

Abstract – A renewed interest in decentralization has profoundly affected local public governance around the world. Faced with an increasing number of tasks, Dutch municipalities have recently sought physical centralization, merging into larger jurisdictions in order to target new policy areas more effectively and cost efficiently. Is such a policy of physical centralization wise? We study economies of scale in local public administration, and find – given transfer payments from central government and current cooperation between municipalities and after controlling for geographical, demographic and socio-economic variables – substantial unused scale economies of 20% for the average municipality. Between 2005 and 2014 the optimum size of municipalities increases from around 49,000 to 66,260 inhabitants, pointing at an increased importance of fixed costs relative to variable costs in local public administration. For other local government activities, we find either lower or no optimum scales.