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[IB](#) > Vol.4 No.3, September 2012



Economies of Scale in Local Government: General Government Spending

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Author(s)

Lawrence Southwick

ABSTRACT

The purpose of this paper is to determine whether larger or smaller municipalities are more efficient in their levels of overhead costs. The operative measure is per capita annual costs for these services. In addition, the issue of market structure as a factor in these costs is also to be studied. It is not for the purpose of considering costs for specific services but rather the general overhead items that are required of all local governments. The method of study will be to use the cities and towns of New York State over a number of years. This will ensure that the study group is relatively homogeneous over applicable state laws as well as giving a wide variation in the population levels studied. The per capita expenditures will be regressed against population and market power variables using several equation forms. The results will be tested for significance in scale effects and market power effects. Optimal population sizes will be calculated where possible. The outline of the paper is as follows: 1) Introduction, 2) Background issues, 3) The study design, 4) Data, 5) Results, and 6) Conclusions.

KEYWORDS

Local Government; Economies of Scale; Market Power

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