit much less from potential economies of scale. This could explain, in turn, why new municipal incorporations have mostly taken place around forming suburban neighborhoods over the post-World War II. Consequently, urban sprawl is often a modern problem that is tightly linked to municipal fragmentation in the United States.

To illustrate the applicability of the cost-benefit trade-off, we briefly discuss the ongoing debate in Leon County regarding waste services reorganization. Driven by fiscal need, Leon County authorities have recently discussed the possible elimination of rural waste collection sites and/or the imposition of new revenue sources such as user fees. Waste collection services arguably benefit from benefits of size, which now cannot be fully exploited by the county government. Unincorporated residents of Leon County and residents of Tallahassee City are served by alternative systems of waste collection. In theory, city-county consolidation should allow the region to take advantage of economies of scale in municipal service delivery. Past initiatives to consolidate these jurisdictions, however, have failed; as a result, Tallahassee City and Leon County residents are still served unevenly by their governing authorities.

A cost-benefit framework can therefore be useful to explain reorganization debates in Leon County. Even though potential economies of scale have motivated consolidation initiatives, unincorporated residents have typically opposed them, as well as annexation to Tallahassee City. We suggest that heterogeneity of preferences across boundary lines should, to a great extent, explain the perceived failure to either incorporate or annex unincorporated areas in Leon County. Such heterogeneity among county and city populations appears to be driven by both ethnic and income considerations. Historically, Tallahassee City residents have been more ethnically diverse and generally from lower income strata than Leon County residents. Even though additional factors should have played a role, ethnic and socioeconomic heterogeneity across boundary lines should have discouraged past consolidation efforts. As the recent waste services debate illustrates, Leon County residents have traditionally opted for remaining unincorporated, while bargaining for acceptable service arrangements with their county government. Unless drastic socioeconomic or population changes affect Leon County, we may predict no incorporations or other boundary changes in the foreseeable future in this region.

6.3 Concluding Discussion and Implications

We have argued that a cost-benefit tradeoff explains alternative arrangements for local government jurisdiction (Alesina et al. 2004). The historical record appears to support this argument. At the turn of the twentieth century, central cities took advantage of economies of scale derived from urban density, largely as a result of internal migration to them. Their territorial boundaries often expanded through annexation. In the postwar period, nonetheless, societal transformations impacted the jurisdictional organization of U.S. cities and metropolitan areas. Ethnic turnover and suburbanization affected municipal jurisdictions and thus motivated boundary change, especially around the fringe of metropolitan regions. In short, the changing

geospatial and socioeconomic structure of U.S. metropolitan areas has implied that central city jurisdiction has become increasingly costly, in the sense of being distant to the preferences of residents in suburban communities.

Constitutional reforms on home rule have often derived from socioeconomic and political changes within cities. State lawmakers hardened procedures for municipal annexation while, at the same time, relaxing those for incorporation. As a result, forming communities opted for organizing city government closer to their needs. Somewhat less studied in the literature, these urban transformations resulted in increasing unincorporated communities. These communities have turned to county authorities for service delivery, as well as to alternative forms of governance, such as special districts. Organizational costs and benefits thus have influenced not only the size of government jurisdictions, but also the scope and selection of alternate institutions.

Consequently, a cost-benefit tradeoff encompasses explanatory and prescriptive theories of local government organization. At the level of explanation, the cost-benefit theory sheds light on the trade-offs that have affected choices of local governance structures. At the level of prescription, this theory suggests that future reorganization initiatives, such as annexations or city-county consolidations, may profit from considering how costs and benefits—broadly understood—affect their feasibility. In essence, a cost-benefit theory highlights what *can* be done, rather than what should ideally be done, in terms of government reorganization. It suggests that there may be valid reasons for overlapping, fragmented jurisdictional arrangements in the spirit of polycentric governance arguments (McGinnis 1999). Furthermore, the cost-benefit tradeoff also suggests that reorganization efforts, such as city-county consolidation, may be possible in certain lines of service delivery more than others. At the same time, the tradeoff

illustrates the constraints imposed by sources of social heterogeneity—e.g. ethnic as we highlighted—on local government reorganization efforts in the United States.

Further theoretical development can also be achieved through comparative studies of local government reorganization. Municipal consolidations, though rare events, have been accomplished in countries as diverse as Japan, Denmark, and Colombia. Interestingly, successful consolidations are often accomplished through active involvement of higher-level authority. For example, intergovernmental grants have been designed to encourage municipal consolidation, while local stakeholders have retained substantial autonomy in reorganization plans. This further suggests that there seems to be a fundamental collective action problem in boundary change initiatives that seem to be resolved through hierarchical coordination policies. In the context of American federalism, state authority will therefore continue to play a key role in local government reorganization efforts.

Additionally, this line of research is related to and may further build on the literature regarding the endogenous configuration of political institutions in the fields of international and comparative political economy. Fundamentally, we see a parallel to the modern literature on the size and configuration of state borders (Alesina and Spolaore 2005). Similarly, research on local government boundary change could contribute to contemporary issues in the literature on multilevel governance and federalism, which is now unfolding in light of political integration efforts in Europe and other regions (Hooghe and Marks 2003). In American literatures, ethnic and racial studies, in relation to metropolitan and urban policy, continue to be a particularly relevant literature to research on local government organization. All in all, the question of political boundaries remains at the core of collective choice and collective action—central research programs among the social sciences.

APPENDIX A

SUMMARY STATISTICS, 1940–1970

Table 1—Summary Statistics

	1940		1950		1960		1970	
	Mean	Standard Deviation	Mean	Standard Deviation	Mean	Standard Deviation	Mean	Standard Deviation
<i>Outcome variable:</i>								
Number of cities by county area	5.49	5.43	5.58	5.71	5.97	6.30	6.24	6.45
<i>Explanatory variables:</i>								
Racial heterogeneity, index	.13	.17	.13	.17	.13	.17	.15	.17
Median family income	...	...	2,249	871	4,164	1,340	7,459	1,854
Median age of residents	...	...	28	4.02	29	4.79	30	5.05
% College education	3%	.02	4%	.02	11%	.05	16%	.06
% Homeownership	49%	11.98	61%	11.03	67%	9.58	71%	8.11
% Manufacturing employment	12%	12.03	15%	12.64	19%	12.93	22%	13.53
% Retail-trade employment	12%	4.78	15%	5.11	17%	3.73	19%	3.93
% Agricultural employment	42%	21.29	33%	18.85	21%	15.14	13%	11.65
% Mining employment	3%	7.59	3%	6.99	3%	6.74	2%	4.83
Density	148	1,870	163	1,952	172	1,780	185	1,719
Population	42786	145230	48890	171039	57999	207318	66737	235145
Laws of boundary change, index	...	...	...	...	...	...	1.41	.68

Notes: The table presents means and standard deviations for the data analyzed in subsequent tables. Editions 1942 through 1972 of the U.S. Census of Governments are the source of data on incorporated cities. Editions 1940 through 1970 of U.S. Census of Population and Housing are the source of data on population and socioeconomic data. Melvin Hill, Jr. (1978) is the source of data on laws of boundary change. An ellipsis denotes missing data.

APPENDIX B

FORMATION OF U.S. CITIES, CROSS-SECTIONAL RESULTS 1940–1970

Table 2—Formation of U.S. Cities in the Post-World War II, Cross-section Data

	<i>Outcome variable: Incorporated cities</i>			
	Decade	1940–1950	1950–1960	1960–1970
<i>Explanatory variables:</i>				
Racial heterogeneity, index		.0642 (.0487)	.0973** (.0411)	.0114 (.0307)
log Median family income		.0769*** (.0184)	-.0729*** (.0205)	-.0570*** (.0216)
Median age of residents		-.0003 (.0015)	-.0003 (.0011)	-.0008 (.0006)
% College education		-.2780 (.3210)	.3130** (.1400)	-.0410 (.0631)
% Homeownership		.0026*** (.0009)	.0018*** (.0006)	.0025*** (.0005)
% Manufacturing employment		-.0025*** (.0004)	-.0002 (.0007)	-.0007* (.0004)
% Retail-trade employment		-.0005 (.0007)	.0032** (.0014)	.0010 (.0010)
% Agricultural employment		-.0003 (.0004)	.0003 (.0006)	-.0013*** (.0005)
% Mining employment		-.0006 (.0006)	.0001 (.0008)	-.0012 (.0009)
Density		-.0539* (.0298)	-.0464 (.0344)	-.0657*** (.0199)
log Population		.0679*** (.0096)	.0607*** (.0100)	.0447*** (.0052)
log Incorporated cities, 10-year lag		.9150*** (.0103)	.9320*** (.0075)	.9460*** (.0071)
State or county must approve incorporation		-.0257*** (.0095)	-.0057 (.0088)	-.0223*** (.0076)
Residents must approve annexation		-.0034 (.0087)	.0300*** (.0080)	.0060 (.0073)
New city incorporations		558	1,219	520
Number of observations (county areas)		2,832	2,887	2,432

Notes: The table reports coefficients from Poisson quasi-maximum likelihood estimation and fully robust standard errors (in parentheses). Each column presents results by decade for the period of study. All regressions include a constant that is not shown to save space. The number of new cities is estimated by subtracting the count of cities between censuses. The number of observations differs due to missing data across censuses. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

APPENDIX C

FORMATION OF U.S. CITIES, PANEL RESULTS 1940–1970

Table 3—Formation of U.S. Cities in Metropolitan Areas, Panel Data 1940 - 1970

	<i>Outcome variable: Incorporated cities</i>		
	Metropolitan counties	non-Metropolitan counties	All U.S. counties
<i>Explanatory variables:</i>			
Racial heterogeneity, index	.1970*** (.0705)	.0064 (.0219)	.0694*** (.0241)
log Median family income	-.0417 (.0490)	.0098 (.0107)	.0069 (.0104)
Median age of residents	-.0016 (.0019)	.0000 (.0005)	-.0003 (.0006)
% College education	.1620 (.1450)	-.2810*** (.0647)	-.1110 (.0685)
% Homeownership	.0034*** (.0011)	.0012*** (.0003)	.0023*** (.0004)
% Manufacturing employment	-.0007 (.0008)	-.0011*** (.0003)	-.0015*** (.0003)
% Retail-trade employment	.0071*** (.0023)	.0001 (.0005)	.0009 (.0006)
% Agricultural employment	-.0010 (.0013)	-.0005** (.0002)	-.0009*** (.0003)
% Mining employment	-.0021 (.0015)	-.0005 (.0004)	-.0009** (.0004)
Density	-.0749** (.0327)	-.0902*** (.0168)	-.0641*** (.0182)
log Population	.0401*** (.0103)	.0485*** (.0045)	.0537*** (.0047)
log Incorporated cities, 10-year lag	.9570*** (.0113)	.9240*** (.0047)	.9320*** (.0050)
State or county must approve incorporation	-.0318 (.0206)	-.0110*** (.0038)	-.0179*** (.0058)
Residents must approve annexation	-.0091 (.0178)	.0174*** (.0036)	.0099* (.0056)
Time fixed-effects	yes	yes	yes
New city incorporations	1,045	1,252	2,297
Number of observations (county areas)	1,306	6,845	8,151

Notes: The table reports coefficients from pooled Poisson quasi-maximum likelihood estimation and fully robust standard errors (in parentheses). Each column presents results for metropolitan and non-metropolitan subsamples; the last column presents results for the full U.S. sample. The number of new cities is estimated by subtracting the count of cities between censuses. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

APPENDIX D

SUMMARY STATISTICS, 1980–2000

Table 4—Summary Statistics

	1980		2000	
	Mean	Standard Deviation	Mean	Standard Deviation
<i>Outcome variable:</i>				
Probability of municipal incorporation	.00	.00	.45	.50
<i>Explanatory variables:</i>				
Racial heterogeneity, index	.16	.15	.24	.17
Hispanic heterogeneity, index	.08	.11	.12	.13
Median family income	21,922	6,965	57,304	23,420
Median age of residents	31	7	37	7
% High school education	29%	0	25%	0
% College education	14%	.10	14%	.09
% Homeownership	82%	.08	76%	.16
% Agriculture or mining employment	6%	.08	2%	.05
% Construction employment	8%	.04	8%	.05
% Manufacturing employment	19%	.11	12%	.09
% Retail-trade employment	16%	.04	12%	.05
Population	10,604	14,104	15,572	19,080
Density	1,779	2,249	2,388	2,652
State or county must approve incorporation	.67	.47	.67	.47
Residents must approve annexation	.66	.47	.66	.47

Notes: The table presents means and standard deviations for the data analyzed in subsequent tables. Editions 1980 and 2000 of U.S. Census of Population and Housing are the source of data on population and socioeconomic factors. The Boundary and Annexation Survey is the source of data on incorporated municipalities from 1980 to 2000.

APPENDIX E

PROBABILITY OF CITY INCORPORATION, CROSS-SECTIONAL RESULTS 2000

Table 5—Probability of Municipal Incorporation, Cross-section Data

	<i>Outcome variable: Probability of municipal incorporation</i>		
	Linear probability model	Logit	Penalized logit
<i>Explanatory variables:</i>			
Racial heterogeneity, index	-.198*** (.066)	-.385* (.220)	-1.573* (.896)
Hispanic heterogeneity, index	.254*** (.090)	.780*** (.232)	3.182*** (.941)
log Median family income	-.078** (.034)	-.365*** (.138)	-1.495*** (.578)
Median age of residents	.001 (.002)	.008** (.004)	.0322** (.016)
% High school education	-.650*** (.136)	-1.796*** (.442)	-7.246*** (1.768)
% College education	.225 (.200)	1.206* (.665)	4.890* (2.728)
% Homeownership	.135* (.070)	.102 (.199)	.383 (.809)
% Agriculture or mining employment	.038 (.183)	.146 (.706)	.439 (2.846)
% Construction employment	.762*** (.202)	1.783** (.801)	7.188** (3.292)
% Manufacturing employment	.595*** (.110)	2.097*** (.406)	8.476*** (1.658)
% Retail-trade employment	-.181 (.136)	-.566 (.915)	-2.680 (4.429)
log Population	-.163*** (.006)	-.396*** (.025)	-1.578*** (.119)
Density	-2.e-5*** (.000)	-2.e-4*** (.000)	-2.e-4*** (.000)
State or county must approve incorporation	-.003 (.021)	.029 (.059)	.111 (.240)
Residents must approve annexation	-.071*** (.019)	-.011 (.056)	-.047 (.230)
Number of observations	1,329	1,329	1,329

Notes: The table reports coefficients from cross-section regressions on 2000 data and fully robust standard errors (in parentheses). Each column presents results from alternative estimation methods discussed in the text. All regressions include a constant not shown to save space. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

APPENDIX F

PROBABILITY OF CITY INCORPORATION, PANEL RESULTS 1980–2000

Table 6—Probability of Municipal Incorporation, Panel Data 1980 - 2000

	<i>Outcome variable: Probability of municipal incorporation</i>		
	Lax-incorporation states	Hard-incorporation states	Full U.S. sample
<i>Explanatory variables:</i>			
Racial heterogeneity, index	-.792*** (.155)	-.651*** (.133)	-.765*** (.113)
Hispanic heterogeneity, index	-.002 (.268)	.199 (.169)	.016 (.151)
log Median family income	-.005 (.066)	.077 (.086)	-.008 (.054)
Median age of residents	-.005 (.004)	.005 (.003)	.001 (.003)
% High school education	.549** (.227)	.889*** (.204)	.947*** (.158)
% College education	.430 (.397)	.067 (.273)	.364* (.221)
% Homeownership	.337* (.192)	.218 (.153)	.298** (.126)
% Agriculture or mining employment	-1.151*** (.277)	-2.247*** (.297)	-1.833*** (.218)
% Construction employment	.297 (.386)	.100 (.425)	.200 (.285)
% Manufacturing employment	.498** (.244)	-1.133*** (.283)	-.368* (.197)
% Retail-trade employment	.532** (.226)	-.313 (.338)	.128 (.202)
log Population	.075 (.046)	.066** (.031)	.090*** (.027)
Density	-1.e-4** (.000)	-2.e-5* (.000)	-6.e-5*** (.000)
Place fixed-effects	yes	yes	yes
Time fixed-effects	yes	yes	yes
Number of observations	875	1,782	2,657

Notes: The table reports coefficients from linear probability models on time-demeaned data and fully robust standard errors (in parentheses). Each column presents results for subsamples of places in states having lax versus hard incorporation laws. The last column presents results for the full U.S. sample. *** $p < 0.01$;

** $p < 0.05$; * $p < 0.1$

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