

The Impact of Decentralization on Municipalities

Jessica Hennessey
Associate Professor
Department of Economics
Furman University
3300 Poinsett Highway
Greenville, SC 29609
jessica.hennessey@furman.edu

June 4, 2018

Abstract

The municipal home rule movement of the late 19th and early 20th centuries decentralized control from the state and gave municipalities the ability to independently draft and adopt a municipal charter. Since not all states adopted home rule, and not all states that adopted home rule did it at the same time, the natural episode presents a rich ground for empirical study. There are several avenues on which to explore the effect of decentralization on outcomes. Previous research has considered the effect of decentralization on expenditures or on types of services provided. In the case of home rule, did the ability for municipalities to write their own charters and determine their own structure and functions result in different outcomes relative to municipalities who were not given the option? As much of the research in fiscal federalism deals with decentralization at the federal level, this paper serves as a nice complement as it investigates decentralization at a sub-national level and thus holds constant important country-level variables. Preliminary evidence seems to indicate that home rule had an effect both on municipal debt and on the composition of the municipal population.

I. Introduction

Despite a long history of significant differences across states, the ways in which states have structured local governments are similar. Historically, states initially possessed complete authority over local governments. In a certain sense they still do, as local governments are pure creatures of the state and do not inherently possess power of self-determination or control. States are free to incorporate local governments as they deem fit and to specify how each local government is to be organized and how it is to be run. Over time, some states have formally chosen to devolve powers to the local level. A state can create institutions which grant citizens some discretion over how their local governments operate. The range of local government self-rule varies across states and time. At the most liberal extreme, local governments gain control over the process of chartering. With access to chartering powers, local governments can make decisions that determine the specific functions and operation of the local government. An example of liberal decentralization was seen through the municipal home rule movement of the late 19th and early 20th centuries. The effect of that state grant of access to home rule chartering on municipal level outcomes is evaluated here.

While the term home rule does not have a uniform and exact legal definition, the idea implies the transfer of specified government powers from the state to local governments. The concept is parallel to devolution, often used to describe decentralization of power in other countries and historical periods. While devolution encompasses a wide range of transferred powers and responsibilities across different types of government structures, the home rule movement in the United States can be described relatively narrowly. Home rule in the United States appeared in state constitutions, granting municipalities the authority to frame and adopt their own charters.

The institution of municipal home rule first appeared during a quite lively period for local governments. According to Holcombe and Lacombe (2004), in 1820 local government expenditures were just 13.5% of total government expenditures. By 1902, that number was 58.8%, and reached its peak in 1913 at 64%. Wallis (2000) highlights the growing importance of local government relative to

state and local governments; in 1840 per capita local government revenues were about 40% higher than state revenues, but by 1900 they were 260% higher. Both Holcombe and Lacombe and Wallis present these statistics to motivate further exploration into why and how local governments were growing and changing relative to the other levels of government. Part of the growth in local level governments can be attributed to changes such as the rapid urbanization of cities. But, that change alone cannot characterize the expansion of local governments; as the population became increasingly urban over the 20th century, local governments were surpassed by the federal government. A supplemental explanation may be found in the fundamental changes in the state provisions for local governments, one of which was the adoption by some states of home rule. The grant of home rule impacts the way municipal governments choose an efficient structure and the optimal set of public goods.

The state of Minnesota adopted constitutional home rule for municipalities in 1896. Hall (1906, p.7) describes the difference home rule had made for municipalities in Minnesota. He argued that:

Already the small municipalities are finding themselves better governed than before; the spirit of freedom, long confined, becomes a light in the community life: while other cities, less progressive, go lumbering on, under out-grown legislative grants. No municipality, though it be small in numbers, is deprived of the home rule privilege: thinking men and understanding voters there must be; but, with these present, the benefit may be secured.

Did the pursuit of home rule charters have these anticipated effects on municipal governance? This paper explores the possible dimensions on which home rule charters may have affected municipalities by looking at different outcomes. The evidence suggests that home rule affected both the operations of the municipality as well as the composition of the electorate. While home rule may not be as avant-garde now as it was in the early 20th century, it is an institution worthy of a deeper understanding by those interested in how local governments operate. In 2001, Krane, Rigos and Hill reported on the status of home rule in America. While the authors note that home rule is an "antique" idea, they contend that home rule has a bearing on policy decisions and can directly influence six areas of state-local relations: service provision, policy tools, interstate variation, trends shaping local governments,

federalism, and democracy. The evaluation of this historical episode of devolution of power can inform and impact the future role of local governments in America's federalist system, as local governments continue to be responsible for providing communities with basic service provision and satisfying local needs.

II. The evolving State-Municipal relationship

As municipal governments are creatures of the state, the power of municipalities is determined by the restrictions and freedoms delineated by state governments in their constitutions. The design of the state-municipal relationship in state constitutions has changed over the last two hundred years. The first state constitutions institutionalized the routines of the colonial governments with respect to localities, often drawn from the English experience with the establishment of boroughs which tended to treat municipalities individually. The routines usually involved passing special legislation for municipalities, which were unique laws passed individually for each municipality as needed by the municipality. Later, some states moved away from special legislation to handle standard municipal needs and toward general legislation. General legislation provided a uniform set of laws for each set class of municipalities. The issue with these general laws was often one of interpretation – how did a municipality operate under general law?

Categorizing Constitutions: Dillon's Rule versus the Cooley Doctrine

There is wide variation in the degree to which states delegated autonomous decision-making to local governments. The content of state constitutions may seem straightforward to compare, but every detail of constitutional text is subject to interpretation. To simplify the analysis of the state-local relationship, legal scholars have categorized the states as either operating under Dillon's Rule or the Cooley doctrine. Under Dillon's Rule, local governments are creatures of the state who can only exercise those powers which are expressly granted by states. The Cooley doctrine reflects a much more liberal

grant of power from the state to local governments by asserting that local governments have inherent rights of self-control. The two perspectives are often contrasted because of the different degree of autonomy given to local governments. However, the important similarity between the two views is that they both represented active definitions of the state-local relationship. A state which invoked Dillon's Rule tied the hands of local government officials. No longer could local government officials assume that they had free reign over local affairs. At the same time, state legislatures were now given the responsibility over the organization and governance of local governments. While Dillon's rule added accountability between the state and local governments, the Cooley doctrine recognized the separateness of different levels of government. The two points of view were part of the process of determining the boundaries of the once undrawn state-local relationship, both of which were inspired by judgments in specific cases heard by Judge Dillon and Judge Cooley.

In 1868, Chief Justice John Dillon of the Iowa Supreme Court ruled on two cases which defined his perspective on the state-local relationship. In *City of Clinton v. Cedar Rapids and Missouri Railroad Company*, Dillon wrote that "municipal corporations owe their origin to, and derive their power and rights wholly from the Legislature...As it creates, so may it destroy."¹ In *Merriam v Moody's Executors*, Dillon said municipalities could only exercise the following powers: "First, those granted in express words; second those necessarily implied or necessarily incident to the powers expressly granted; third those absolutely essential to the declared objects and purposes of the corporation- not simply convenient, but indispensable; fourth, any fair doubt as to the existence of a power is resolved by the courts against the corporation - against the existence of the power." Both limited the powers of local governments to those expressly granted by the state. For his judgments in the courtroom and his resulting work *Commentaries on the Law of Municipal Corporations*, this interpretation of state-local relationship was

¹ Zimmerman (2008), p 165. Originally from *City of Clinton v. Cedar Rapids and Missouri Railroad Company*, 24 Iowa 455 (1868).

coined Dillon's Rule. However, this particular notion of the state-local relationship was not new; several states defined this structure earlier in the nineteenth century.²

The Cooley doctrine originated from the judgment of Michigan Supreme Court Judge Thomas Cooley in *People v Hurlbut*. The statute at issue had created a board of public works for Detroit with members to be appointed by the state legislature. In his concurring opinion, Cooley wrote that "local government is a matter of absolute right; and the state cannot take it away. It would be boldest mockery to speak of a city as possessing municipal liberty where the state not only shaped its government, but at discretion sent its own agents to administer it; or to call the system one of constitutional freedom under which it should be equally admissible to allow the people full control in their local affairs, or no control at all."³ Cooley's perspective provided backing for the idea that municipalities had inherent rights not specifically laid out by the state government.

While looking at the issue today, it can seem as if there was tension between the Dillon and Cooley perspectives, in the late 19th century, most states accepted that Dillon's Rule was the prevailing view of the relationship between state and local governments.⁴ The interpretation was that local governments, by definition creatures of the state, only possessed powers granted to them expressly by the state government. Dillon's Rule serves as a point of departure for some states. In the late nineteenth and early 20th centuries, some states chose to rearrange the relationship between the state and municipal governments. Instead of municipalities only having those powers which are expressly granted by states, municipalities in some states are given the opportunity to seek additional control over municipal affairs through home rule chartering.

Home Rule

² The work of Joan Williams uncovers evidence that shows royally chartered municipalities were subject to the will of the legislature in Maryland, Pennsylvania and Virginia. There were also cases in Massachusetts in the early 19th century which ruled that towns were corporations of limited powers and subordinate to the state. (ACIR 1993, p 31.)

³ Cited from ACIR (1993), p 34. Originally from 24 Michigan 108 (1871).

⁴ The only states to practice the Cooley doctrine in some form were Indiana, Nebraska, Iowa, Kentucky and Texas. (ACIR 1993, p 34.)

Home rule granted each municipality the ability to independently draft its own charter instead of being subject to operation and organization under the general state parameters for municipalities. A home rule charter is a formal recognition of self-determination and a framework for government that is locally designed and determined. As Kimball (1922) explains, a charter generally grants power in five areas: (1) the powers incident to all corporations; (2) power to levy taxes; (3) power to appropriate and spend money; (4) power to perform certain services; and (5) power to enact and enforce local police ordinances.⁵ We see this power explored as municipalities used home rule charters to expand the range of local powers and functions, often as a means to facilitate ownership and operation of utilities. Not only could home rule powers change the scope of activities, a charter could also change the way municipalities operated. As Hennessey (2014) describes, the adoption of a home rule charter allowed for substantial structural changes. For example, Michigan municipalities under home rule could choose to operate as a commission or city-manager form of government while municipalities remaining under general law had to operate as a weak mayor-council government. In addition, home rule could change the relationship between the electorate and politicians and increased accountability by including access to initiative, referendum and recall in the municipal charter.

Figure 1 shows the adoption of home rule across states and across time. There are obvious differences in which regions were more likely to adopt home rule. There are also differences in the design of the institution of home rule over time. The first wave of constitutional home rule provided self-rule for large cities. Missouri and California adopted home rule provisions to address the needs of the most populous cities, St. Louis and San Francisco, respectively.⁶ In 1875, Missouri's constitution allowed cities with more than one hundred thousand residents the option to "frame a charter for its own government, consistent with and subject to the Constitution and laws of this State." If the citizens of St. Louis desired a home rule charter, a board of thirteen freeholders could convene to draft a charter. The

⁵ Kimball (1922), p 376, which refers to the classification by Goodnow and Bates in Municipal Government and to work by Dillon.

⁶ In both states, home rule was given to cities over one hundred thousand residents. Other cities became eligible for home rule chartering as their populations grew (such as Kansas City in 1889). California extended home rule privileges to cities of 3,500 or more in 1892.

proposed charter would be published in local newspapers for review prior to citizens voting on it. If four-sevenths of the qualified voters approved, the home rule charter would supersede any existing charter. Amendments could be made with the approval of three-fifths of the voters. In 1879, California included a similar provision in its new constitution. The framework for adopting a home rule charter imitated that in Missouri, except California required 15 freeholders to draft a charter and a majority of voters to approve it.⁷ In addition, the home rule charter could not be amended in intervals of less than two years. This initial attempt at including a home rule provision required refinement; California's home rule provision was amended 8 times by 1914, and a total of 12 times by 1936.

The second wave of constitutional home rule did not arise out of concern for large cities. Rather, states saw benefits of home rule reaped by cities like St. Louis and Los Angeles, and wanted to afford smaller municipalities those privileges. In 1889, Washington's first constitution included home rule chartering privileges for cities with more than twenty thousand residents. In 1896, Minnesota passed an amendment granting the home rule option to any city or village. In the following 16 years, another 8 states granted constitutional provisions for home rule authority.⁸ Six out of the 10 states in the second wave of constitutional home rule had a similar framework for the creation and adoption of a home rule charter. These states followed the process laid out in the Missouri and California constitutions, calling for a board of freeholders to draft a charter, the publication of the proposed charter, and a vote by citizens. If approved by a majority of electors, the charter became the foundational law of the city.⁹ An important distinction from the California example was allowing amendments as frequently as proposed; states did not impose a minimum interval between amendment proposals.¹⁰ The other 4 out of the 10 states (Colorado, Oregon, Michigan and Texas) had less detailed constitutional home sections. In Michigan and

⁷ Oberholtzer (1893) notes that the Chairman of the City, Township and County Organization at California's 1875 charter convention admitted that the idea was copied almost exactly from the constitution of Missouri, p 85.

⁸ Colorado (1902), Oregon (1906), Oklahoma (1907), Arizona (1910), Michigan (1912), Nebraska (1912), Ohio (1912), and Texas (1912). The largest population requirement for home rule in these states was five thousand residents, imposed by Nebraska and Texas.

⁹ Minnesota was the only state in this group that didn't require a majority, instead four-sevenths was needed to pass.

¹⁰ The exception was Texas which, like California, stated that amendments couldn't be imposed more frequently than every two years.

Oregon, this was because constitutional home rule was non-self executing. The constitution merely said there should be general laws to allow for home rule; further legislature was required by the state legislature to actually implement home rule.

The third phase of home rule is defined by uncomplicated provisions and the scarcity of states that adopted the institution.¹¹ The trend began when Pennsylvania approved home rule in 1922 for cities with more than ten thousand residents. The simple provision in Pennsylvania's constitution grants the "right and power to frame and adopt own charters and to exercise the powers and authority of local self-government...restrictions...as may be imposed by the Legislature."¹² Other states with similar uncomplicated grants of home rule were West Virginia (1936) to municipalities of more than two thousand; Maryland (1954) to any municipal corporation; Alaska (1959) to all cities of the first class; and Hawaii (1959) to any political subdivision.¹³

In 1960, Kansas ushered in a new, substantially different period of home rule. The state offered clarity on the extent of home rule control, stating that "powers and authority granted cities pursuant to this section shall be liberally construed for the purpose of giving to the cities the largest measure of self-government." An illustrative change was the amendment in Iowa (1968), stating "the rule or proposition of law that a municipal corporation possessed and can only exercise those powers granted in express words is not a part of the law of this state." This was an explicit challenge to Judge Dillon's ruling 100 years earlier. Illinois established constitutional home rule in 1970, generously decentralizing control so municipalities "may exercise any power and perform any function pertaining to its government and affairs....powers and functions of home rule units shall be construed liberally." Four other states did not grant such broad freedom, but were explicit in defining what authority home rule municipalities did

¹¹ Rhode Island was an exception. In 1951, the state granted home rule to any municipality. The constitutional amendment retained the cumbersome structure of a board of freeholders, charter conventions, specific election procedures, etc.

¹² While the constitution was changed in 1922, legislature did not take action on home rule until 1949.

¹³ Some scholars list New York as adopting home rule legislation in 1924. It was home rule only in name. While it did grant local control over several specific powers, it did not allow municipalities to adopt, enact and amend their own charter. Municipalities were still severely restricted in their operation.

possess.¹⁴ In general, home rule municipalities were granted domain over everything that state legislatures could manage for non-home rule municipalities, and had all legislative powers not expressly denied by general law.

Since the first and second phases of home rule coincide with the growth in local governments in the United States and since the third and fourth phases are distinctive in terms of the content of the home rule provisions, this paper only considers the effect of home rule charters in states during the initial two eras. In these early periods, what effect did access to home rule charters have on municipalities? Since not all states adopted home rule and not all municipalities within a state adopted home rule when afforded the opportunity, the historical record offers some interesting comparisons both within and across states.

III. The impact of government structure on outcomes

Many scholars have been interested in better understanding the effect of government form on government outcomes. A general field of interest is whether or not the calls from the Progressive movement had a measured impact on cities; see for example, Hofstadter's (1955) discussion on the progressive impulse in urban areas. Lineberry and Fowler (1967) directed attention towards the investigation of municipal tax and expenditure levels, specifically looking at whether political structures had an impact on policy outcomes. Using data from 200 cities in 1960, they found that holding constant socio-economic variables, reformed cities with "new" governmental structures (commission or manager form) had lower taxes and expenditures than cities that remained unreformed (mayor-council form). As a contrast, Clark (1968) studies 51 cities in 1960 and finds that a more reformed government (as indicated by a high index of reform government) was associated with higher expenditures. Since then many scholars have added to the exploration of the impact of reformed structure on outcomes; the empirical debate remains unresolved.

¹⁴ South Dakota (1963), North Dakota (1966), New Mexico (1970), Louisiana (1974).

While home rule charters can involve instituting a reformed organizational structure as described above, they also involve broader institutional change which can include establishing a new organizational form, allowing for more decentralized decision-making, and increasing the accountability of public officials. These changes can have an impact on several different areas: efficiency, service provision, and changes in the composition of the electorate. With respect to efficiency, one hypothesis is that by allowing greater flexibility in government organization and operation, a home rule charter municipality may be more accountable to the electorate and thus more efficient. For example, rapid urbanization required cities to provide new public services, but they were often constrained by the governance structure under general legislation and needed to have a flexible charter through which they could promote internal reorganization. Fox (1977, p. 90-91) notes that the “best that a city of the 1880s could hope for in the way of efficient service provision was economical handling of its purchases and supplies of labor,” as the city was not able to supervise labor and projects like private firms. Alternatively, a home rule charter might also allow for greater political expropriation and inefficiencies as presented Brennan and Buchanan’s (1980) Leviathan model. Thus, with respect to efficiency, it is theoretically ambiguous what effect a home rule charter may have. With respect to service provision, home rule may allow for a better match of preferences and result in a different scope of services provided. Finally, a home rule municipality may adopt changes that either encourage people to move in or force people to move out. These push and pull factors may force the minority out through Tiebout sorting. Thus, home rule may have an effect on the composition of the electorate within a municipality.

There has been some research on the specific institution of home rule, although previous work has focused more on the service provision of contemporary county governments instead of municipal governments in the 19th century. Turnbull and Geon (2006) explore the role of home rule in county governments. Using a cross sectional dataset of counties from thirty-eight states in 1990, they explore what factors drive government expenditures and whether the amount of government expenditures is consistent with a median voter hypothesis. A priori, the effect of home rule on county governments is theoretically ambiguous as described above. The authors’ results provide some empirical evidence for the

Leviathan hypothesis, especially in rural counties. Bunch (2014) also explores the institution of home rule with respect to county governments. One contribution is that the paper utilizes a panel dataset of counties in Florida over the span of 30 years. Bunch finds evidence that having a home rule charter increases redistributive expenditures by the county government, and more so for counties that are more liberal. The findings are consistent with Percival et al (2009) who also find that ideology has an effect on spending through home rule charters. While the research captures some of the difference by pointing out that the effect of home rule may be heterogeneous across local governments, nothing is done to address the fact that certain local governments are more likely to adopt home rule.

A generalized version of the regression used in Bunch (2014) and Percival et al (2009) to investigate the relationship between a home rule charter and government expenditure, where X is a vector of observed variables that affect spending by a government and HR is a binary variable representing operation under a home rule charter, could be described by:

$$expenditure = \alpha + X\beta + \delta HR + HRX\pi + u \quad [1]$$

However, one might also consider a model to explain a government's adoption of a home rule charter which may be given by a generalized equation, where Z is a vector of observed variables that would affect the probability of adopting a home rule charter, such as:

$$HR = \theta + Z\gamma + \varepsilon \quad [2]$$

If it is the case that u and ε are correlated or even contain the same unobserved variables, then the results of equation [1] where home rule is treated as exogenous are incorrect. Failure to address this issue of endogeneity would cause the coefficient δ to be biased in equation [1]. It is not appropriate to use home rule as a natural experiment; it is not exogenous at the state nor is it exogenous at the municipal level. Hennessey (2014) recognizes that the adoption of home rule by states was endogenously determined; states with municipalities that had more heterogeneous preferences for local governance are the ones that were more likely to adopt constitutional home rule. Thus, when we consider the effect of

home rule charters, it is imperative to recognize that certain states were more likely to adopt home rule than others.

The endogeneity problem occurs not just in home rule studies, it is generally presented in the previous studies of government structure. Lineberry and Fowler (1967) specifically note, “We can offer from our data no conclusions about the origins of reformed structures, for it is obviously impossible to impute causation, using contemporary census data, to events which occurred decades ago (p. 716).” Sass (1991) reviews the mixed results in the literature and suggests that the reason for the previously inconclusive evidence is that researchers have failed to account for the endogeneity of the choice of government structure. Benton (2002) points to similar mixed evidence with respect to counties, and again calls for future research to “sort out this issue of causation (p. 477).” The hope is this paper can both add to the home rule literature while also addressing the endogeneity issue so prevalent in studies of the effects of institutions.

IV. Empirical strategy

Besley and Case (2000) identify several options to address the issue of endogenous policies. The most common way in empirical studies seems to be in finding a good instrumental variable. An alternate way, if the systematic determinants of institutions are constant across time, is to use fixed effects. A third option is to identify a treatment and control group and estimate the difference-in-differences. One method does not inherently trump another; the suitability of the empirical technique depends on the control variables available and the assumptions a researcher has to make to use any of the three options. The challenge when using a difference-in-differences technique is to justify the selection of an appropriate treatment and control group.

In this case, an appropriate treatment and control group is sought out. The first stage of classification remains consistent with Turnbull and Geon: which states had home rule for municipal governments and which did not, thus determining which municipalities are given the option of having the

“treatment” of a home rule charter. With respect to the municipal home rule movement, we are able to observe these changes over time, and not all states adopted municipal home rule by the end of the observation period. The second stage of classification identifies different types of municipal governments within a state. Some municipalities are more likely to take advantage of having access to a home rule charter; others would choose to remain operating under the alternative institutional structure. By comparing municipalities seeking home rule charters (in home rule states) to similar municipalities in states without access to home rule charters, a cleaner picture of the role of access to home rule can be detected. In order to match these two types of cities, a probit model will be used to create a propensity score for home rule in each municipality. By matching municipalities based on this propensity score, we can then uncover the differential effect of having a home rule charter by comparing a “treated” municipality with a “control” municipality.

The first step is to build a model that estimates the propensity score, in this case, a probability of adopting a home rule charter. Using data from states that granted home rule, a probit model is estimated to predict the choice by municipalities of whether or not to adopt a home rule charter. In most states, according to McBain (1916, p. 114-117) less than half of the municipalities adopted a home rule charter when given the opportunity, so there is considerable variation to exploit. The second step will be to use the predictions of the probit model and apply them to the municipalities not given the option of home rule charters in their states. The third step will be to use the propensity scores to match home rule municipalities to their control group, municipalities in non-home rule states. Finally, we can estimate an average treatment effect by comparing the treatment group, municipalities with home rule, with the control group, municipalities that would have liked a home rule charter but did not have access.

V. Data

The sample of municipalities covers 27 states, including all states west of the Mississippi River and the Midwestern states. The sample includes all twelve states that adopted home rule during the initial

two stages of the home rule movement. I did not collect data on the original colonies and the southern states, as there was no home rule activity in these regions during this time period. In 1922, Pennsylvania adopted a home rule amendment, but the state legislature never enacted the necessary enabling legislation. In 1936, West Virginia adopted home rule, followed by New York in 1938. No other state in the east or south adopted home rule until Rhode Island in 1951. States in the east and south have very distinct local government histories which make them inappropriate as comparison groups.¹⁵ For each municipality in the twelve home rule states, I found the year of its first home rule charter, if it ever chose to adopt one. Complete information on the adoption of home rule charters is not available for Oregon, so municipalities in the state are dropped from the analysis.

The year a municipality adopts a home rule charter is used as an indication of the local preference for the state-level grant of home rule. The analysis only considers data on municipal home rule chartering up to 1935, for two reasons. First, it is important to have a restricted period of time when considering how local preferences induce a state-level decision. By imposing a cutoff, the analysis assumes a municipality in Minnesota that adopted its first home rule charter in the last half of the 20th century did not have a strong preference for home rule in 1896; otherwise, the municipality would have adopted home rule soon after the state grant of home rule. Second, conditions changed dramatically after the New Deal reforms began. The federal government enacted Social Security and other public welfare programs and changed the relationships among the federal, state and local governments. Also, in 1934 the federal government passed the Municipal Debt Adjustment Act. These changes affected the motivation for adoption of local home rule.

Municipal-level data comes from the Decennial Census of the United States and is used to construct five cross-sectional datasets from the 1890, 1902, 1913, 1922 and 1932 censuses. The Wealth, Debt and Taxation (WDT) series provides municipal-level data on population, debt, assessed valuation

¹⁵ States in the east are different from others in the Union by virtue of their colonial history and the piecemeal nature with which local special legislation was originally passed. Original constitutions in these states often allowed for the continuation of established governance structures and corporations and thus did not institute any formal local government laws. Southern states had dispersed populations which resulted in county governments being the predominant form of local government instead of municipalities.

and ad valorem taxation. Population data from the WDT tables was supplemented by municipal-level data from the general Census population tables. Since municipal level demographic characteristics are not published for this time period, county-level data was used to measure the native born population (ICPSR 2896) and congressional election results (ICPSR 8611). A measure for political competition was constructed by calculating a county-level Herfindahl-Hirschman Index (HHI) based on the voting shares for three parties (Democratic, Republic, or Other). The HHI accounts for the level of political concentration; as an example, an HHI of 3300 indicates that the three parties received equal votes in the election, while an HHI of 10,000 indicates that one party received all of the votes. Thus, counties with a higher HHI are assumed to be more politically homogeneous.

The 1890 and 1902 WDT series endeavored to get information from all municipalities. While the data include information from municipalities of all sizes, extra effort was made by surveyors to obtain data from municipalities with 1,000 people or more. Starting in 1913, the WDT only provides information on municipalities of 2,500 people or more. In order to capture the widest variety of municipalities, the probit model will be estimated just on 1890 and used to construct the initial propensity scores. The later years will be used to estimate the impact of a home rule charter by calculating the average treatment effect over time.

Table 1 presents summary statistics just for municipalities in states that adopted a home rule provision by 1932. The two columns represent municipalities that adopted home rule and municipalities that chose to remain under general legislation. The table demonstrates that general legislation municipalities are different from municipalities that adopt home rule charters, as seen in the statistically significant difference in means for most variables. These differences between municipalities that adopted home rule and those that chose to remain under general legislation will identify the municipal-level preference for home rule in the following analysis. The differences also demonstrate why municipalities that did not adopt home rule when given the chance would not make a good control group for municipalities who did pursue home rule charters.

VI. Analysis

As described in Section IV, the first step is to estimate propensity scores based on a model that predicts the choice by municipalities to adopt or not adopt a home rule charter. As described in Hennessey (2014), three variables are the crux of the specifying a preference for home rule: size, growth, and infrastructure. Municipality size indicates economies of scale in the provision of public goods, which can be expanded under a home rule charter.¹⁶ Municipalities experiencing rapid growth may look to a home rule charter for flexibility to accommodate changing needs. Finally, because home rule charters allow for additional control over the establishment and operation of public utilities, we expect home rule charters to be utilized by municipalities which heavily invest in infrastructure. The effects of size are proxied by population, growth by population growth, and infrastructure by municipal gross debt less sinking fund.¹⁷ Other covariates include the percent of native born citizens in the county, the county political HHI based on congressional elections, the percent of Democratic votes cast in congressional elections, the percent of votes cast for the non-Republican or non-Democratic candidate in congressional elections, and the level of the municipal sinking fund assets.

It is also necessary to control for differences in the within-state variation across municipalities in a state. We can assume that general legislation is set by the state legislature to accommodate the needs of the average municipality within the state. It could be the case that for any municipality, the greater the difference from an average municipality within the state, the less likely general legislation will be the efficient solution for that particular municipality and the more likely it would be to adopt a home rule charter. This comparison is useful for variables with variation across states and within states. For example, we expect that a municipality with rapid population growth is more likely to pursue a home rule charter to meet its changing needs. This level effect will be captured by including population growth as

¹⁶ Oates (1988) notes that larger localities are likely to have a wider range of public goods and services.

¹⁷ Gross debt is the sum of bonded and floating debt. From this total, the level of sinking fund assets is subtracted. A sinking fund is money set aside by a municipality to repay existing loans when they come due.

an independent variable. However, if we consider California which has higher population growth than Michigan, a common measure of population growth across all states will not account for the inherent differences within states. Michigan may have heterogeneity of population growth across municipalities within the state, where in California all municipalities might have a relatively high population growth. We want to be able to identify those municipalities in Michigan which have a rate of growth different from the average. The specification issue is addressed by creating new variables based on already included covariates, calculated as $(v - \bar{v})^2$, where \bar{v} is the state mean. This set of measures is included to help control for within state heterogeneity.

We can represent a local government's decision to adopt a home rule charter by using the following specification:

$$t_{ics}^* = X_{ics}\beta + Z_{cs}\gamma + (V_{is,cs} - \bar{V}_s)^2\phi + S_s\delta + u_{ics} \quad [3]$$

where t_{ics}^* is a latent variable for degree of home rule preference in municipality i , located in county c in state s ; X_{ics} is a vector of characteristics of the municipality (population, population growth, debt, sinking fund), Z_{cs} are the characteristics measured at the county level (political variables, native born population), and S_s are fixed effects. The variables in V compare each city to the average of all cities in its state and are measured either at the municipal or county level; these variables are chosen because they have a high variance both within and across states.¹⁸ The V terms capture the effect of heterogeneous characteristics within states, while the level effects of the characteristics are controlled for in X_{ics} and Z_{cs} . We do not directly observe the magnitude of the home rule preference, only the choice of whether the local government did in fact take up the home rule charter opportunity when offered. The variable t_{ics} takes on one of two values, indicating whether or not the specific local government enacted a home rule charter by 1935. It is assumed that the decision by each municipality is independent, and is not a reactionary or defensive response to the choices of its peer group.

¹⁸ The three variables that I choose to include for this within-state measure of variance are population growth, percent native born, and gross debt less sinking fund per capita.

The results of this probit model are presented in Table 2. The columns differ by whether they include state fixed effects or region effects. While there are differences, the results are fairly consistent across specifications. Going forward, the analysis is going to use the results from column (3) which includes region effects.¹⁹ This allows us to better estimate propensity scores for out-of sample municipalities which do not have estimated state fixed effects but would have estimated region effects that will be used.

The next step is to take the coefficients from Table 2 and apply them to all municipalities to calculate a propensity score (t_{ics}^*), whether in the estimated regression analysis or not. Using this propensity score, municipalities are matched using nearest neighbor matching. The idea is then to compare the control group with the treatment group with respect to different outcomes. Again, the treatment group consists of those municipalities who opted to adopt a home rule charter when given the opportunity; the control group is comprised of municipalities who were not afforded the opportunity to adopt a home rule charter but were otherwise similar. As mentioned in Section 3, we are looking to see if home rule has an impact in areas such as efficiency, service provision, and composition of the electorate. The differences between the treatment and control groups across measured outcomes is presented in Table 3.²⁰ The outcome variables of interest are: ad valorem taxation, gross debt less sinking fund per capita, the percent of debt that is the sinking fund, the percent of the population that is urban, and the political homogeneity of the electorate. While these don't line up directly with the three theoretical categories, they do provide some evidence. Information on efficiency may be seen by differences in taxation or differences in the share of debt that is going to the sinking fund. Different service provision may show up in the ad valorem taxation or in the gross debt less sinking fun per capita measure. Compositional changes may show up in differences in the percent of population that is urban and in the degree of homogeneity of the political composition.

¹⁹ The omitted region is the south.

²⁰ Note that all municipalities in the control group are included, not just the matched municipalities.

After using nearest neighbor matching on 1890 characteristics, average treatment effects are estimated for each of the outcome variables. The outcomes can be analyzed either with respect to different levels in the future or with respect to differences over time, a diff-in-diff style analysis. Table 4 presents the average treatment effect across variables and over various time horizons. The level analysis presented in the top half of the table is likely less important as it fails to control for differences between municipalities that are constant over time. However, one interesting thing is that the first row using 1890 outcomes could be viewed as a robustness check. In 1890, before the municipalities adopted their home rule charters, we shouldn't expect to see differences between municipalities who opted into home rule in the future and matched municipalities that would've liked to adopt home rule but did not have the option to. None of the outcomes are significantly in 1890 different except for percent of debt that is sinking fund; this also calls into question the appropriateness of this variable going forward. The preferred difference results in the lower half of the table seem to indicate that with the diff-in-diff analysis, municipalities with a home rule charter have a significantly higher gross debt per capita. This result is both economically and statistically significant. In addition, there seems to be some evidence that municipalities with a home rule charter become more politically homogeneous as seen by the political HHI increasing, a finding consistent with the Tiebout hypothesis.

VII. Conclusion

Home rule was an important institution in the Progressive reform movement of the late nineteenth and early twentieth centuries. States granted home rule so that municipalities had the option of self-chartering and the ability to independently determine their desired structure and functions. This paper examines whether home rule had an effect on those municipalities. The results in this paper provide empirical evidence to support the hypothesis that home rule affected both the government operations as well as the composition of the municipal population. The results broadly suggest that municipalities that adopt a home rule charter wind up increasing their municipal debt per capita and also become more

politically homogenous over time when compared with municipalities that would have opted into a home rule charter if given the option by the state.

VIII. References

- Advisory Committee on Intergovernmental Relations (1993). *Local Government Autonomy*. Washington, D.C.: ACIR.
- Benton, J. E. (2002). County service delivery: Does government structure matter?. *Public Administration Review*, 62(4), 471-479.
- Besley, T., & Case, A. (2000). Unnatural experiments? Estimating the incidence of endogenous policies. *The Economic Journal*, 110(467), 672-694.
- Brennan, Geoffrey, and James M. Buchanan (1980). *The power to tax: Analytic foundations of a fiscal constitution*. Cambridge University Press.
- Bunch, J. (2014). Does Local Autonomy Enhance Representation? The Influence of Home Rule on County Expenditures. *State and Local Government Review*, 0160323X14536589.
- Clark, T. N. (1968). Community structure, decision-making, budget expenditures, and urban renewal in 51 American communities. *American Sociological Review*, 576-593.
- Fox, Kenneth. *Better City Government: Innovation in American Urban Politics, 1850-1937*. (1977.) Philadelphia: Temple University Press.
- Hall, C. P. (1906). Constitutional and legislative limitations of the home rule charter in Minnesota. *Mich. L. Rev.*, 5, 6.
- Hennessey, J. (2014). The Adoption of Constitutional Home Rule: A Test of Endogenous Policy Decentralization . *Eastern Economic Journal*, advance online publication 20 October 2014; doi: doi:10.1057/ej.2014.58.
- Hofstadter, R. (1955). *The age of reform: From Bryan to FDR*. Random House.
- Holcombe, R. G., & Lacombe, D. J. (2004). Factors underlying the growth of local government in the 19th century united states. *Public Choice*, 120(3-4), 359-377.
- Kimball, Everett. (1922.) *State and Municipal Government in the United States*. Boston: Ginn and Company.
- Krane, Dale, Platon N. Rigos, and Melvin B Hill Jr. (2001.) *Home Rule in America: A Fifty State Handbook*. DC: Congressional Quarterly Press.
- Lineberry, R. L., & Fowler, E. P. (1967). Reformism and public policies in American cities. *The American Political Science Review*, 701-716.
- McBain, Howard Lee. (1916.) *The Law and Practice of Municipal Home Rule*. New York: Columbia University Press.
- Oates, W. E. (1988). On the measurement of congestion in the provision of local public goods. *Journal of Urban Economics*, 24(1), 85-94.
- Oberholtzer, E. P. (1893). Home Rule for Our American Cities. *Annals of the American Academy of Political and Social Science*, 3, 68-95.
- Percival, G. L., Johnson, M., & Neiman, M. (2009). Representation and Local Policy Relating County-Level Public Opinion to Policy Outputs. *Political Research Quarterly*, 62(1), 164-177.
- Sass, T. R. (1991). The choice of municipal government structure and public expenditures. *Public Choice*, 71(1-2), 71-87.
- Turnbull, G. K., & Geon, G. (2006). Local government internal structure, external constraints and the median voter. *Public Choice*, 129(3-4), 487-506.
- Wallis, J. J. (2000). American government finance in the long run: 1790 to 1990. *The Journal of Economic Perspectives*, 61-82.
- Zimmerman, Joseph Francis. (2008.) *Contemporary American Federalism*. Albany: SUNY Press.

Figure 1

Adoption of Constitutional Home Rule

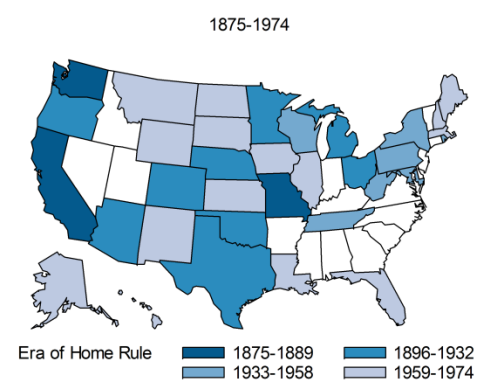
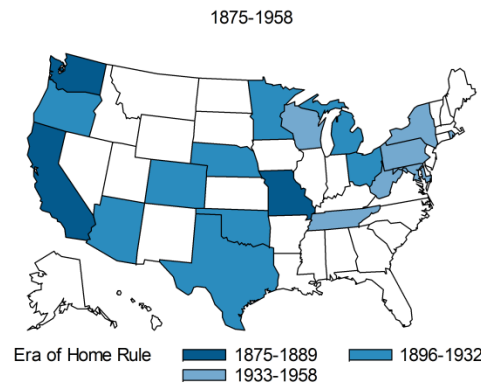
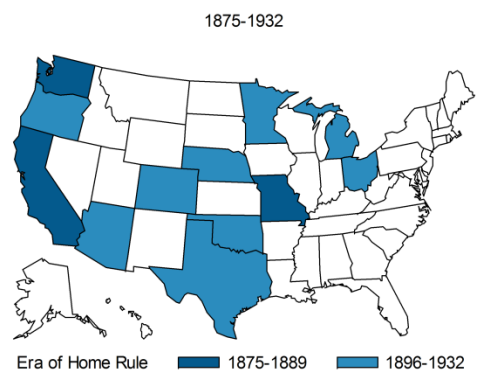
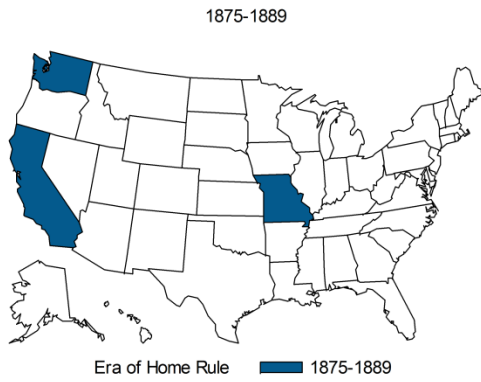


Table 1: Summary Statistics for Municipalities in Home Rule States

Variable	Home Rule Municipality	General Legislation Municipality	Significant Difference
Political HHI	0.52 (0.15)	0.48 (0.1)	*** (***)
% Democrat Votes	51.62 (22.03)	43.32 (19.12)	*** (***)
% Other Votes	9.35 (13.99)	10.12 (14.68)	
Population (in thousands)	14.24 (39.14)	1.99 (2.63)	*** (***)
Population Growth	0.39 (0.44)	0.21 (0.48)	***
Gross Debt Less Sinking Fund (per capita)	8.34 (12.28)	6.59 (16.5)	* (***)
Sinking Fund (per capita)	0.64 (3.73)	0.13 (0.64)	*** (***)
% Native born	78.19 (14.12)	83.65 (12)	*** (***)
Number of Municipalities	234	691	

Notes:

Standard deviations are in parentheses

***, **, * denotes significance at the 1 percent, 5 percent, and 10 percent level, respectively.

Home rule states in 1890 analysis are California, Colorado, Michigan, Minnesota, Nebraska, Ohio and Texas.

Home rule municipalities adopted a home rule charter by 1935.

Table 2: Probit Estimates

	(1)	(2)	(3)
Population (in thousands)	0.044 (0.007)***	0.044 (0.008)***	0.046 (0.007)***
Population (in thousands) [squared]	-0.0001 (0.00002)***	-0.0001 (0.00002)***	-0.0001 (0.00002)***
Population growth	0.271 (0.048)***	0.170 (0.043)***	0.247 (0.048)***
Different Political Party from State	-0.114 (0.036)***	-0.035 (0.032)	-0.052 (0.041)
Political HHI	0.019 (0.177)	-0.228 (0.185)	-0.346 (0.201)*
% Democrat Votes	0.007 (0.001)***	0.004 (0.002)**	0.004 (0.001)***
% Other Votes	0.006 (0.001)***	0.005 (0.002)***	0.004 (0.002)***
% Native born	-0.886 (0.153)***	0.003 (0.166)	-0.953 (0.163)***
Gross Debt Less Sinking Fund (per capita)	0.002 (0.002)	0.004 (0.002)**	0.001 (0.002)
Sinking Fund (per capita)	0.016 (0.017)	0.004 (0.014)	0.006 (0.017)
Population growth compared to state average [squared]	-0.140 (0.035)***	-0.070 (0.028)**	-0.126 (0.034)***
% Native compared to state average [squared]	-0.689 (1.155)	0.194 (1.036)	-0.831 (1.223)
Gross Debt Less Sinking Fund (per capita) compared to state average [squared]	-0.00002 (0.00006)	-0.00006 (0.00004)	-0.00003 (0.00005)
State Fixed Effects		Y	
Region Effects			Y
Log-Likelihood	-370.183	-304.044	-357.979
Observations	925	925	925

Notes:

Robust standard errors in parentheses

***, **, * denotes significance at the 1 percent, 5 percent, and 10 percent level, respectively.

Marginal effects of the probit estimation are evaluated at the mean of the independent variables.

Sample is all municipalities in home rule states.

Home rule states in 1890 analysis are California, Colorado, Michigan, Minnesota, Nebraska, Ohio and Texas.

Table 3: Summary Statistics - Outcomes

		Ad Valorem Taxation Per Capita		Gross Debt Less Sinking Fund Per Capita		Percent of Debt that is Sinking Fund		Percent Urban		Political HHI	
		Home rule municipalities in home rule states	All municipalities in non-home rule states	Home rule municipalities in home rule states	All municipalities in non-home rule states	Home rule municipalities in home rule states	All municipalities in non-home rule states	Home rule municipalities in home rule states	All municipalities in non-home rule states	Home rule municipalities in home rule states	All municipalities in non-home rule states
1890	<i>mean</i>	9.72	7.65	8.49	6.71	5.47%	2.50%	30.58%	16.87%	5214.03	5021.69
	<i>n</i>	174	755	240	1264	151	867	240	1264	240	1264
1902	<i>mean</i>	12.02	10.42	25.23	14.71	4.89%	2.01%	37.13%	32.96%	5805.74	5095.92
	<i>n</i>	134	225	189	383	189	383	189	383	189	383
1913	<i>mean</i>	7.38	5.87	40.59	25.74	6.54%	2.30%	43.81%	39.22%	4398.83	4106.60
	<i>n</i>	189	383	189	383	189	383	189	383	189	368
1922	<i>mean</i>	14.27	10.86	46.69	22.16	23.06%	35.63%	48.08%	43.32%	6587.95	5859.63
	<i>n</i>	189	383	188	363	189	383	189	383	179	381
1932	<i>mean</i>	16.06	14.03	72.21	40.04	0.87%	5.48%	50.27%	46.04%	5888.98	5435.81
	<i>n</i>	189	380	188	383	189	383	189	383	187	383
Difference: 1902-1890	<i>mean</i>	1.05	1.03	15.84	8.27	-1.02%	-0.97%	3.85%	6.39%	483.58	27.33
	<i>n</i>	83	131	189	383	116	225	189	383	189	383
Difference: 1913-1890	<i>mean</i>	-3.65	-3.33	31.20	19.30	0.65%	-0.89%	10.53%	12.65%	-923.33	-777.96
	<i>n</i>	134	285	189	383	116	225	189	383	189	368
Difference: 1922-1890	<i>mean</i>	3.13	1.07	37.24	15.54	15.26%	33.64%	14.80%	16.76%	1357.05	809.73
	<i>n</i>	134	285	189	363	116	225	189	383	179	381
Difference: 1932-1890	<i>mean</i>	2.49	2.75	62.77	33.60	1.95%	2.88%	16.99%	19.47%	592.87	367.22
	<i>n</i>	134	282	188	383	116	225	189	383	187	383

Table 4: Average Treatment Effects

	Ad Valorem Taxation Per Capita	Gross Debt Less Sinking Fund Per Capita	Percent of Debt that is Sinking Fund	Percent Urban	Political HHI
1890	0.251 (0.867)	2.045 (1.886)	0.035 (0.010)***	-0.019 (0.0226)	-62.357 (156.542)
1902	0.802 (.581)	6.574 (2.399)***	0.032 (0.007)***	-0.083 (0.026)***	728.699 (177.047)***
1913	0.887 (0.374)**	11.246 (4.140)***	0.043 (0.010)***	-0.077 (0.023)***	419.451 (206.984)**
1922	1.262 (1.106)	18.165 (4.197)***	-0.133 (0.035)***	-0.075 (0.025)***	448.269 (277.048)
1932	-1.21 (4.709)	20.527 (16.094)	-0.048 (0.066)	-0.078 (0.027)***	202.084 (273.902)
Difference: 1902-1890	0.452 (1.109)	4.027 (2.220)*	-0.01 (0.012)	-0.024 (0.012)*	603.67 (159.794)***
Difference: 1913-1890	0.166 (1.091)	9.121 (2.825)***	0.00 (0.017)	-0.018 (0.015)	75.375 (186.417)
Difference: 1922-1890	1.508 (1.669)	15.722 (3.785)***	-0.213 (0.049)***	-0.015 (0.020)	397.403 (232.112)*
Difference: 1932-1890	-0.679 (1.475)	17.853 (13.089)	-0.031 (0.026)	-0.019 (0.017)	85.494 (214.048)

Note: Uses nearest neighbor matching propensity score from probit estimates

Bootstrapped standard errors in parentheses

***, **, * denotes significance at the 1 percent, 5 percent, and 10 percent level, respectively.