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# HOME-OWNERS, RENTERS, AND BUREAUCRATS: A REDISTRIBUTIONAL ANALYSIS OF MUNICIPAL INCORPORATION

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HOME-OWNERS, RENTERS, AND BUREAUCRATS:

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What are the reasons why a newly developed urban area might choose to incorporate as a separate municipality rather than be annexed to a neighboring city? The most frequent initial response to this question, given by proponents of incorporation, is "to gain local control"; but this response is too vague to be very helpful. Certainly, the creation of an autonomous, authoritative local government is undertaken in order to ensure that local rather than nonlocal interests will control decision -- but which decisions? What aspect of municipal government is so vital that some individuals will donate hundreds of hours a year, for as long as ten years, to ensure that the local community becomes incorporated rather than annexed?

While the actors in an incorporation drama speak in terms of local control, economists tend to give the rationale and justification for local government in terms of efficiency. As Mancur Olson showed in Logic of Collective Action, public goods do not get provided at optimal levels to large, unorganized groups (1965). He elaborated further in the American Economic Review that, for efficiency's sake, the boundaries of the jurisdiction organized to provide a public good should roughly coincide with the limits of the population consuming that



public good.

> Only if there are several levels of government and a large number of jurisdictions can immense disparities between the boundaries of jurisdiction and the boundaries of collective goods be avoided. There is a case for every type of institution from the international government to the smallest.local government (1969: 486).

The efficiency case for local governments was also made by Tiebout (1957), Oates (1972) and Bish (1971), who recognized differences in individual levels of demand for public goods. Since there is normally only one level of public goods provision per jurisdiction, all those individuals who would prefer a different level of public goods provision suffer "conformity costs", unless they can leave that jurisdiction and join (or create) a different one, meeting their different tastes. Thus, the argument goes, jurisdictional fragmentation and diversity serve the purpose of allocational efficiency by increasing the range of individual choice and reducing conformity costs.

This view of the creation of new municipalities is supported by a 1952 study of municipal incorporation in Los Angeles County. This book found that, because the level of services provided to unincorporated communities by the county was so poor, the major reason for incorporation up until that time was the provision of an optimal level of public goods, roads, sewers, water, property protection, and regulation of nuisance (Bigger and Kitchen, 1952: 81). Redistributional reasons for incorporation entered in only marginally, if at all.

My own study of municipal incorporation in the same county since 1954, however, suggests a completely different interpretation. The level of county services had improved greatly by the 1950s. However, due to energetic annexation campaigns by the older cities, urbanizing communities had to choose between annexation and incorporation. They overwhelmingly chose incorporation under the Lakewood Plan, not as a way of guaranteeing better public services, but as a way of avoiding property taxation. By incorporating around revenue resources, by zoning out costly land uses, by eliminating bureaucratic overhead, municipal incorporations have been reactions to the bureaucratic and redistributional activities of the older cities. The economic interpretation of municipal incorporation must rest on redistributional, rather that efficiency concepts.

## MOTIVATIONS FOR INCORPORATION

This paper will begin with a survey of the motivations for incorporation in Los Angeles County since 1954, and continue with an economic analysis of these motivations.

### Local Control of Land Use Decisions

In an important study of land-use politics in suburban Long Island, Gottdiener (1977) has shown that three factors contributed to a pattern of zoning variances and other land use decisions



that resulted in "planned sprawl" rather than efficient land use. These three factors were (1) weak local political machines needing substantial contributions for reelection campaigns; (2) control over land use decisions as the only source of discretionary policy available to politicians for use as an incentive for contributions; and (3) developers who are highly interested in land use decisions as make-or-break factors for their firms' success. Where these factors occurred together on Long Island, the local political organizations obtained the essential campaign contributions, and developers got their essential zoning variances in a mutually beneficial exchange, the only problem being the resulting debilitation of the urban planning process and "planned sprawl."

These three factors certainly occur together in parts of Los Angeles County, and lead to one of the motivations for municipal incorporation: residential dissatisfaction with zoning variances and other land use decisions that lead to "planned sprawl" and endanger land values in exclusive neighborhoods. Los Angeles County has, since the Progressive Era, been notable for the weakness of regular political organizations, and the county supervisors must anticipate costly reelection campaigns in supervisorial districts of almost one and one-half million citizens each. Developers are highly competitive, and especially anxious to build on the highly lucrative coastal areas. The most desirable of these undeveloped coastal areas is the Palos Verdes Peninsula, in south-west Los Angeles County.

Much of the peninsula was undeveloped and unincorporated in the mid-fifties, when the principle land-owner, Great Lakes Carbon

Corporation, began selling land to builders under a county zoning plan that would restrict development along the coast and keep housing densities down. The two small, existing developments on the peninsula incorporated as Rolling Hills and Rolling Hills Estates soon after. The newly arriving home-owners on the rest of the peninsula began to be uneasy when builders soon began petitioning for and receiving zoning variances that threatened to emasculate the plan. Between 1960 and 1968, forty-eight zoning variances were sought by developers, all of which were fought before the county board of supervisors by neighborhood home-owners' associations. The home-owners lost every fight. In 1965, the Palos Verdes Peninsula Advisory Council was created as a federation of neighborhood associations, in the hope that unity would give more political strength before the county board. The Council had no better luck with the board, but, with 80 percent of the developable land already developed, began to revise the 1955 plan, making concessions to developers' interest, but maintaining a commitment to the 1961 school board projections of a peninsula-wide population of 140,000. This figure was 22,000 more than the 1969 population.

However, the developers secretly prepared an alternate plan, projecting a peninsula-wide developed population of 140,000 double the 1969 population. The 70,000 additional people, according to this plan, would live primarily in multi-family dwellings in the remaining small fraction of developable land, mainly along the coast. When this secret plan was leaked to the public, the Palos Verdes Council began immediate plans for incorporation. In a hard-fought battle with the developers involving court suits and three years of controversy and maneuvering, Rancho Palos Verdes was incorporated.



Not only zoning decisions, but county enforcement of zoning plans is held in low regard by home-owners in unincorporated territory. At the time of Carson's incorporation in 1968, there were 96 wrecking yards in the community, half of them illegal by the county's zoning ordinance. The campaign literature for incorporation proclaimed why local control of land use was important to the home-owners of Carson:

> We all know what has been happening to our community because we haven't had a voice or local control over the development of our area. The people in 'Downtown Los Angeles' who have been deciding our future for us, could care less about what happens to us or our families.

Ten years after incorporation, there were only twenty-four wrecking yards in Carson. (Ironically, however, the author of this campaign literature, along with several other city councilmen and the environmental commissioner were indicted, convicted, and sent to prison on charges of bribery and soliciting bribes. Evidently the new cities were not always impervious to the problems that helped to motivate incorporation.)

Discontent with county land-use was felt in a half-dozen cities around the county, and incorporation as a small, residential suburb, controlled by home-owner interests, seemed the most satisfactory answer. Of course, this kind of fragmentation of land use control is little better as a solution to the problem of urban sprawl than is county planning corrupted by special interest or indifference. Control of Rancho Palos Verdes by home-owners simply means that the apartment builders and wrecking yards move to the next best place; it certainly doesn't prevent strip development, inefficient land use, development in flood plains, blight, or other problems in the rest of the country, it simply relocates them. But for our purposes, it is sufficient to note that municipal incorporation was the solution to land use problems perceived by local home-owners.

## Local Control of the Tax Base

For a different set of cities, the motivation for incorporation was protection of the resource base. The City of Industry, for instance, was incorporated in 1957 along 18 miles of Southern Pacific and Union Pacific Railroad track. It was just wide enough to protect a large proportion of the county's industry from municipal property taxation in perpetuity, but not wide enough to have more than 700 residents. Irwindale was incorporated by the gravel companies that owned the great San Gabriel Valley pits that were supplying the postwar construction of freeways. The incorporation of Commerce guaranteed a high per capita sales tax revenue for the citizens and no municipal property taxation for the industry and commerce located within its boundaries. For a decade, Carson managed to fight off acquisitive annexation policies from Long Beach, which coveted Carson's oil property and fine location for industry. South El Monte, Cerritos,



Santa Fe Springs, Palmdale, and Downey similarly chose judicious boundaries around areas of high resources or growth potential.

## The Problematic Case of Low Resource, High Density Incorporations

The exclusive residential cities which incorporated to protect their land values through zoning decisions, and the commercial-industrial cities which incorporated to protect their rich tax bases, quickly established themselves as going concerns. Together, they accounted for everyone of 12 newly incorporated cities with per capita assessments of over $3,000 in 1970, plus Walnut and La Mirada.

But there are eighteen other cities in the central basin which are, in the words of one county official, "too small and too poor " to keep their heads above water during difficult periods such as the early seventies. Hawaiian Gardens was mentioned as one such problem city. Located between Long Beach and Orange County, it was already developed when it incorporated in 1964, and thus didn't incorporate to maintain an exclusive, semirural environment. It was a low-income area and so didn't incorporate to keep out the poor. It had no rich tax base capable of supplying high per capita service levels at low tax rates. What possible motivation did this and other similar cities have for incorporation? Were they acting in some noneconomic way that can only be explained by reference to something like "community pride?" What did these cities want with local control?

The explanation does not rest with the necessity of incorporation as a means of providing local services. Even if they were discontented with county services, as communities early in the century had been, they had the alternative of annexation, which looked, on the face of it, like a good economic bargain. The city of Lakewood, for instance, resisted annexation to Long Beach, an oil-rich city that was featured in a 1952 Saturday Evening Post as "The City with Too Much Money," a recreational shangri-la with money to burn (January 12, 1952: 70-76). Long Beach had a higher tax base, and was composed of a more diverse population with a higher median home value than Lakewood, which yet insisted on incorporating in 1954. In 1960, the citizens of Long Beach were getting the benefit of $110 per capita of municipal services, with a tax bill of only $49 for the median home-owner. The citizens of Lakewood, on the other hand, got a return of only $26 worth of services per capita for their median tax bill of $18. Had the citizens of Lakewood made an economic miscalculation when they incorporated? Weren't they getting a worse deal than the citizens of Long Beach?

If they had made a mistake, they had plenty of company. The citizens of at least a dozen other cities refused annexation to cities with much better tax bases, where their tax dollars, dollar for dollar, would have been converted into a higher level of services

One possible explanation is that of the public choice theorists, who argue that new cities incorporate in order to supply a different ixture of services to people with different sets of tastes. "Families with a similar tastes locate together, and often, incorporate as a municipality to preserve their selective residential environment." (Bish, 1971: 137). This argument receives some support from the Lakewood case; although Lakewood had a poorer tax base than



Long Beach, and although the citizens couldn't count on having as much money spent on its park department, Long Beach did not have a recreation program supplying activities in its parks on an active, continuing basis. And according to one of the founders of Lakewood, this was a key ommission; the Lakewood incorporators emphasized a multi-million dollar recreational program as a central part of their incorporation campaign, directed at the young veterans and their families who had settled in Lakewood. And after incorporation, the Lakewood leaders threatened to hold up zoning decisions requested by developers until they got donations of land for parks. These donations perhaps help explain why Lakewood was getting a better recreation program for less money than Long Beach was spending.

## The Continuing Case of Low-Resource, High-Density Cities

It is possible to make a convincing case for the public choice explanation of incorporation by looking at Lakewood. According to this explanation, the Lakewood inhabitants were acting rationally, because the lower expenditure per capita in Lakewood generated by the poorer tax base was worth more than the higher expenditure per capita in Long Beach, in that it was directed at the particular tastes of the Lakewood inhabitants.

However, there are still several problem communities for which this explanation of behavior does not seem to hold. There are many cities which were even poorer than Lakewood, and which couldn't offer their inhabitants an excellent recreation program; in fact, the mix of public services that they could afford seemed inferior in every way to that of the cities to which they could be annexed.

For example, Paramount, Bellflower, and Hawaiian Gardens surrounded Long Beach with even smaller tax bases than Lakewood's. Their budgets do not reveal that these citizens had any "special tastes" for public goods, like Lakewood's taste for recreation. What little money they had went for the same public services being supplied in greater quantity in Long Beach. Nor was incorporation in these cities a matter of protecting suburbs from the evils of big city-hood. Despite the fact that Paramount was spending only one-third as much per capita on law enforcement, it had a crime rate in 1972 of 684 per thousand inhabitants to Long Beach's 519.

The economic explanation that remains is that these communities sought local control, not of zoning power, not of a rich tax base, but of the <u>tax rate</u> decision. The motivation for incorporation in these problematic cities was protection from the high property tax rates of the potentially annexing cities.

Part of the evidence for this explanation is in Table 1. The cities of Bell, El Monte, Long Beach, Monrovia, Azusa, and Whittier (as well as Torrance and West Covina, not shown) were engaging in vigorous annexation campaigns during the forties, fifties, and sixties. In fact, the period of most intensive incorporation activity, 1954-1964, was also the period of most rapid annexation by these older cities. During six of these eleven years, more unincorporated land was annexed by older cities than was incorporated into new ones. Over-all, from 1950 to 1970, 192 square miles were annexed, while a total of only 156 square miles were incorporated.



(Table 1 goes about here)

The cities that incorporated in the immediate neighborhood of the annexing cities are shown beneath the annexing city in Table 1. In every case, the new city incorporated with a much lower tax rate than that available in the city threatening annexation. It was true of exclusive residential cities like Bradbury and La Mirada, it was true of commercial cities like Industry and Irwindale, and it was also true of lower-class cities with weak tax bases like Paramount and Hawaiian Gardens. (It was also true for other new incorporations not shown in the table.) The maintenance of low municipal property tax rates, in response to a threat of annexation, was the common denominator of Lakewood Plan incorporations.

While other motivations for incorporation, like regulation of land use, motivated at least the leaders in incorporation movements, the most basic and pervasive motive for incorporation was the avoidance of high property taxation. Every incorporation campaign with which I am familiar emphasized the commitment to low property taxes; where the leaders were unable to convince the electorate that the city would be viable without high property taxation, the incorporation would fail at the polls, as it did in the exclusive coastal city of Malibu in 1976.

The commitment to low property tax rates was maintained in a real, rather than symbolic manner. In 1970, several years after the duel between incorporation and annexation had begun to subside, all but one of the 45 prewar cities still had sizable property tax rates over $.50.

TABLE 1

TAX RATES FOR ANNEXING AND INCORPORATING CITIES

Geographic Cluster

| | Year of Incorporation | 1960 Tax Rate | 1970 Tax Rate |
|---|---|---|---|
| Bell | 1927 | 1.43 | 1.29 |
| Bell Gardens | 1961 | | None |
| Cudahy | 1960 | | None |
| Commerce | 1960 | None | None |
| El Monte | 1912 | .97 | .87 |
| Baldwin Park | 1956 | .13 | 1.31 |
| South El Monte | 1958 | None | None |
| Rosemead | 1959 | None | None |
| Temple City | 1960 | | None |
| Long Beach | 1897 | 1.37 | 1.52 |
| Bellflower | 1957 | None | None |
| Hawaiian Gardens | 1964 | None | None |
| Lakewood | 1954 | .53 | .08 |
| Paramount | 1957 | .20 | None |
| Carson | 1968 | None | None |
| Monrovia | 1887 | 1.76 | 1.58 |
| Azusa | 1898 | 1.45 | 1.45 |
| Bradbury | 1957 | .97 | .58 |
| Duarte | 1957 | .16 | None |
| Irwindale | 1957 | None | None |
| Whittier | 1898 | 1.50 | .82 |
| Industry | 1957 | None | None |
| La Mirada | 1960 | | None |
| Santa Fe Springs | 1957 | .49 | .49 |
| Pico Rivera | 1958 | .55 | None |



But in the same year all but eight of the thirty-two new cities had tax rates less than that figure. Only two residential cities, one a high-income suburb and one a low-income suburb, had allowed the property tax rate to creep up to $1.00.

This does not mean that expenditures were always low in the postwar cities. In cities where a lot of revenue was generated automatically by sales tax revenue or from federal or state grants, a great deal of money was spent. Industry spent over $2,077 per capita on its several hundred inhabitants, without a property tax. But there were 12 cities which spent <u>less than $49</u> per capita in fiscal year 1971: none of these cities raised any money through property taxation. If doing without property taxation meant spending $33 per capita, as in the elite suburb of Hidden Hills, or $39 per capita, as in the low-income city of Cudahy, then that is the amount of money that would be spent. Regardless of income class, the new cities' rule for expenditures was "spend everything you can get without a property tax."

Notice that this rule is more than simple price elasticity of demand, in which less is demanded as the price increases. The insistence on near-zero property tax rates is like a consumer who will take everything that is free, but nothing that costs anything--a very severe form of price elasticity indeed.

The implication of this behavior for the study of local governments is very important. The only economic explanation for over half of the incorporations in Los Angeles County since 1954 is that there was a sizeable group of individuals who didn't want to belong to local governments that would tax them in order to provide them local services. So far as these individuals were concerned, Long Beach, Whittier, El Monte, and the other older cities were supplying something they didn't want to buy. This raises some serious questions. Are municipally supplied goods nearly worthless, that so many individuals would rather do without than be taxed for them? Are municipally supplied goods extremely over-supplied in the older cities, and if so, why? What could explain a combination of ever-growing expenditures in the established cities, and an emphatic refusal to buy in the new municipalities?

To answer these questions, I feel it is necessary to consider both bureaucratic behavior, and the redistributional implications of new incorporations.

## THE SCALE OF GOVERNMENT IN OLD AND NEW CITIES

Old cities tax, and new cities don't. In fact, the new cities in Los Angeles were created precisely and primarily to escape property taxation.

The difference between the two kinds of cities is evident in Table 2. The scale of government (as given by the ratio of municipal expenditures to total tax assessments) is much larger in the old-line cities than the new cities, both in 1960 and in 1970; furthermore, the scale of government was growing during the period, most significantly in the areas of general government and public safety. Los Angeles spent on public safety a figure that



was 1.7 percent of the tax base in 1960, and 2.7 percent in 1970. It spent on general government an amount that was 1.3 percent of tax base in 1960 and 2.5 percent of the tax base on general government in 1970.

(Table 2 goes about here)

Why have the budgets of these older cities grown? One explanation is gradual bureaucratic expansion due to political pressure from employees of public agencies, the inability to determine the efficacy of public moneys spent on many urban problems, and incrementalism in budgeting. The inexorable, incremental nature of budgetary expansion is borne out by data on the growth in municipal fire and police budgets, between 1950 and 1970. While price levels increased by 2.13 times during this period, police expenditures per capita increased over three times as fast, and fire expenditures almost four times as fast. In Long Beach, police and fire expenditures per capita increased over four times as fast as inflation.

Why have the citizens of these older cities allowed such budget growth? One possible answer is that increased budgets are viewed as being the result of each city getting a bigger share of the federal and state aid pie. But if budgets were growing because of federal and state aid, the property tax rates would either decrease or stay the same. However, in Los Angeles, regression results suggest that tax rates have increased by an average of 5 percent a year, controlling for changes in property assessments, and that increases

Table 2

TOTAL MUNICIPAL EXPENDITURES AS A PRECENT OF TOTAL ASSESSMENTS, 1960 AND 1970

| | 0-1.0% | 1.0-2.0% | 2.0-3.0% | 3.0-4.0% | 4.0-5.0% | 5.0-6.0% | 6.0% + | Total |
|---|---|---|---|---|---|---|---|---|
| Prewar cities (1960) | - | 1 | 6 | 20 | 17 | 1 | - | 45 |
| Postwar cities (1960) | 5 | 6 | 9 | - | 1 | - | - | 21 |
| Prewar cities (1970 | - | 1 | 3 | 6 | 17 | 8 | 10 | 45 |
| Postwar cities (1970) | 1 | 4 | 9 | 14 | 2 | 1 | 1 | 32 |



in assessments have gone at least partly towards increased property tax revenue rather than tax relief.[1] As a result, tax rates went from $1.85 in 1950 to $2.88 in 1977. Tax rates followed a similar pattern in most other older cities, rising from $1.19 in Long Beach to $2.70 in 1977. The question becomes more narrowly focused as "Why do populations allow budget growth that results in property tax rate increases?"

THE REDISTRIBUTIONAL IMPLICATIONS OF OLD AND NEW CITIES

Having begun by examining the motivations for new incorporations, the problem has become one of comparison of old and new city finances. The size of the budgets in the older cities becomes even more interesting in combination with the observation that municipally supplied services seem to be crowdable, "private" goods, which could in theory by more efficiently provided by market mechanisms rather than public bureaucracies (see Bergstrom and Goodman, 1973). Why are tax rates increased to provide larger budgets to increase public supplies of private goods?

The answer is suggested by a model developed by economists Bushanan and Spann (Bushanan, 1971; Spann, 1975). This model shows that under certain situations, a majority of the population may prefer to have private goods inefficiently but collectively supplied. The reason for this is <u>redistributional</u>; the cost-sharing implicit in collective provision of a good at a uniform level makes it possible for lower classes to get more of the good at the expense of subsidies from the upper-income classes. Although the lower income individuals would be experiencing what has been called "conformity costs" because of collective provision of the good at a uniform level, they would be better off enduring these conformity costs than privately consuming a lesser amount of the good determined by their private budget constraint.

If the median voter's tax share is less than the market price, then the aggregate collective consumption would be greater than aggregate private consumption. Thus, through majority rule, the private good could be consumed collectively, and at greater aggregate levels.[2]

There is reason to think that in Los Angeles County, this model could go far to explain the discrepancy between the high budget levels of the established cities and low budget levels of the new cities.

Demand for municipal expenditures can be estimated by replicating the Bergstrom-Goodman regression analysis for 1970 expenditures in the 70 Los Angeles County cities with populations greater than 2,500. The Bergstrom and Goodman analysis, like the Buchanan-Spann model, assumes that local expenditures are supplied at a level demanded by the median voter, and that the individual demand is a function of median tax shares (T), median family income (I), and municipal population (N). (Median tax share is operationalized as the median home value divided by total property in the municipality.) Results of estimation of this model by means of a double log regression, are in Table 3.

(Table 3 goes about here)

As formulated by Bergstrom and Goodman, municipal population



Table 3

ESTIMATES OF DEMAND FOR MUNICIPAL EXPENDITURES, 1970

$$Exp = kI^{\epsilon}T^{\delta}P^{\gamma(1+\delta)}$$

| | Police | Streets | Total |
|---|---|---|---|
| Income Elasticity $(\epsilon)$ | .29<br>(.18) | .35<br>(.27) | .54*<br>(.20) |
| Tax share elasticity $(\delta)$ | -.60*<br>(.08) | -.51*<br>(.12) | -.85*<br>(.09) |
| Population elasticity $(\gamma(1+\delta))$ | .52*<br>(.08) | .56*<br>(.12) | .34*<br>(.09) |
| Crowding term $(\gamma)$ | 1.3 | 1.14 | 2.27 |
| k | 1.70 | .76 | .67 |
| $R^2$ | .91 | .81 | .91 |
| F | 225.9 | 91.3 | 209.7 |

$$Exp = kI^{\epsilon}T^{\delta}P^{\gamma(1+\delta)}H^{\alpha}$$

| | Police | Streets | Total |
|---|---|---|---|
| Income elasticity $(\epsilon)$ | .78*<br>(.18) | .55<br>(.31) | .98*<br>(.21) |
| Tax share elasticity $(\delta)$ | -.60*<br>(.07) | -.51*<br>(.12) | -.84*<br>(.07) |
| Population elasticity $(\gamma(1+\delta))$ | .52*<br>(.07) | .56*<br>(.12) | .34*<br>(.08) |
| Home-ownership elasticity $(\alpha)$ | -.62*<br>(.12) | -.24<br>(.21) | -.57*<br>(.15) |
| Crowding term $(\gamma)$ | 1.3 | 1.14 | 2.13 |
| k | .21 | .33 | .10 |
| $R^2$ | .94 | .81 | .92 |
| F | 241.0 | 69.15 | 195.0 |

*Parameters are significant at .05 level.

enters into the demand function both because of its "crowding" effect $\tau$ and because greater population decreases the tax share cost to the individual, depending on both the crowding effect and the tax share elasticity. Together, the observed population elasticity $\alpha$ is equal to $\tau(\delta + 1)$, and the crowding parameter is estimated as $\alpha/1 - \delta$. With this estimation, police, parks, and streets are crowdable goods, as are over-all municipal expenditures.

But further, demand for these municipally supplied goods is highly elastic with respect to tax share and income, as suggested by the above models. As income goes up, demand increases, but as tax share increases, demand decreases. The conditions for redistributional provision of municipal goods are met. Middle-class families with a large investment in their homes will prefer to have less municipal provision of the goods.

But renters do not directly pay the property tax, and may be subject to "fiscal illusion," in that they do not perceive that the property taxes paid by their landlords are passed on to them, or they may not be as aware of the size of the property tax on the property, as is the landlord who actually pays it. In either case, they would demand more municipal services than they would if they owned similar property. Therefore, demand for expenditures may increase with the likelihood that the median voter is suffering from fiscal illusion. The proportion of home-owners in the municipality is taken as a proxy for this variable.

As can be seen from Table 3, this variable adds significantly to the analysis of local government expenditures, and in the right



direction. As the probability that the median voter is a home-owner increases, demand for municipal expenditures decreases sharply.

What does all this have to do with the creation of the Lakewood Plan cities? These cities were created as an early manifestation of the tax revolt which has become most evident since passage of Proposition 13 in June of 1978. For home-owners, who do not suffer from fiscal illusion with regard to property taxation, the presence of property tax indicates, "You're not getting someone else to pay for municipal services." But lacking this redistributional advantage, there is no reason for essentially private goods to be supplied collectively. Police protection can be partially replaced by means of dogs, automatic alarms, fences, guns, and maintenance of a high-income neighborhood. Fire protection can be provided voluntarily, as it is in La Habra Heights. Parks and recreation can be provided by means of back-yard tennis courts and swimming pools. Books can be purchased rather than taken from the library. The Lakewood Plan minimal cities were created, not for reasons of efficiency, but as a way out for property owners who didn't want to pay for municipal provision of private services, provided publicly for redistributional reasons, and institutionally nurtured by bureaucratic budget incrementalism.

Evidence for this interpretation can be garnered by a study of home ownership in Los Angeles municipalities. In 1960, every one but one of the low-resource, "problem" incorporations were majority home-owning cities. Between 1960 and 1970, home-ownership in the county as a whole dropped dramatically, but those individuals who were home-owners continued to be attracted to the Lakewood Plan cities.

By 1970, only 45 percent of the habitations in the cities with tax rates of over $1,000 were owner-occupied. But, despite the suburban apartment boom of the late sixties, owner-occupancy rates stayed at 60 percent in the low tax rate cities. Thus, as predicted by Tiebout, there was a gradual sorting out of the Los Angeles County population, with home-owners comprising the majority in the minimal, low tax-rate suburbs, and renters comprising an increasing majority in the large-scale, high tax-rate cities.

The Effect of Bureaucratic Incrementalism

There is something of a contradiction within this paper which I feel it is incumbent upon me to resolve. Earlier in the paper, I suggested that budgets, at least in the older cities, increased in an irresistible, incremental way. That the newer cities are not immune to budget incrementalism is shown by increases in their scale of operation, shown in Table 2. On the other hand, I used the Bergstrom and Goodman mode of analysis which assumes that the median voter's level of demand is authoritative, and that bureaucratic pressure for budget expansion can be ignored.

One way to reconcile the Bergstrom and Goodman analysis with bureaucratic supply is to examine the residuals. If older, more bureaucratic cities are politically immune from voter demand, this should be evident in discrepancies between actual expenditures and those predicted by the demand model. Figure 1 shows the ratio of the residual expenditure to demand for municipal expenditure, graphed over year of incorporation. Expenditures beyond those predicted by the demand model increase with city age. The best-fitting regression line, which explains over one-quarter of the variation in these ratios, shows that expenditures increase an additional 7.4 percent beyond demand for every ten years of age. (Standard error for this estimate is 1.5 percent. The F ratio for the regression is 25.7)



[Figure 1 goes about here.]

CONCLUSIONS: MOBILIZATION OF BIAS VS. INSTITUTIONALIZATION OF BIAS

The above analysis suggests that municipally supplied services are crowdable, market-like goods, and that the expansion of collective provision of these services in old-line cities is undertaken for redistributional and bureaucratic reasons. Low-income individuals, especially if they are renters, feel that expansion of services may provide them with more of the service than they could afford on their own private budget constraints. While these individuals may not be political activists, the political "push" for this expansion is provided in a natural, institutionalized way by budget incrementalism in bureaucratic agencies. Because of this, it is left to those who are hurt by this redistributional activity to express their dissatisfaction as best they can.

As Hirschmann, has written, when faced with unsatisfactory organizational behavior an individual can express his dissatisfaction by "exiting" the organization or by "voicing" his disapproval to the organization (1970). Voice, in order to be effective, requires the organization of like-minded individuals in an effort to change the institution; voice is therefore dramatic,

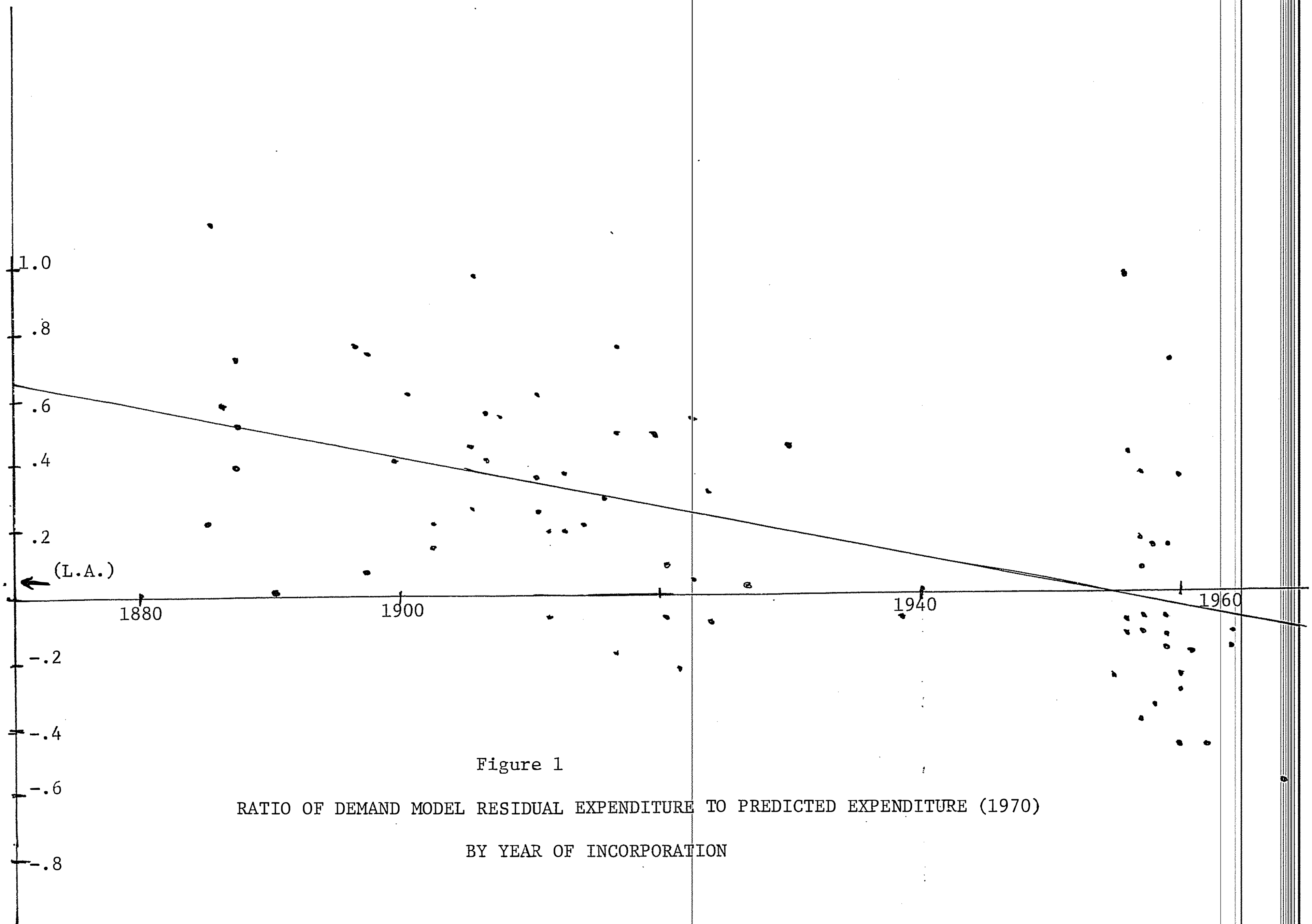



Figure 1

RATIO OF DEMAND MODEL RESIDUAL EXPENDITURE TO PREDICTED EXPENDITURE (1970)

BY YEAR OF INCORPORATION

sudden, and conflictual. The voice of middle-class frustration with the redistributional expansion of local services was articulated in this dramatic way by the Jarvis campaign against property taxation earlier this year. Few would doubt the essentially redistributional nature of this conflict. In the landslide election, 72 percent of the property owners voted for the "American dream" of the single family home, while renters voted against the Jarvis Amendment (only 47 percent yes votes). The middle-class families with incomes between $15 and $25 thousand were the strongest supporters.

Schattschneider called this style of politics the "mobilization of bias" (1960). This is an accurate description of the politics of voice. But not all redistributional conflicts are as dramatic as those characterized by vocal, organized, electoral campaigns. Other redistributional conflicts are quieter, and involve individuals acting as individuals within a given institutional context, rather than in groups to change the institutional context. They may involve just as much of an interest bias and conflict, but without the organized mobilization, and therefore these conflicts may be called instances of "institutional bias". This paper has identified two cases of conflicting institutional bias in Los Angeles politics. The first is the natural, institutionalized expansion of bureaucratic budgets in old-style municipalities. Without any organized campaigns or hullabaloo, municipal budgets expand in a manner that is redistributionally biased in the favor of city officials and low income groups.



The incorporation of Lakewood Plan cities created a counter-vailing form of institutional bias. The exit of middle-class individuals from old-line cities to the new cities was again a case of individuals acting in a rational, self-interested way within the context of established institutions, and again it had a redistributional bias. These cities provided institutional havens from the redistributional expansion of local services, just as the Jarvis Amendment was intended to do for the state as a whole. Also like the Jarvis Amendment, the exit of middle-class individuals had detrimental effects on bureaucrats and lower-class and minority individuals. These individuals became more concentrated in the old-line cities along with the symptoms of urban crisis: crime, blight, and unemployment (see Miller, 1977). On the other hand, retial firms, light industry, and property tax values followed the middle-class to the suburbs. The geographic discrpeancy between the most pressing urban needs and the most productive urban resources increased.

Although voice is widely recognized as conflictual and redistributional, exit is often thought of, since Tiebout, as a means of increased allocational efficiency. The case of Los Angeles seems to suggest otherwise. In the case of both voice (the Jarvis Amendment) and exit (the migration to the Lakewood cities), the politically relevant question is "Who shall be helped, and who hurt, by the organization of government in metropolitan areas?"

## FOOTNOTES

1. The regression model used for this result was suggested to me by John Ferejohn. It assumes that property tax revenue in a year t is a constant proportion of property tax revenue in year t - 1. Since property tax revenue equals the tax rate times assessable property, the model can be rewritten as:

$$(\text{Tax rate})_t = k(\text{Tax rate})^{\alpha}_{t-1} \text{ Assessable property } t/\text{assessable property}^{\beta}_{t-1}$$

   Double log regression estimates of this model, using Los Angeles city data from 1950-1976, gives k = 1.05.

   $\alpha = .99$, and $\beta = .51$.

   Alpha is not significantly different from one, so the linearity assumption is met in that respect, but beta is significantly less than minus one, so that not all of the increases in property assessments is used for a proportional decrease in tax rates. Controlling for changes in assessments, there is a constant 5 percent increase in tax rates every year.

2. For instance, in the accompanying graph, borrowed from Spann (1975), three individuals with different incomes have different demand schedules for some private good. At the market price (MP), the rich individual would buy more than the middle-class individual, who would buy more than the poor individual. However,



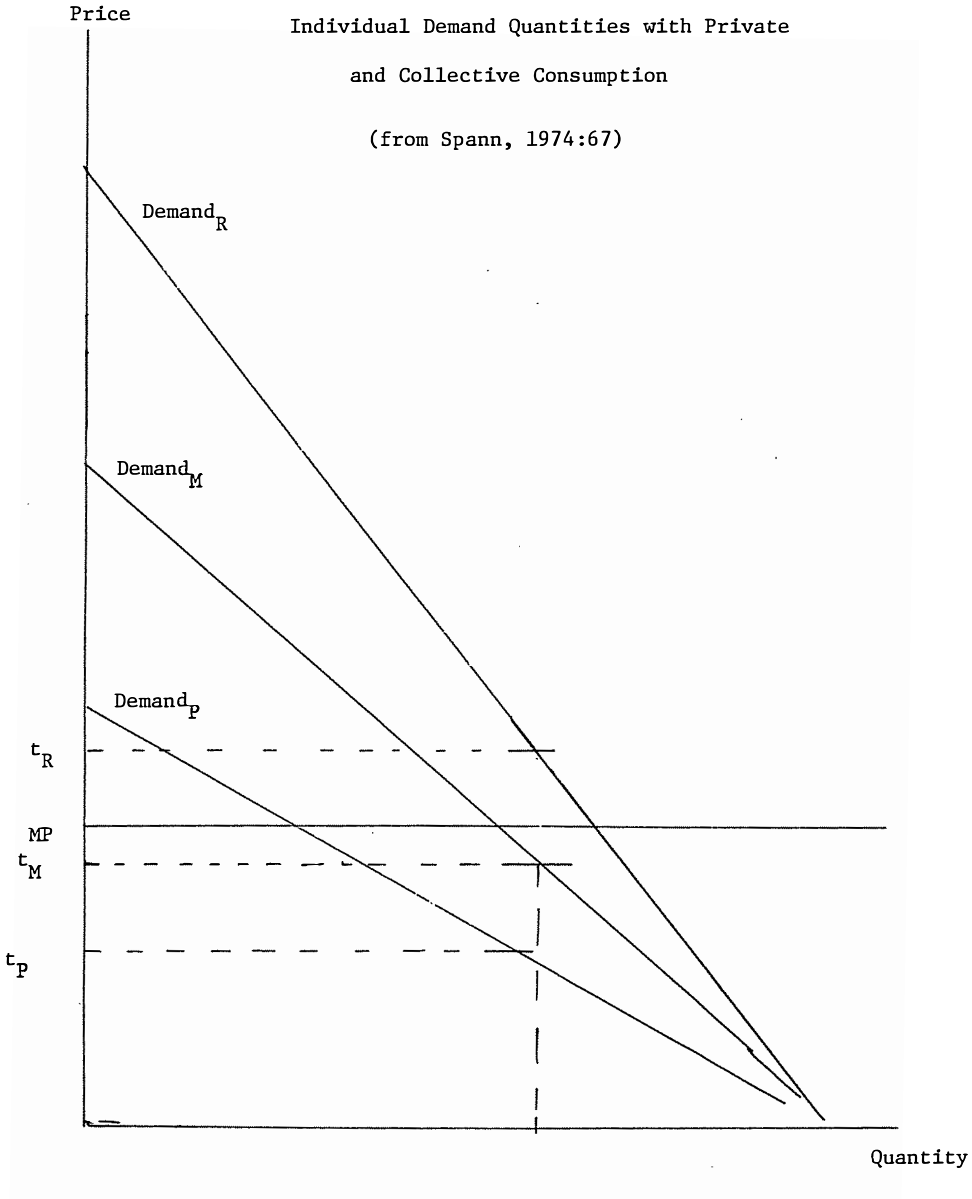
with collective consumption of the private good, the price is determined by his tax share. (If the community budget is to balance, the three tax shares must equal three times the market price). Unless the taxing system is very regressive indeed, the low income individual's demand will increase under a perceived "price decrease," and the upper-income individual's demand will decrease under a perceived "price increase." In the instance pictured in Figure 2, both the middle-class and lower-income individuals would be better off with the collective provision of the good, and the per capita quantity supplied, by the median voter rule, would be greater than the average bought under the private market institution. The rich individual would be worse off, subsidizing the price decrease for the other two individuals.

FIGURE 2

Individual Demand Quantities with Private

and Collective Consumption

(from Spann, 1974:67)



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