

# #localismNZ

Bringing power to the people

Ben Craven, Jack Goldingham-Newsom  
and Oliver Hartwich

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## **About the New Zealand Initiative**

The New Zealand Initiative is an independent public policy think tank supported by chief executives of major New Zealand businesses. We believe in evidence-based policy and are committed to developing policies that work for all New Zealanders.

Our mission is to help build a better, stronger New Zealand. We are taking the initiative to promote a prosperous, free and fair society with a competitive, open and dynamic economy. We are developing and contributing bold ideas that will have a profound, positive, long-term impact.

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# Introduction

Few ways are guaranteed to make yourself unpopular in New Zealand: try claiming that pavlova was an Australian invention; hating the All Blacks; or maybe expressing sympathy for local government.

New Zealanders love to hate their councils, mayors and local bodies with a passion usually reserved for opposing rugby teams. Such strong feelings probably originate from the range of regular interactions residents have with local government over their rubbish, water connection, roads, and so forth. We need council approval for all building and renovation works. We even need councils to check whether we have fenced our swimming pools properly.

Sadly, the average New Zealander interacts with local government regularly but gives it no credit. Rather, we cavil against it. We disregard our smooth roads but squawk over the pothole we just discovered. We forget the bus service when it is working, but not when it is delayed. And we take our drinking water for granted until it is not available.

While interactions with local government happen all the time, few of us can recall having any direct dealings with, say, the Ministry of Foreign Affairs and Trade, the Treasury, or the Education Ministry.

This discrepancy between less direct dealings with central government and more 'in your face' dealings with local government is mirrored in taxation. We pay central government taxes usually by stealth through PAYE. Similarly, we pay 15% GST on top of our shopping bills without even realising it.

Paying tax to local government on the other hand is more visible: Councils send regular invoices to property owners, the large majority of New Zealanders. These owners cannot ignore the tax bill because they have to physically transfer money into the council's bank account. Ironically, average New Zealanders pay much more tax to central government than to local government, but it is the local rates they gripe about.

Local government in New Zealand is also highly visible to citizens, more so than central government. This transparency works against local government.

It gets worse. Often local government must execute – and pay for – unpopular policies central government has designed. Even when these policies bring in extra income taxes and GST to the local economy, they do not help local government because any new tax revenue is dispatched to central government coffers. Councils thus have no incentive to promote local economic growth if it brings them only costs without generating any additional revenues.

This stylised sketch of New Zealand local government shows an unpopular tier of government operating in a highly centralised country. Local government is mostly not well understood and often disliked.

Against this backdrop, The New Zealand Initiative has been urging over the past six years a rethink of local government. We proposed a localism where more public policy decisions are made locally, and both local and central government have incentives to do what is good for the country.

As we soon discovered, making the case for such a localist reform does not make you popular. Any talk of reform is met with strong backlash, at least initially.

However, as we kept developing our thinking, and as we engaged with more stakeholders, interest in localism grew. People realised the absurdities of our central system of government and became more curious about the localist alternative.

What has been missing so far is one short publication to bring together our arguments in favour of localism and make them accessible to a wider audience. This is it. In these short chapters, we explain why we believe localism as a philosophy is compatible with New Zealand's history. We point out the philosophical roots of localism and show why localism is good economics too. We discuss what forms localism might take in New Zealand. And finally, we answer the most common objections to localism – objections we have heard again and again over the past six years.

We hope this essay will make you think anew about New Zealand's structure of government. And we hope you too will conclude that localism could be as Kiwi as pavlova.

## CHAPTER 1

# The history of local government in New Zealand

*... the inhabitants themselves are best qualified, as well by their more intimate knowledge of local affairs, as by their direct interest therein, to provide for the wants and needs of their respective settlements... the central government would thus be deprived of the power of partiality in its legislation; it would be relieved from the necessity of much petty legislation; while at the same time, the prosperity of the country at large, would be promoted by the honourable rivalry which would spring up among the various settlements, thus entrusted with the unfettered management of their own local affairs, every settlement would be more or less attractive to trade, capital, and commerce, in proportion as the internal regulations of its own were well managed, its harbour good, and the navigation of its port safe, easy and commodious.*  
— The New Zealand Journal 3 (London: 1842)

To champion localism, and to devolve power to our local councils, seems like an alien concept to many New Zealanders. Yes, countries like Switzerland have a long history of local democracy, an informed and educated population, and probably far too much spare time to spend on civic affairs. But New Zealand?

New Zealand's history tells a strikingly different story. Our not-too-distant past is littered with examples of localism and devolution. Both Māori and Pākehā have strong traditions of local self-determination,

existing until recently. Localism also fits well with our national psyche, which is characterised by rugged individualism and a can-do attitude.

Thinking local should not be a foreign concept to New Zealand's collective DNA.

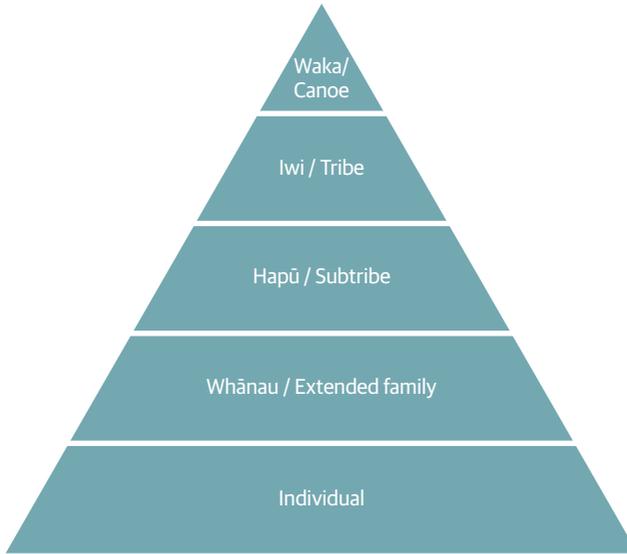
## 1.1 Māori local governance

The double-helix DNA is a good metaphor for how Māori-Pākehā traditions were interwoven to produce modern New Zealand.

Māori concepts of governance show a history of traditional systems working from the bottom-up. But there was no notion of central government in pre-European times. There was no concept of a nation-state. Aotearoa refers only to a geographical landmass, not a political unit, let alone a nation-state.

Local governance in Māori society was organised along the lines of *whānau* (extended family) and *hapū* (subtribe), which in turn were part of a larger social unit, the *iwi* (tribe).<sup>1</sup> Local self-determination was integral to the Māori worldview. Each *whānau* comprised approximately 30 individuals,<sup>2</sup> and each *hapū* 200–300 members.<sup>3</sup> The heads of each family, the *kaumatua*, were seen as wise men who knew the lore and genealogies of the *hapū*, and sought to represent their interests at *iwi* meetings when region-wide matters were considered.

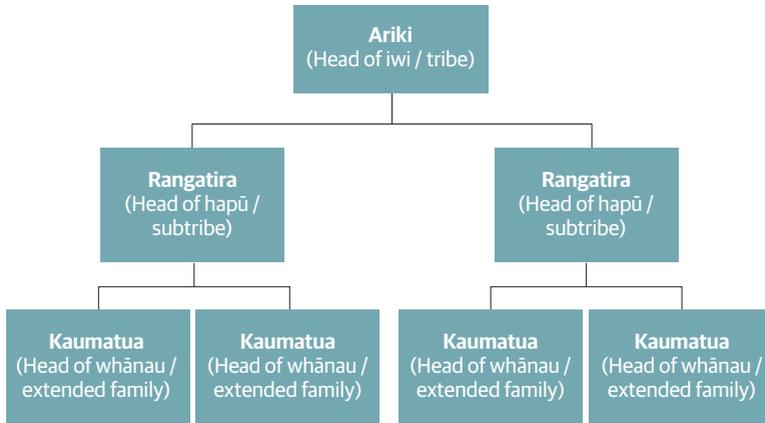
**Figure 1: Representation of Māori social structure**



As with later conceptions of local government, Māori local governance focused on the village. A *hapū* lived in a fortified village, often on a hill or down on the flatlands,<sup>4</sup> located on communally owned land. This ownership and right to govern was recognised by other *hapū* in the area. Central to each village was the *marae* (communal centre) and the *whare runanga* (assembly house).<sup>5</sup>

The governance of the village and the surrounding area was led by the *rangatira* – a chief and the head of one family in the village. The *rangatira* would organise the *hapū* to cultivate, conserve and restrict the use of the land, ensure the *hapū* was defended from outside aggressors, and manage the resources in the *hapū*'s territory.<sup>6</sup> These village authorities were the first type of local government in New Zealand, with no central government required. The *rangatira* or primary governor received input from the *kaumatua* of the *whānau* comprising the *hapū*.

**Figure 2: Representation of Māori leadership structure**



## 1.2 Resource management in Māori society

In modern New Zealand, both regional councils and central government regulate the use of resources and manage negative environmental outcomes from resource exploitation. In traditional Māori society, this power was located at the village level where *kaumatua* and *rangatira* monitored resources and decided resource use.

Resource management in traditional Māori society was rooted in the overarching concept of *kaitiakitanga* (guardianship, resource management), which can be difficult to understand without reference to other concepts such as *tapu* (sacredness) and *mauri* (spiritual life force).<sup>7</sup> For *rangatira* and *kaumatua*, it was important that their *whānau* could exploit natural resources, but not in a way that harmed the *mauri* of the ecosystem – one of the main goals of *kaitiakitanga*.<sup>8</sup> Villages often organised *ohu* (communal working bees) to maintain ecosystems and valued resources.<sup>9</sup> The relationship with the environment was shared by all Māori, and no central oversight had to ensure *hapū* compliance.

As with modern local governments, traditional Māori society too faced resource scarcity and preservation issues. The primary way to restrict use or access to particular resources or areas in the *hapū rohe* (territory) was through the *rahui*. A *rahui* was a temporary prohibition, closed season, or ban on a particular area. It was used to protect people from the negative consequences of violating *tapu*, or for conservation or political purposes.<sup>10</sup> This form of regulation is still used to maintain local fisheries.<sup>11</sup>

### 1.3 A European colony

Māori lived alone in New Zealand for many years; it was not until 1642 that Dutch explorer Abel Tasman sighted New Zealand. Tasman's crew clashed with local people, resulting in the deaths of several of Tasman's crew and local Māori.<sup>12</sup> It was another 127 years before British explorer Captain James Cook landed on the coast of New Zealand while on his expedition to chart the transit of Venus.

During the late 1700s, European sealers began staying in New Zealand for extended periods of time; their contact with local Māori led to trade between the two peoples. In 1788, New South Wales became its own colony and gained responsibility for administering New Zealand. For the next 50 years, New Zealand was managed from Sydney as an outpost, but no conscious effort was made to form government structures. Independent and natural local governing bodies were enough to fulfil the requirements of residents.

Edward Gibbon Wakefield's New Zealand Company was influential in establishing the colonies of Wellington (January 1840), Whanganui (September 1840), New Plymouth (November 1841), and Nelson (February 1842).<sup>13</sup> The New Zealand Company further sought to establish itself as a commercially viable venture to install

British protectorates throughout this new land. They did not concern themselves with thoughts of representative government, nationhood or independence.

Many of the original colonists from the United Kingdom of Great Britain and Ireland came from religious and ethnic groups wishing to establish their own individual colonies similar to the cities they had come from. This was especially the case for Christchurch and Dunedin. The impact of these initial colonists on the culture, language and religion of both these regions of New Zealand can still be seen today.

Meanwhile, the settlers had to adjust to the challenges of a new land. The landscape and environment in Christchurch, for example, was unlike that of England, and the skills and expertise required to make the colony successful were different to those in the United Kingdom. In response, Christchurch began to be colonised by farmers and manual labourers who spread out over the Canterbury plains rather than as a small settlement with a vertical cross-section of English society as Wakefield had envisioned.<sup>14</sup> Instead of importing an aristocratic outlook to New Zealand, these new settlers saw themselves as liberated from the formalities and class divide that defined the United Kingdom. New Zealand offered liberation from the confines of authority and convention in England, and a place where the settlers could enjoy their relative autonomy working with other local residents.

## **1.4 Early government**

As with traditional Māori governance, the first European forms of governance were decentralised. The pioneering spirit of the first settlers to New Zealand led them to organise themselves into basic local government units. Absent formal representative democracy and the ability to levy local taxes, community-minded people would often

fundraise in their locality to maintain infrastructure. For example, until 1862, Wellington residents operated ad hoc committees that relied upon the charity of fellow residents to raise funds to maintain important roads in the colony.<sup>15</sup>

As the settler population in New Zealand grew, so did their lobbying for political representation. Legislation in 1852 established six provincial councils, an elected House of Representatives and a Superintendent of the Provinces, and a Legislative Council (Upper House) whose members were appointed by the Governor. It was a victory for the settlers, who now had the formal structure of representative government. The new constitution<sup>16</sup> also permitted provincial governments to establish local government structures as they saw fit.<sup>17</sup>

Unfortunately, the settler population soon became dissatisfied with both local and provincial government. Provincial governments provided basic services such as police, education and welfare, but lacked the power of direct taxation. As a result, most provincial governments “extended their tentacles with fees and licences as far as they could.”<sup>18</sup> Provinces raised funds through occupational licencing, fees and road tolls or borrowed money to meet their spending requirements.

In 1876, the General Assembly voted to abolish provincial government, having lost patience with the provinces.<sup>19</sup> Central services like railways, agriculture and hospitals were not being efficiently supported locally, and central government was concerned about the declining quality of services. Notwithstanding the estate and stamp duties, which accounted for less than 10% of central government revenue, central government had scarcely raised new taxes from the provinces between 1840 and the 1870s.<sup>20</sup> With the exemption of Canterbury and Otago, all other provincial governments were facing financial difficulty or bankruptcy.<sup>21</sup> The public were frustrated by an absence of a nationwide approach to

sub-central government entities, which lacked consistency and had haphazard rating powers depending on where one was in the country. They also considered sub-central government as irresponsible with their spending and broadly supported abolishing provincial government. Provincial governments could not fund the full programme of services because they did not have a sophisticated taxation system or powers.<sup>22</sup>

Centralisation went hand-in-hand with standardisation, which affected most public services throughout the country. The police force, school system, and charitable aid systems were all standardised in just a few years following centralisation. Services once mandated centrally, administered provincially, and delivered locally were now administered from the new capital, Wellington.<sup>23</sup>

Local government was dramatically reshaped the same year provinces were abolished. Central government legislated a uniform system of local government throughout New Zealand.<sup>24</sup> Unlike local government in England, the mayor was to be elected directly by the public rather than by councillors, and local authorities were to be elected every three years.<sup>25</sup>

The centralisation and standardisation of government services following the abolition of provincial government left the central government in an awkward position. Services such as health and education needed to be delivered locally, but central government was wary of the divergence in services that had existed under the provincial governments.

Central government therefore set up various boards to deliver certain services. Education delivery was devolved to 12 education boards in 1877, and 28 hospital boards began overseeing the state hospital system in 1885.<sup>26</sup> In addition, numerous harbour, river, fire and even rabbit boards were established throughout the country.<sup>27</sup>

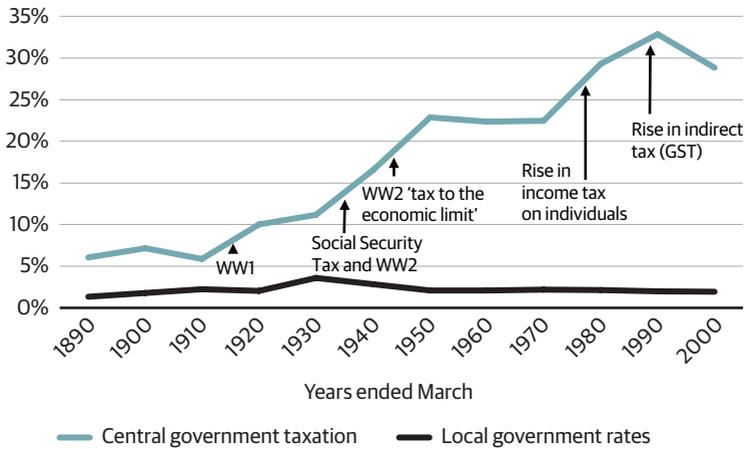
Ad hoc local authority bodies continued to expand during the late 19th century. By 1912, New Zealand, with a population of 1 million people, boasted more than 400 local government institutions.<sup>28</sup>

The Great Depression of the 1930s brought immense hardship to New Zealand, and local government was no exception. These difficulties led to many authorities amalgamating to cut costs.<sup>29</sup> During this time of austerity, the public became increasingly wary of the activities of local government and the other devolved ad hoc authorities. People were suspicious that local government was attempting to duplicate the services already provided by central government. By the second half of the 1930s, central government had taken control of the vast majority of social spending, mirroring international trends towards greater centralisation.<sup>30</sup>

## **1.5 Modern centralisation**

The frustration with local government's perceived duplication of central government functions continued into the post-World War II era. Many people felt there were too many ad hoc bodies with overlapping functions, and that the country was simply 'overgoverned'. The government's response to this frustration was to establish the Local Government Commission in 1946. The Commission had the authority to recommend amalgamations and restructuring local councils.<sup>31</sup> However, many of those recommendations were overturned by residents worried about the effects of amalgamation on local service delivery and the accountability of elected officials. Despite misgivings about the role of local government, residents were reluctant to amalgamate their councils and, in doing so, remove their representation and local identities.

**Figure 3: Taxation as a percentage of GDP in New Zealand**



Source: Based on The New Zealand Initiative's calculations.

In some of the larger urban areas, residents did not have this misgiving about amalgamation. By the 1960s, Auckland had been growing rapidly for a few decades into a large urban centre, and that growth came with its own problems. A lack of coordination between the region's 32 local authorities meant that basic services such as rubbish collection and sewage systems were no longer at an acceptable standard. In response to a request from Auckland's local bodies, central government established the Auckland Regional Authority in 1963 to take over all-of-city services.<sup>32</sup> Other urban centres followed soon.

The election of the fourth Labour Government brought about dramatic reform of the New Zealand economy, public sector, and local government. A foreign exchange crisis led to central government consolidating services to save costs; the restructuring included the corporatisation and privatisation of some functions previously bestowed on local government. By 1989, some 850 of our devolved ad hoc entities were amalgamated into 86 local government bodies.<sup>33</sup> These reforms marked a departure from both Māori and Pākehā traditions of decentralised government.

The local government reforms of the 1980s did not end with amalgamation. Until then, town clerks and the mayors enjoyed a great deal of power. The mayors and councillors implemented long-term plans for the council, and the town clerks and city engineers were the most important paid employees. With the Labour reforms, councils gained non-elected chief executives who took over the functions of town clerks and became employers of all council staff. Political influence over the council's commercial enterprises was also curtailed with new governing standards, so councillors could focus on council policy rather than managing council-controlled organisations.<sup>34</sup>

## 1.6 The modern era

By the early 2010s, the 1960s reforms were regarded insufficient for an even larger Auckland. The Auckland Regional Council (formerly, the Auckland Regional Authority) was merged with the six existing local councils in the area to form Auckland Council. The so-called Super City pushed the boundaries of what could be considered truly *local* government. With a population of 1.4 million people in 2010, Auckland Council was responsible for one-third of New Zealand's population.

Local government in the 2010s has been characterised by attempts to amalgamate but rejected by residents and ratepayers. Most prominently, the 2014 proposal to amalgamate councils in Wellington and the Wairarapa was scrapped by the Local Government Commission due to overwhelming public opposition.<sup>35</sup> Anti-amalgamation groups formed to oppose the proposal, which would have seen one authority represent everywhere from Wellington CBD and surrounding areas to Lower Hutt, Upper Hutt, and rural areas on the other side of the Rimutaka range.

Despite the victory against amalgamation, the standardisation that began in the late 1800s continues to constrain local government to this day. Central government's one-size-fits-all approach to local

government imposes the same rules on Auckland as on Kaikoura. Standardisation, such as through the *Building Act* and the *Resource Management Act*, forces local governments throughout the country to execute central government dictates over the particular needs of the community they represent.

## 1.7 New Zealand in context

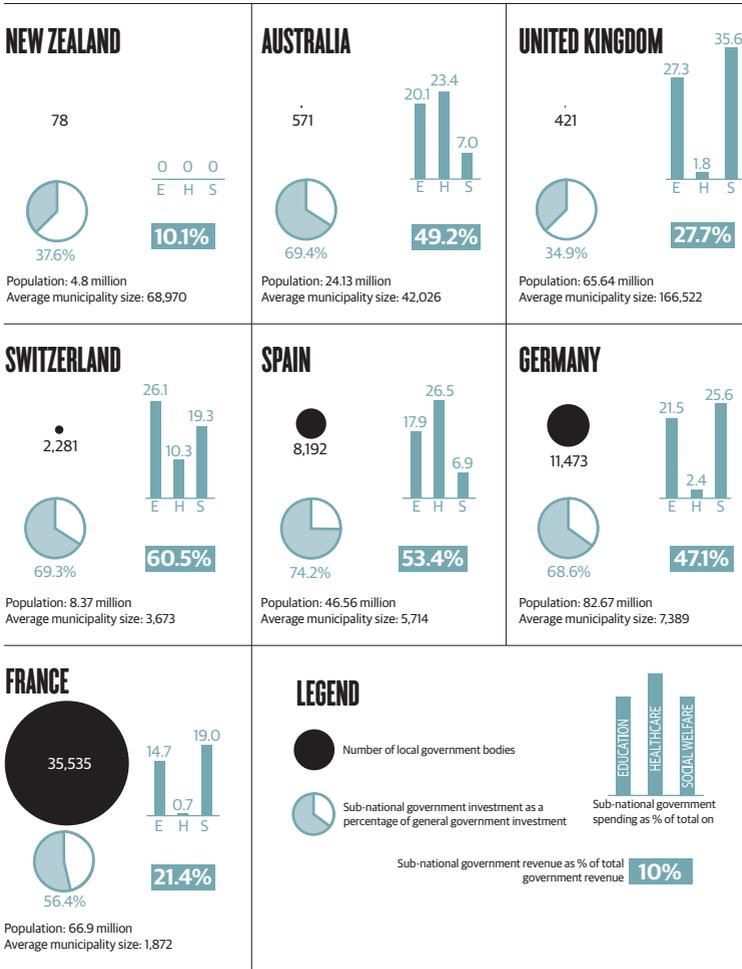
New Zealand's historical support of localism illustrates how poorly we measure internationally in terms of local government. New Zealand is an outlier in almost every metric, with our local governments largely unable to collect or spend much in tax revenue (see Figure 3). We deliver limited services at the local level, whereas many OECD countries assign a great role to councils on issues such as education, health care and welfare.

## 1.8 In sum

Local government came naturally to the European settlers. It supported their pioneering spirit to shape the land and enabled them to build new lives. Traditional Māori governance structures are also incredibly devolved. Responsibilities for each area of the country rested on the local iwi, not on any kind of centralised government. Centralisation has occurred in our history to consolidate and save on costs, but this measure, as you will see in Chapter 2, saves money only in the short-term (and sometimes not even then).

New Zealand's strong history and natural inclination towards local governing bodies can be rebuilt. A devolved government is not a foreign idea to us, with localism enabling the great degree of prosperity our ancestors experienced when they arrived in New Zealand. By adopting localist ideas, we can continue living our history of being the best little country in the world.

**Figure 4: How local government stacks up**



Source: OECD Subnational Government Finance Database, <https://stats.oecd.org/Index.aspx?DataSetCode=SNGF>.

## CHAPTER 2

# The economic lowdown

*Localism recognizes and celebrates the differences between regions. The country draws its strength not only from being “one nation” politically but also from having multiple nodes of energy, innovation, and experimentation.*

— Bruce J. Katz and Jeremy Nowak, *The New Localism*

In New Zealand, we are naturally local. European settlers built their lives around local identities and prospered because of the autonomy localism offered. Māori affairs were structured locally, and tribal differences were managed by small, autonomous governments.

Centralisation occurred in New Zealand during economic downturns to save money, just like in many countries around the world, but this does not necessarily make much economic sense. In planning New Zealand’s future, we should consider the economic theory that strong local governments are the best way to provide government services in an efficient and cost-effective manner.

## 2.1 Competition

Economics starts from the idea that it is human nature to respond to incentives, and economic theory explains how incentives work and the ways we can use them to get the best outcomes for society. Many services are provided and regulated by the central government in New Zealand, which means they sit outside the economic model of competitive incentives. There is only one provider of a service.

Take New Zealand Police, for example. The government is the only provider of policing services in the country, and police are centrally coordinated. Thus, despite needing a police force to maintain order, and the desirable good they do in the community, they have no economic incentives to be efficient, work well, or be innovative in making our communities safer. The government has a monopoly on providing policing services across New Zealand.

In a free market, monopolies are often corrected by market forces because competitors start businesses with new, innovative technology. IBM for a while monopolised the provision of computing services, but Microsoft took over because it was more efficient and offered better technology to consumers. The problem with monopolies arises when there is no possibility for competitors to enter the market and increase efficiency. The provider, in this case the government, is protected as the sole provider, either artificially or naturally. Only New Zealand Police can police our streets by law – setting up NZ Police 2.0 as competition would probably have you arrested for impersonating a police officer.

This points to two key reasons consumers benefit from a greater number of providers in the economy: greater efficiency in production and lower prices, and incentives to improve the quality of goods and services. In a crowded market, each competitor wants to offer an attractive price and high-quality products to the consumer, and keep innovating. When providers want to offer attractive services, they are responding to consumer needs.

In describing how the West came to be the economic superpower it is, Nathan Rosenberg and L.E. Bridzell noted in *How the West Grew Rich*: “Numerous empires have governed regions of economic and cultural diversity comparable to the West without relaxing their political control.”<sup>36</sup> As a result, there was no comparable development in trade in those regions; however, European countries encouraged trade and development in the politically and economically diverse regions they controlled.

Friedrich von Hayek, one of the great economists of the 20th century, extended this idea to government provision of public services. An economic liberal, he argued for providing most services privately, but if there was to be a public provider, it would have to be local government. This is because when local governments provide services and offer a package of tax rates, housing, parks, schools, health care, etc. to their residents, they are competing and responding to market incentives to maintain a good city.

Government provision of services should always include the possibility of another provider entering the market and offering a better service at a lower cost, said Hayek. Competition in the market incentivises all providers to operate efficiently and offer a quality product. It also ensures that local government is efficient and innovates to attract residents.

Hayek also said, “We can neither insure improvement nor protect ourselves against extortion unless the possibility exists of somebody else offering better services.”<sup>37</sup> Competition protects people from abuse of power through the economic system. Competing local governments would not want to provide poor services, and if they did, residents will leave the city and move where services are better.

It is not so much that residents would actually leave that forms the incentive; rather, it is the possibility of leaving. Local governments are also competing for the residents’ tax revenue so they can manage their budget successfully. This threat of residents leaving, and the consequent loss of tax revenue, keeps government in check – and curbs inefficient budget management or wrongdoing.

This idea relies on considering voters not only as policy decision-makers but also as consumers of public services. Thus, voters are treated more as a consumer of the services government provides, and the different local governments as the supplier of those services, each competing for citizens.

The American economist Charles Tiebout explains this idea in his 1956 article, “A Pure Theory of Local Expenditure.” Tiebout posits a problem identified by two other American economists, Richard Musgrave and Paul Samuelson. They noted that consumer-voters cannot reveal their true preferences for public goods, which means government must adapt to changes in consumer preference and behaviour instead of binding itself to a fixed revenue and expenditure plan.

Tiebout identifies local governments as a solution to this problem. Local governments offer a package of public goods and services to their residents to choose from based on their needs. The competition between different areas means councils can deliver quality services at good prices. Tiebout explains:

Consider for a moment the case of the city resident about to move to the suburbs. What variables will influence his choice of a municipality? If he has children, a high level of expenditures on schools may be important. Another person may prefer a community with a municipal golf course. The availability and quality of such facilities and services as beaches, parks, police protection, roads, and parking facilities will enter into the decision-making process.

The consumer-voter may be viewed as picking that community which best satisfies his preference pattern for public goods. This is a major difference between central and local provision of public goods. At the central level the preferences of the consumer-voter are given, and the government tries to adjust to the pattern of these preferences, whereas at the local level various governments have their revenue and expenditure patterns more or less set. Given these revenue and expenditure patterns, the consumer-voter moves to that community whose local government best satisfies his set of preferences. The greater the number of communities and the greater the

variance among them, the closer the consumer will come to fully realizing his preference position.<sup>38</sup>

Of course, Tiebout recognises the economic assumptions in his model. A key assumption is that residents are fully mobile, employment opportunities are ignored, and perfect information is available (that is, information about different cities' offerings is available to consumers). While the way we consider choosing a place to live is not quite like this now, it is easy to see how we could come to choose this way.

Consider that a central city offers a 'city-living' focused package suited to young professionals without children. In response to this market gap, an independent suburb offers good schooling options (that the central city council does not) to attract families with children (or consumer-voters). In both scenarios, councils will treat their residents better because they are behaving more like companies trying to satisfy their paying customers with the option of switching to another provider.

The idea of competition between people and between groups is not hard to enforce, either. It is hard-wired into our brains, says American psychologist Jonathan Haidt, "Our minds contain a variety of mental mechanisms that make us adept at promoting our own interests, in competition with our peers, [and other mechanisms that promote] our group's interests, in competition with other groups."<sup>39</sup> Competition is the natural result of psychological mechanisms. To enact localist economics is to act in a system that encourages us to use these natural mechanisms to their best purpose.

Niall Ferguson, economic historian and author of *Civilisation: The West and the Rest*, also offers an account of the benefits of competition for the development and growth of Western countries. "A decentralisation of both political and economic life [...] created the launch-pad for both nation-states and capitalism."<sup>40</sup> The reason the West became so rich

was the close proximity of European countries to one another while competing for both political and economic prowess.

Finally, competition is not a foreign idea to New Zealanders. In the 2011 World Values Survey, 82.6% of Kiwis rated competition as being good, and the incentive value it provided as being important.<sup>41</sup> Recognising and valuing the role of competition in the market can help us improve. We now have to apply the idea of competition to government as well.

## **2.2 Cost-effectiveness and efficiency**

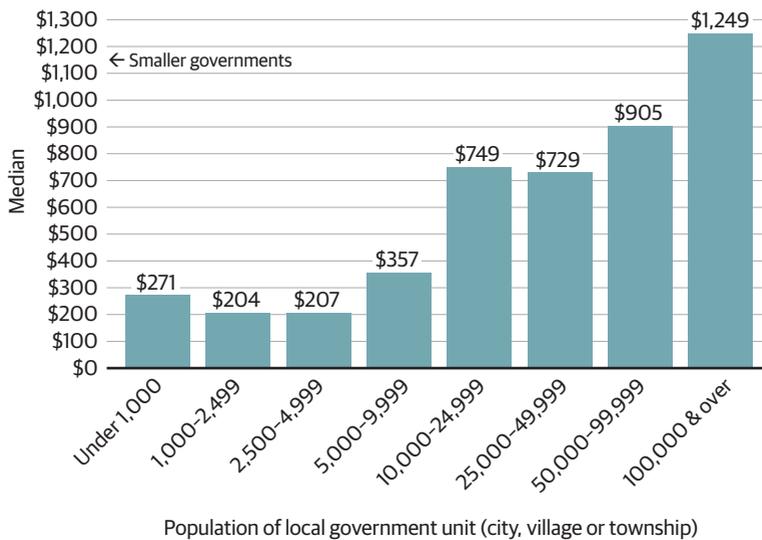
Seizing the power of competition is one argument for localism and devolution. Tailoring solutions to local needs is another one. That is because national harmonisation in service delivery can turn out to be costly.

John Seddon summarises the economics of localism as “managing costs creates costs.”<sup>42</sup> When standardising a process, central government must ensure each component of that process works properly. Standardisation removes variety and difference from what the government offers; it also increases costs. Moreover, local government employees will be glad to exercise autonomy over their process, and such autonomy leads to greater efficiencies.

To support this idea that more local government costs less in the long term, let us compare the tax rates of New Zealand and Switzerland. According to OECD data, the tax-to-GDP ratio in terms of percentage of nominal GDP for New Zealand is 32.1, and it is 27.6 for Switzerland.<sup>43</sup> Thus, the Swiss pay less tax than Kiwis. The decision to centralise services in New Zealand was done largely to save money, and while it may have in the short term, it is costing more in the long term because of loss of flexibility and efficiency, and decisions being made far away from the people.

Wendell Cox’s study on the effect of municipality size on the median expenditure per person in Ohio found that the larger the population, higher are the costs borne by the government for each resident (Figure 5). This is because larger provisions are necessary to cater to larger populations; big cities also require greater levels of infrastructure to cope with tourism.

**Figure 5: Ohio expenditures per capita in 2008**

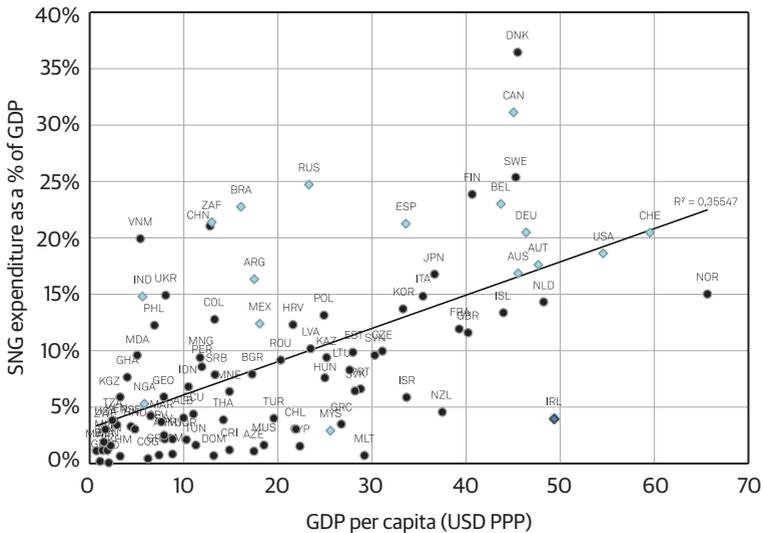


Source: Wendell Cox, “Local Democracy in Ohio: A Review of City, Village and Township Financial Performance by Size” (Ohio Township Association, 2012).

A further example of the efficiencies of local, smaller governments is in some of Montreal’s municipalities reversing their decision to amalgamate after just four years. Governments of larger cities found it difficult to cope with growth while still listening and responding to the concerns of their residents in different parts of the island with different preferences. The Fraser Institute’s publication on de-amalgamation in Canada notes: “... research on amalgamation has largely proven that consolidation has created a series of fiscal and governance challenges.”<sup>44</sup>

Finally, there are opportunities for larger economic benefits. The 2016 OECD report on sub-national governments found a trend between the GDP of a state and its level of centralisation: “Most decentralised countries seem to have the highest GDP per capita while the most centralised countries would have the lowest.”<sup>45</sup>

**Figure 6: Comparing SNG expenditure as a % of GDP and GDP per capita (2013)**



Source: OECD and United Cities and Local Government (UCLG), “Subnational Governments Around the World – Structure and Finance: A First Contribution to the Global Observatory on Local Finances” (OECD, 2016).

Note: Luxembourg is not represented on the graph as it is an extreme case due to its high GDP per capita (US\$98,163 PPP).

### 2.3 Innovation

In addition to being more cost-effective, spending decisions will be much smarter. The UK’s IPPR report titled “The Relational State” notes:

... local, flexible decision-making will be more capable of adapting to particular circumstances, avoiding waste and driving innovation, whilst opening up the space to make logical spending switches, such as towards low-cost preventative measures in healthcare, in preference to expensive remedial action.<sup>46</sup>

Innovation and our ability to make smart decisions will improve when greater autonomy is given to local governments. When people on the ground are the ones defining the problem and looking for solutions, they increase the ability of policymakers to accurately and acutely target issues. Likewise, switching to new, lower cost or more effective solutions are easier on a local scale. There will also be greater room for risk-taking and employing innovative and novel solutions.

Rosenberg and Bridzell say one of the key reasons Western countries were able to overtake global powers such as China was their decentralised decision-making. Firms were individually responsible for testing ideas in the market, and the best ones prospered.

Virtually without thought or discussion, the West delegated to enterprises the making of a decision basic in the innovation process: which ideas should be tested and which should be allowed to die. For economic innovation requires not only an idea, but also an experimental test of the idea in the laboratory, factory and market.<sup>47</sup>

The way to improve New Zealand's innovation in public service delivery is not to leave it to the central government to provide everything. This does not ensure, as Rosenberg and Bridzell note, that the best ideas remain and the bad ones are discarded. Localism means decision-making is based less on political pretences such as popularity and re-election, and more on what works in the market and for the people.

This chapter has explored how localism is well-supported by the economic theory of incentives. Armed with the right incentives, local

governments can offer its residents better quality and better priced services. Residents as consumers can choose the locality that best suits their preferences, and thus consume the services they desire at a price suitable for them.

This is the best way forward for local government in New Zealand to perform efficiently. As the next chapter shows, localism has a strong philosophical grounding.

## CHAPTER 3

# Philosophical perspectives

The idea of localism is not a new one; it is one of the few political ideas that finds support from almost all parts of the political spectrum. It is supported by strong economic theory that with the right incentives, local governments can offer better services to their residents.

Expanding local government enables greater efficiency in delivering public services and supports individual freedom and free choice. It also brings government closer to the people, thus improving relationships and networks between individual residents. This allows them to participate more meaningfully in the democratic process knowing they can affect change to issues that matter to them.

To illustrate the sound theoretical and philosophical foundations of localism, this chapter cites prominent thinkers Alexis de Tocqueville and Friedrich von Hayek, leading theorists in the British Institute for Public Policy Research (IPPR), and political scientist Robert Putnam, who have all supported localism as a philosophical concept and a governing principle.

With such prominent proponents from across the political spectrum, why have we held onto the idea of centralism for so long, and why does it largely go unquestioned in New Zealand's political discourse?

Businesses realised long ago that the best way to operate was not to have a central commander making all the decisions, but rather allow greater autonomy to the people on the ground – the workers and their managers – because they know best what is wrong with a product and how to fix it. The further away leaders are from their people, the more

likely they are to miss information crucial to their success instead of receiving feedback from both the market and the workers, and responding accordingly.

Yet, the public sector continues to run a largely centralised delivery of its services. Simon Jenkins, a British journalist and author of *Big Bang Localism*, noted that the paradigm needs to change because we are asking the wrong questions.

We are asking what local government should be doing. Instead, we should be asking: “What is it we need of a central administration that cannot be achieved locally?”<sup>48</sup> Instead of accepting the default centralised state, we need to see democracy from the bottom up – as it began in ancient Greece and as it was envisioned by the founders of modern government.

A basic principle underlies asking these different questions. According to the principle of subsidiarity, *the governing body should only intervene where the local community and its constituent parts, including its organisations and citizens, cannot meet their needs by themselves.*

The principle originated in Catholic social philosophy. In the *Quadragesimo Anno*, written for the 40th anniversary of the *Rerum Novarum*, Pope Pius XI aptly wrote: “... every social activity ought of its very nature to furnish help to the members of the body social, and never destroy and absorb them.”<sup>49</sup> Pius XI said only two social institutions remained: the individual and the government. As a result, government became overburdened with responsibilities preferably undertaken by local associations and community groups. Following Pius XI’s thinking, society and government on the one hand stand to serve the people (not having rights of their own), and on the other uphold the independence of the people at all times.<sup>50</sup>

How does this work? Central government should never take over the roles and services that local government could fulfil itself.

Any intervention from central government should rather be purely assistive. Just as central government will not file your tax return for you (if you can do it yourself), the state need not control housing and development if the local authority can do it.

In the world of subsidiarity, authority and autonomy should be given to the lowest possible tier of governance or association, and a bottom-up approach should be used in exercising power.

At the core of the subsidiarity principle is the freedom and autonomy of individuals in the community. As many philosophers and political theorists have noted, when individuals participate in the decision-making and democratic processes, the nation becomes stronger and the people freer. While commenting on American democracy, noted French philosopher and diplomat Tocqueville reflected:

Local assemblies of citizens constitute the strength of free nations. Town-meetings are to liberty what primary schools are to science; they bring it within the people's reach, they teach men how to use and how to enjoy it. A nation may establish a system of free government, but without the spirit of municipal institutions it cannot have the spirit of liberty.<sup>51</sup>

Tocqueville proffered that local communities of engaged citizens *enable* freedom in the community and support the running of a proper democracy. A centralised government distances the decision-making authority from the individuals who form the society. As a result, society loses what Tocqueville called “the spirit of liberty.”

British philosopher Edmund Burke made a similar observation:

To be attached to the subdivision, to love the little platoon we belong to in society, is the first principle (the germ as it were) of public affections. It is the first link in the series by which we proceed towards a love to our country, and to mankind.<sup>52</sup>

As he noted, attachment to a small community enables and encourages participation in public affairs, and enhances the idea of a nation. Through a strong local government and local associations, residents recognise their role in the community and feel a sense of belonging and importance.

Hayek too explained the role of local government in free market economics as enabling and organising collective action, supporting freedom, and improving the democratic condition of the state.

While it has always been characteristic of those favouring an increase in governmental powers to support maximum concentration of these powers, those mainly concerned with individual liberty have generally advocated decentralisation. There are strong reasons why action by local authorities generally offers the next best solution where private initiative cannot be relied upon to provide certain services and where some sort of collective action is therefore needed.<sup>53</sup>

The idea of localism just makes sense. In 2010, then Prime Minister David Cameron and the Tory government understood how increased local government responsibility could improve the efficient delivery of public services, and the participation of the people in British democracy. In his 'Big Society' plan, Cameron noted:

... we know instinctively that the state is often too inhuman, monolithic and clumsy to tackle our deepest social problems. We know that the best ideas come from the ground up, not the top down. We know that when you give people and communities more power over their lives, more power to come together and work together to make life better – great things happen.<sup>54</sup>

Allowing people 'more power over their lives' echoes the philosophers' comments. Cameron's statement brings together the idea of increased

liberty for citizens with getting better real results when people increase autonomy over their community's decisions. When people are given the freedom to make their own decisions about their local constituency and how it is run, solutions to their problems will be much more efficient, more acute, and more targeted. Local people know more than the 'inhuman and monolithic state' about their issues, and are best placed to solve them.

Cameron also pointed to democracy in its original conceived form. In ancient Greece, Aristotle argued that by nature human beings are political animals, naturally inclined to political activity to determine the nature and future of their environment and state. Aristotle listed three types of government, each with a good and a bad version. The best way to govern was with a *polity* – what we now call a democracy – where all the citizens participate in the affairs of the state. This ancient idea is still the starting point of modern democracies, even though political entities today are much larger (and much more centralised) than in ancient Greece. A democracy, as many of us understand it, should be the rule of the people and not the rule of a few on behalf of the people.

A 2012 IPPR report defined the ways the political left could rebound from their previous attempts at localism (with the Brown/ Blair government), and achieve what they term a 'relational state'. The report presents two arguments to question the role and aims of central government. One defence by Geoff Mulgan, a self-professed 'policy geek' and head of the National Endowment for Science, Technology and the Arts in the UK, says the relational state "is one that sees its role as being less about delivering services *for* or *to* the public and more about working *with* people to solve shared problems."<sup>55</sup> The relationship between the state and the public should change, according to Mulgan, to better deliver government services and empower participation in local affairs.

In Mulgan's vision, government simply works *with* the people – providing assistance so people can solve their own problems.

Sound familiar? It is a restatement of the principle of subsidiarity.

The other approach in the IPPR report purports that the state should not be relational in itself; rather, it should “focus on creating the conditions necessary for citizens to relate better with one another.”<sup>56</sup>

Advocating this view, Marc Stears, chief executive of the New Economics Foundation, says the role of a state is not to manage relationships, but rather to protect “the time, the places and the institutions that enable people to engage in relational activity.”<sup>57</sup>

Whichever way you look at Mulgan’s idea of the relational state, the role of central government is substantially different, and citizens are supported to engage in their own affairs rather than having services provided for them. Local government fulfils this role well by balancing interaction and supporting citizens with proper policy direction and innovative solutions to problems.

So why the state’s increased focus on personal relationships and the people’s wishes and problems?

Putnam discusses the role of *social capital* in modern society in his book *Bowling Alone*. Social capital (the relations and networks between people in a community) plays a large role in the effectiveness and success of governance and the community in general. Citizens connected through clubs, societies, volunteering, and joint political participation create greater solidarity, trust and reciprocity in society, and democracy quite simply runs better. Local government enables this kind of social capital to grow because the closer the government is to the people (or the clubs and associations people belong to), the more trust develops. Participation increases naturally because “... in a community rich in social capital, government is ‘we,’ not ‘they’.”<sup>58</sup> Through this bottom-up participation, people view political issues as directly affecting them, and believe they can change the outcomes.

Haidt compares communities to beehives: “When a single hive is scaled up to the size of a nation and is led by a dictator with an army at his disposal, the results are invariably disastrous. But that is no argument for removing or suppressing hives at lower levels. In fact, a nation that is full of hives is a nation of happy and satisfied people.”<sup>59</sup> The greater the number of local communities in a country, the higher the level of overall welfare among its people.

Putnam’s social capital and Haidt’s nation of beehives are just another way of explaining the principle of subsidiarity. Localism is about people gaining control over their own affairs, which means greater liberty and autonomy. It is also about empowering relationships and networks to enable the residents to better run their community.

A final (and often overlooked) consideration is that New Zealand has a very centralised identity: It is popular to think we need to band together to succeed on the world stage. Our regional identities are perhaps not quite as strong as in other countries. Yet localism will allow each region to develop more of its own identity and not worry too much about the policies of other regions. It will open the possibility of regional and local diversification. This might take some getting used to for most Kiwis. Localism is after all not an overnight change for miraculous results, but in the long-term it will deliver better results for New Zealand a highly centralised government cannot.

Localism would help our great little country achieve a more effective democracy: one that allows for participation by all, and supports all. Localism champions freedom and autonomy, allows competition and incentives to work in local government, and supports individuals to be a productive member of their community.

## CHAPTER 4

# An alternative vision for New Zealand

*Our regions are really unique. To have the same policy in every region is not going to work.*

— Shamubeel Eaquib

An important part of explaining localism is presenting how we could do things differently.

The Initiative's alternative vision for New Zealand supports the country's core values of fairness, autonomy and democracy. The economics of localism is a guide to changing the incentives to better enable efficiency and prosperity in the country. To that end, this chapter explores how localism could work in New Zealand.

Of course, many factors influence any decision on adopting localism, and this short exposition does not cover them all. Readers are encouraged to think about the arguments and ideas here and bring their own considerations to the table based on their own context. That will facilitate an effective debate among New Zealanders about localism and how it could be the best way forward for New Zealand.

Shamubeel Eaquib, in his speech at the 2014 Local Government NZ conference, noted that New Zealand's regions are incredibly diverse. Each has different dominant sectors with not only different sectors, but also different growth rates and different unique sectors. A blanket policy set by the central government can never adequately cope with the specific requirements of the regions.

This chapter outlines how New Zealand's 'problem areas' can be resuscitated through greater devolution of government. New Zealand scores well internationally in anti-corruption, ease of doing business, political freedom, and quality of life. Our GDP per capita relative to these measures is however an outlier. We could be a much wealthier country with a greater, more participative democracy.

The chapter also shows how to embrace and implement localism in New Zealand with respect to the economy, health care, tourism, taxation and welfare, and how other countries do it better.

## **4.1 Economic development**

Economic development is the result of incentives. Offering the right incentives and giving more autonomy to the regions will transform the economic landscape of New Zealand.

Residents need to be treated not just as receivers of public goods from the government but as consumers of those goods behaving just as they would while buying a fridge or a car. Offering a package deal on freezers to people living in the Arctic can hardly succeed.

Similarly, once local governments in New Zealand are given more autonomy and incentives, they will offer a package of goods and services that meets the needs and demands of the residents of that region. This package could include tax rates, education opportunities, health care, welfare, parks and recreation facilities, public events, and more.

Because each council will offer its own package, with a different tax rate and degree of services, residents as consumers have the option of 'shopping around' to find the best fit for them and their family. The mere fact that residents could walk away acts as an incentive for local governments to be prudent with their budget and offer what

their residents want. If residents left the city, the council's tax revenue would decrease, and they would be unable to offer the same services. Conversely, councils offering more attractive packages would attract more people and enjoy the uplift in their tax revenue.

According to the *OECD Economic Surveys: New Zealand 2017*, local governments need greater incentives to promote and accommodate economic development and growth in a way that best suits their region, not the current one-size-fits-all approach. This will also make councils more accountable to their residents.

## **4.2 Infrastructure funding and zombie towns**

In 2014, the phrase 'zombie town' was coined for New Zealand's dying provinces experiencing population declines as young people move to big cities in search of the 'buzz' of city life. How should we go about rejuvenating these towns, or at least making sure residents receive sufficient services?

Places like Lower Hutt have a population that has barely grown in the past 10 years, and a city centre that offers little for young people and adults. How can councils breathe life into a centre with huge restrictions on foreign investment and red tape limiting building consents?

But there is hope for declining cities. Declines can be reversed, failures can be corrected. Consider the Swiss municipality of Leukerbad, which had to file for bankruptcy in 1998 after accumulating CHF 346 million of debt. The city corrected its direction, unemployment is at 3.1%, and the city is back on track.

We can similarly revitalise New Zealand's struggling regions by ensuring they each have a wide range of top performing industries to attract and retain young talent; planning and fiscal autonomy

to manage itself and make good economic decisions; and the right incentives for growth and development.

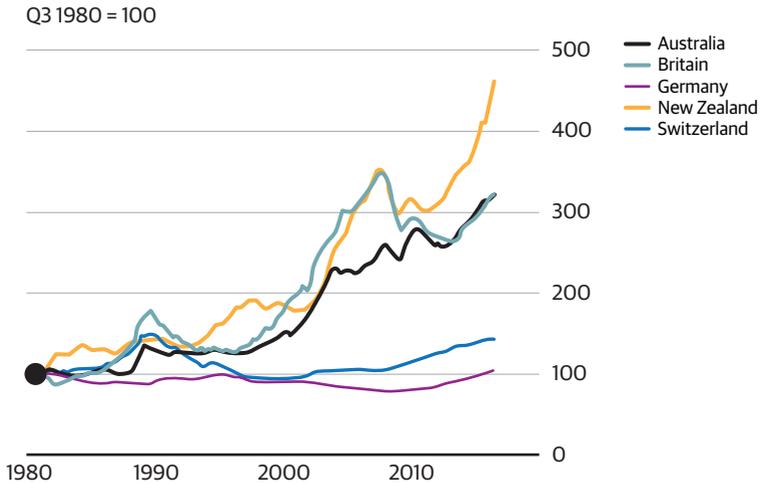
As Eaqub noted, we need to rethink the role of government in decision-making processes, and the economy in general. Government should be a catalyst, not a barrier, for good ideas in the market. It should not limit small towns from developing because of a lack of funding – rather, it should allow industries to prosper freely, and to grow that region's economy, with as little regulation as possible. That is the only way our 'zombie towns' will be able to find a way out of their slow decline.

### **4.3 Housing affordability**

The *OECD Economic Surveys: New Zealand 2017* raised the issue of housing affordability and councils: "... limitation on the ability and incentives for local governments to fund land transport and water infrastructure has restricted housing supply."<sup>60</sup>

New Zealand has a housing affordability problem. The difference in real terms between house prices in 1980 and in 2016 is more than 450%. This has had a major impact on young people, and low- and middle-income earners are finding it harder to own their own homes. Compare this with Germany where a house costs the same amount in real terms today as it did nearly 40 years ago. Figure 6 illustrates just how unaffordable houses in New Zealand have become compared to other countries.

**Figure 7: Average house prices in Australia, Britain, Germany, New Zealand and Switzerland<sup>61</sup>**



Source: The Economist, “House-price index,” Website, <https://infographics.economist.com/2017/HPI/index.html>.

The secret in Germany and Switzerland to keeping their houses affordable is to simply build more. Local governments are in charge of building, and if they build more they are able to collect more taxes from the developments, and from the new residents now living in their city.

Thus, building makes sense – the local government attracts more people as taxpayers, who fund new infrastructure developments needed to support the city. The cities make sensible business and building decisions, and with the right incentives, housing supply keeps up with the increase in demand.

We can expect to face some backlash from the nimbys who do not want new housing in their area. That is understandable under the current system, but once they realise their city will be able to collect more tax revenue to upgrade and improve local services that benefit everyone, the resistance could well turn into support.

#### 4.4 Tourism

According to the *National Tourism Infrastructure and Investment Assessment* report, the top infrastructure roadblocks to growth in tourism were slow and complex government processes, and lack of access to public funding. Central government plays an important role in funding infrastructure and determines regulations on building and development.

The report also stated that existing freedom camping, public toilets, car parking, and telecommunications facilities are partly or completely failing to meet the requirements of our tourism industry. The scale of accommodation, tourist attractions, and cafes/other facilities required to keep up with tourism growth was also reported to be ‘much more’ or ‘a bit more’ than we have now.<sup>62</sup>

In short, huge investments in tourism and infrastructure are needed to keep up with projected growth rates and expectations of visitors. But how can we fund such massive investments and overcome the red tape that central government has put on development?

The answer: Localism.

Once again, allowing local governments the freedom to determine how they undertake infrastructure development, as well as allowing them greater freedom in taxation to fund such developments, will produce targeted solutions quickly and efficiently. We will be able to build public toilets in Kaikoura and speed up the delivery of more

accommodation around the country much more easily. The two big concerns facing the tourism industry can be alleviated through greater devolved government.

## **4.5 Taxation**

In Switzerland, tax is levied on income at the federal, cantonal and municipal levels. Each canton and municipality can charge different tax rates depending on the services they offer, and whether they want to attract more people through low rates. For example, the canton of Nidwalden has 11 municipalities, each setting its own income tax rate. The income rate in Zug at 11% is half that in the canton of Jura (22%) – and could very well be a deciding factor for people choosing where to live.

Each region and local council in New Zealand too could levy and collect taxes; if the taxes were too high or unreasonable, residents would move to more affordable areas and councils would lose tax revenue.

## **4.6 Welfare**

Sweden is well-known for its generous welfare state. What is less well-known is that most of Swedish welfare – pre-schools, elderly care and financial assistance – is administered by municipalities. That is in stark contrast to New Zealand, where pre-schools and elderly care are regarded as private goods to be provided by private firms, and financial assistance is administered by central government.

Perhaps most interesting of the devolved forms of Swedish social welfare is financial support for medicines, dental care, optometry treatment, and even home appliances. Swedes with low or no income are assessed by their municipal government to determine their needs

and provided for accordingly rather than offered a near-blanket support administered by a national body. The amount of assistance depends on the cost of living in that region. People on the frontline are able to establish and quantify the needs of the applicants and provide the required level of service.

The Swedish welfare system covers a number of services provided by private operators in New Zealand and could serve as a model for decentralised welfare provision. Rather than act as mere rate and recycling collectors, local councils could lead targeted welfare provision and poverty alleviation.

## **4.7 Health care**

In New Zealand, health services are provided by 20 District Health Boards spread throughout the country. These entities exist across regions specific to the health system. Contrast this with Denmark. There health care (and other social services) is the responsibility of the country's five administrative regions. Central government sets the national health policy, in addition to regulating, coordinating and providing advice on the health care system.

Health care in Denmark is funded by an 8% tax on income, which means everyone who needs medical assistance is covered. After distributing tax revenues, if some localities do not have enough resources to deliver certain services such as rehabilitation and training facilities they can join together and co-finance those services. This encourages efficient provision and use of resources in small municipalities where a whole centre dedicated to rehabilitation may not be used to its full capacity. Similarly, sometimes it is better to have two specialists in a certain type of surgery, responsible for the whole country, each performing 10 operations per month, rather than 10 specialists performing two operations per month. Health care needs coordination, but delivery and targeting of services needs to be local.

Municipalities collect local taxes and pay an activity-based subsidy to the regional governments. The amount depends on the degree to which residents use regional health care services. This means municipal governments have an incentive to promote health care, thus reducing the demand for hospitalisation.<sup>63</sup>

## 4.8 A localist future for New Zealand

Many different services can be provided locally, each requiring different legislation and degree of autonomy for local governments. What we need is to decide the services that come under local government and central government jurisdictions.

As we noted in a previous report, *The Local Manifesto*:

There will of course be instances where it is best for central government to set policy and standards nationally but which dictate outcomes at the local level. Some such areas are roads, environmental protection, telecommunication standards, and national planning frameworks, particularly where there are spill-over effects. These functions require a level of sophistication and scale that is beyond the capability and capacity of some councils.<sup>64</sup>

Localism can be at the heart of New Zealand's governing system and help us towards a more prosperous and connected future. The principle of subsidiarity and international experience can help guide the best way forward for a localist New Zealand while recognising its unique characteristics. The next chapter clears up some of the common myths surrounding localist ideas in New Zealand.

## CHAPTER 5

# Localism mythbusters

Having championed the idea of localism for six years now, the Initiative knows that localism might be a little difficult to digest in a highly centralised New Zealand. Local councils here do not have the flashiest of reputations, and many people have reservations about giving local governments more power.

So far in explaining localism to New Zealanders, we have come across some common questions and potential problems people raise. This chapter tackles these issues and shows that localism is actually an opportunity to shape a brighter New Zealand.

### **Q: Only a few of New Zealand's cities have enough people to work independently. Isn't New Zealand too small for localism to work?**

New Zealand covers an area of 268,021km<sup>2</sup> and has a population of 4.8 million people. However, size is no barrier to experiencing the benefits of localism.

Switzerland, our go-to country for localism success, has a population of 8.4 million – nearly double that of New Zealand – but covers a much smaller area of 41,285km<sup>2</sup>. Imagine you are running a marathon in a straight line in Switzerland. You would end up running through at least five different localities in the course of your run – that's how small the country is!

However, Switzerland has 26 cantons (regions) and 2,294 communes to New Zealand's 78 sub-central units of government, including territorial authorities, and regional and unitary bodies. That works out to 3,260 people per sub-central unit of government in Switzerland, compared to New Zealand's 61,500 people. The average



amphitheatres. The moment the population gets too big to have genuine discussions together is the point democracy in its true sense breaks down.

New Zealand is a relatively a small country, but that only makes us a more natural place to go for localism. We can leverage our size to give autonomy to the localities of New Zealand, and experience the benefits of localism this essay has discussed.

**Q: Even if New Zealand's size is suited to localism, I don't think local governments are up to the task of determining all the aspects of government. I mean, I don't really trust my local council...**

You may think local government is incompetent if all you know about it is from the mainstream media and general conversation. Not too long ago, a treehouse had to be taken down because of a council order. But that order was only made because of central government regulations. The local council had to enforce a law it didn't make – and got all the bad press for it. To properly consider localism, we have to consider who has the most power and how they decide what local councils can do.

This idea that local governments are incompetent isn't necessarily true, either. The 2007 Kiwis Count survey reported 73% satisfaction with local councils compared to 68% across all public services. Staff competency in local government was rated at 76%.<sup>65</sup>

Central to the idea of localism is the economic concept of incentives. At the moment, local governments have very few incentives to perform well and create innovative solutions that best use the resources and money they have. Because local governments have little ability to collect tax revenue on different goods and services, they cannot change what they offer to gain more money to deliver better public services. The basic economic idea of incentives isn't working at the moment.

What if local governments could collect the tax revenue of housing developments in their area? That would incentivise them to build

more, and the money raised from the development would be put straight back into the community. Responsibility is also a good incentive: When local government officials are responsible for delivering more, they will have to up their game or face removal from office.

There are concerns about whether our local governments have the appropriate talent to make the right decisions, especially if they are given more money and decision-making power. Because of its current position and relative importance, local government doesn't necessarily attract the best leaders or the brightest minds. Perceptions about local government will change with time, and more people will want to work in their local councils, and talent will spread from the central government as it gets smaller to the local governments as they get larger.

Finally, localism is not just about giving more money and power to the local government. It's also about shifting power away from representatives and giving it to the people. Localism brings with it greater participation in the democratic process, which means everyone can have their say on more issues and influence outcomes. In Switzerland, for example, the power legally lies with the people. Referenda are held with only 50,000 signatures submitted to parliament, and all parliamentary decisions can be overturned by the people (if enough agree, of course).

We need to trust our local governments more, but we also have to trust ourselves as citizens of New Zealand to govern our regions the way we want to.

**Q: Cool, but this seems like a chicken-and-egg situation. What comes first, changing policy to give local government more power, or getting better people into the councils?**

It may seem risky to give people you don't trust more power over your region. The thing is localist ideas are based on incentives, a

fundamental principle of economics. When people have the right incentives to act in a certain way, they will. People tend to act in their own interest when making personal decisions, and this attitude carries over to decisions made by councillors about spending and investing money to develop their region.

As mentioned before, economic incentives are key to improving local government efficiency in a way that benefits all the people of the municipality. One incentive is competition between the different councils to offer the right service package; another is making sure councils collect the tax revenue from activities in their municipality.

What needs to change first is policy and power distribution. Councillors will then have more incentives to make efficient decisions and run their councils properly. The resulting higher status would attract more talented people to local government, successfully completing the change. People living in a region would finally be in charge of it.

This also means there is no bridging mechanism, no ‘attempt’ at localism, no soft-localism. It will not be easy to shift power away from central government, but localism is a necessary step if we want to improve our country and the lives of the people here.

**Q: That makes sense. But local councils are quite wasteful with their money, and having lots of different places doing the same job seems like it will make the problem worse. How is localism not just a duplication of bureaucracy?**

The Swiss pay less tax than New Zealanders do. According to OECD data, the tax-to-GDP ratio as a percentage of nominal GDP is 32.1 for New Zealand and 27.6 for Switzerland.<sup>66</sup> Offering the same services in many different places does not duplicate bureaucracy; rather, it incentivises each locality to make sure it is not over-bureaucratized or inefficient in its service delivery. We do not have to pay extra to have small, decentralised administration.

The Fraser Institute's report on the cost effectiveness of government structures shows that New Zealand is 32.6 percentage points behind the leading country, South Korea, while Switzerland is only 14.8 percentage points behind.<sup>67</sup> Switzerland's local government structure is thus more cost efficient than ours. The report also noted a general trend that "... a smaller public sector is generally associated with a higher ranking in terms of cost-effectiveness."<sup>68</sup> The idea that a more centralised and larger state delivery of public services is more efficient is in fact a myth.

**Q: What makes you think people will participate in local democracy anyway? We have pretty low participation in central and local government at the moment, so how will this improve?**

Political theorist Mark E. Warren said, "... individuals are likely to find decision making [in a participatory democracy] so burdensome and inefficient that most will withdraw into cynical apathy."<sup>69</sup> Perhaps our cynicism towards referenda and voting can explain the low voter turnout in New Zealand. This scepticism is valid in the current climate, but it certainly doesn't have to be this way.

Porto Alegre in Brazil has been experimenting with participatory democracy recently. Political institutions have been set up to enable residents to, for example, organise a Budget Forum to meet and discuss how to spend their money over the next year. Jeffrey D. Hilmer, in writing on participatory democracy, said:

It was these free spaces in which citizens deliberated and made decisions that bound the municipal authorities responsible for enacting the decisions of the citizens... Because the citizens were fully aware that the municipal authorities were accountable to their will citizens experienced genuine feelings of political efficacy and empowerment because the deliberations that citizens engaged in and the decisions that resulted had a politically significant effect in the form of the subsequently enacted policies.<sup>70</sup>

Simply put, when people get a chance to see how their efforts actually make a difference to the outcome, their level of interest in the discussions increases. This empirical data echoes Tocqueville's comments on the philosophy of localism (Chapter 3). Seeing the relevance of our involvement in issues is crucial to more participation in the process. Once some people begin to participate and see the benefits, others will slowly begin to join them.

Despite many people not receiving any kind of civic education, the mere fact of participating in local decision-making is enough to develop civic skills. As Hilmer says: "... this exercise in collective or general will formation tends to transform private-minded individuals into public-minded citizens, and, in doing so, creates a kind of 'public sphere'."<sup>71</sup> After a few meetings, citizens developed better local budgeting and problem-solving skills, and become better placed to make decisions that benefit the whole community or, more specifically, those in the community who need the most help.

In short, once local authorities become more significant, once they have greater freedoms and greater independence, public participation will increase.

**Q: I'm in favour of a larger, global economy. Isn't localism just a turn inwards to smaller, disconnected communities, when we want to be growing and benefitting from globalisation?**

Localism is not a backwards step, or nostalgia for the old days of autonomous little villages operating independently. The global economy is here to stay, and any economic or political theory must recognise this fact, and deal with it appropriately, to be considered a viable option in the 21st century.

Bruce Katz and Jeremy Nowak, two American policy and community experts, have written a book about the role localism can play in the global economy, and how we can improve networks and relationships to leverage economic and social benefits.

The evolution of New Localism reveals qualitative differences from the top-down interventions of earlier eras, when problem solving was concentrated in higher levels of government. It is fuelled by networks of institutions and leaders rather than reliant on the public sector alone. It is horizontal rather than vertical in organisation, focused on replication of solutions across places. And it is simultaneously local and global, since smart solutions can be invented both at home and abroad, in large and small cities alike.<sup>72</sup>

The approach taken by 21st century localism does not ignore the nature of the global economy. It's both local and global by leveraging the benefits of the networks we have in our country with the relationships cities have with other cities, doing similar things. The approaches taken by certain cities in Switzerland will not work for incomparable cities in New Zealand, but there is definitely something to be learned on both sides for similar cities. Because councils will have the incentive to be as efficient as possible, and very little red tape is stopping them from switching their spending to better options, ideas and innovative solutions can travel faster, and cities can work together globally to develop solutions.

Furthermore, if Wellington city centre's council for example decides to restrict foreign investment in infrastructure in the city, this will not affect Lower Hutt's ability to rejuvenate its city centre through foreign investment. A more autonomous local government can target investment in places that need it, without closing off the whole country to protect certain regions. Again, localism is not about inward looking policy or direction, but about strengthening networks and connections for the benefit of every locality.

**Q: OK, that's good then. What about things like national defence and trade agreements, though? Or even schooling? A tiny little town can't defend itself if the whole country is at war...**

The philosophy of localism comes back to the principle of subsidiarity: central government should only assist with tasks

local governments can't do by themselves. For national defence or emergencies, having central oversight is valuable and necessary. Regarding legislation and transfer of powers, local government should get the initial preference; where it doesn't make sense for the power to lie locally, central government can be given that responsibility.

Switzerland is an excellent case study to see how to cope with schooling, given the small size of its localities. Remember that Switzerland has 2,294 communes, some with only a few thousand citizens. In such a case, two communes could come together to form a partnership, paying jointly for a service and deliver it to the residents of both areas. The incentives for local governments to work together are lower average costs of delivering education in both areas, while also promoting inter-community relations.

**Q: Well, this all sounds good and kinda makes sense. But what's in it for me? I'm just a fish in the ocean in New Zealand, and I'm not really involved in politics. Why should I even support localism if I've never done anything remotely political in my life?**

This is a really good point, and one that the larger concept of localism is trying to address. It is becoming harder and harder to engage with a large, clunky central government, and 'everyday citizens' are right in saying the influence they can have on this massive system is pretty small.

We're not asking you to suddenly become interested in the budget if you know nothing about finance, or in the new national highway if you don't have a car. You're right. These issues are a little boring and irrelevant to your life.

But think again. What would happen if you were annoyed by your daughter's local school? Or if you cycle to work and there's a particularly dangerous round-about you would like to be made safer?

Localism champions the idea that power is with the people. For this to happen effectively, we need small enough communities such that

you know the people in power, and you can talk to them freely and openly. You're involved naturally in the decision-making process because you know the people who are accountable for these decisions.

When you do have issues in your community that you'd like to be solved, better local government will help you solve them. You can be involved in the process yourself or speak to others about the issues to resolve them. No more sitting around in the pub complaining about the government's insulation laws holding up the building of your treehouse! With localism, you the people make the laws that best suit you and your fellow community members. Your opinion is no longer that of a small fish in the ocean.

# Conclusion

It is easy to think that most people in New Zealand are reasonably rich, reasonably safe, and reasonably happy with the level (and cost) of services they receive. We are not doing terribly compared to other countries and we are pretty happy. For little ol' Aotearoa down here, that's great.

But the challenges of the 21st century will be some of the most complex in history. We cannot ignore their seriousness or the need to solve these issues with innovative and collaborative environments backed by a culture of participation and democracy. Each region in New Zealand is facing different kinds of issues, and while many regions share some issues, the nature of the best solution will be different for each. We cannot ignore our diversity, nor can we become complacent and trust central government to deliver diversified solutions.

Localism is the answer. Devolving New Zealand's government will enable us to deliver a programme of services tailored to the citizens living in each city. It will allow the members of that city to determine their own affairs, and govern their communities as they see fit. Our democracy will be kicked back to life and everyone will be able to participate fully in community affairs.

We would expect our government to be effective, given that we perform well on many international rankings. That is not true for our weak local democracy. And that is why it must change.

Localism is not foreign to New Zealand's unique history, with traditional Māori governance being incredibly devolved within each iwi. Pākehā, when they arrived and for many years after, enjoyed local

governance and grew the collaborative and pioneering mindset Kiwis pride ourselves on today.

Localism works because of the economic idea of incentives, which we explored in reference to Hayek and Tiebout. Competition between autonomously governed localities attracts citizens and raises local tax revenue to provide better and more efficient services and governance. Democratic participation will improve as consumer-voters begin to see how they can directly influence decision-making processes. Switzerland, Ohio and Montreal show that local government is more cost-effective than one large central government.

Philosophically speaking, localism is grounded on the principle of subsidiarity: the governing body should only intervene where the local community and its constituent parts, including its organisations and citizens, cannot meet their needs by themselves. This view of power-relationships was supported by America's founding fathers and British and French democratic pioneers; many governments worldwide are now moving towards more devolved government.

Finally, our alternative vision for New Zealand shows how economic development would work, and the possible effects of autonomous local government structures on housing, tourism, welfare and health care. Devolved government will allow us to deliver services closer to the people, and make sure services are suited to the needs of those receiving them. Our housing crisis and lack of infrastructure more generally could be solved by giving local governments incentives to attract investment and build more.

This report showcases all the evidence, both theoretical and empirical, to support the idea of localism. Both the political left and right around the world have adopted localist stances, and we believe localism appeals to everyone. The mythbusting chapter tackled the most frequent reservations to the idea of localism, hoping to change some initial negative reactions to the concept of localism.

We are aware of the many other considerations in implementing localism in New Zealand. These are all important, and they should find their place in the localist debate. New Zealand needs to have such a debate based on the evidence and the ideas that underpin localism. We need to question how well our highly centralised government is performing. And we need to build a better, more prosperous New Zealand from the ground up.

Nothing is stopping New Zealand from being the best country in the world on every metric. Nothing is stopping New Zealanders from fixing our housing crisis and poverty issues. All we need to do is reinvent our governance structures to support the 21st century New Zealand we love so much. Go Local!

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Few countries centralise government power as much as New Zealand. In most areas of public life, Wellington calls the shots, makes the rules, and holds the purse strings.

But this arrangement does not work. Nor does it have to be this way.

The antidote to New Zealand's rampant centralism is localism.

Localism is a philosophy much suited to New Zealand and its people. It is based on historical, philosophical and economic arguments. It can also solve our country's most pressing policy problems affecting everyday Kiwis.

And the best part is it works – as we see in countries similar to New Zealand.

This essay finally spells out how much better government in New Zealand could be by adopting devolution and being closer to the people.

*#localismNZ* aims to bring power to the people – where it belongs.

# THE NEW ZEALAND INITIATIVE

The New Zealand Initiative

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