

A Global Perspective on Localism

By international standards, New Zealand has one of the world's most centralised forms of government. In other OECD economies, local government runs health and police services, accounts for the majority of public investment, and typically controls a third of public spending. In New Zealand, by contrast, local government has traditionally been small and weak in comparison with central government.

But is this really the best way to govern New Zealand? Around the world, a new localism is taking hold. Subsidiarity, localised decision-making and devolved powers are the latest trends in good governance.

This essay explores the idea of localism in a historical, philosophical and global context.



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NEW ZEALAND
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Oliver Hartwich

With a foreword by **Malcolm Alexander**



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About The New Zealand Initiative

The New Zealand Initiative is an evidence-based think tank and research institute, which is supported by a membership organisation that counts some of the country's leading visionaries, business leaders and political thinkers among its ranks.

Our members are committed to developing policies to make New Zealand a better country for all its citizens. We believe all New Zealanders deserve a world-class education system, affordable housing, a healthy environment, sound public finances and a stable currency.

The New Zealand Initiative pursues this goal by participating in public life, and making a contribution to public discussions. For more information visit www.nzinitiative.org.nz

About LGNZ and local government in New Zealand

Local Government New Zealand (LGNZ) is the peak body representing New Zealand's 78 local, regional and unitary authorities. LGNZ advocates for local democracy, develops local government policy, and promotes best practice and excellence in leadership, governance and service delivery. Through its work strengthening sector capability, LGNZ contributes to the economic success and vibrancy of communities and the nation.

The local government sector plays an important role. In addition to giving citizens a say in how their communities are run, councils own a broad range of community assets worth more than \$120 billion. These include 90% of New Zealand's road network, the bulk of the country's water and waste water networks, and libraries, recreation and community facilities. Council expenditure is approximately \$8.5 billion, representing approximately 4% of Gross Domestic Product and 11% of all public expenditure.

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Foreword

One of the big questions governments must face up to is the question of allocation. That is, the question about which services are best provided nationally and which are best provided locally. It is a question that has never been addressed in New Zealand.

Consequently LGNZ is delighted to co-publish with The New Zealand Initiative Dr Oliver Hartwich's paper on the importance of localism. I believe it is an important and timely contribution to the debate about which level of government should be doing what.

The concept of localism is one which supports a devolved model of government that is focused on the delivery of better services to citizens, stronger democracy and ensuring the right incentives for balanced economic growth are in place. For LGNZ, localism's appeal lies in its alignment to LGNZ's vision, namely: "Local Democracy Powering Community and National Success."

Dr Hartwich's paper analyses localism from a number of theoretical perspectives and makes a very strong case for its adoption by policymakers, whilst providing readers with an engaging history of the concept along the way.

Considering localism in our present day context, it's no exaggeration to say that New Zealand is at a crossroads. We are a highly centralised state and recent changes appear to be reinforcing this situation. It is a trend that is concerning to many. But it is a choice. Another choice is to embrace the democratic principle of subsidiarity. Namely that responsibilities should be delegated to the lowest possible tier of government in order to promote better decision-making and greater efficiency in the provision of services.

As Dr Hartwich acknowledges, it may seem paradoxical, but taking an international, comparative view of localism brings its benefits into stark relief.

The British Government's public endorsement of localism is being watched with interest from abroad, including from New Zealand. The UK Localism Act introduced a range of measures to shift authority and decision-making from Whitehall and central government to local governments and communities themselves. It is driven by a firm belief that shifting decisionmaking to the level of government that is in closest proximity to citizens will result in better public decisions and services better targeted to the needs of users.

The focus on localism in the United Kingdom reflects a broader international focus on strengthening the role of local democracy and local decision making. As there is no written constitution, the House of Commons is considering codifying the relationship between central and local government and entrenching the Local Government Act 2000. Similar discussions have been occurring in Australia and, until a last minute change in the date of the Federal election, a vote had been planned on the issue of whether local government should be referenced in the country's constitution.

At home, councils voted unanimously for the call to have New Zealand local government given constitutional protection at the LGNZ AGM in July 2013. As Sir Geoffrey Palmer recently commented, "Local government needs a protected place in New Zealand's constitutional arrangements, so that it cannot be made the mere plaything of central government ministers."

Effective local democracy can and does make a difference in communities every day, an approach that fosters the willingness of citizens to stand and even more importantly to vote. Localism may well be the vehicle to make LGNZ's vision "Local Democracy Powering Community and National Success" real. Localism may also deliver real economic and democratic benefits to New Zealand, and could reverse a centralising trend in New Zealand that is at odds with other Western democracies. Maybe it is time to think about local democracy in another way?

It is timely therefore to have a proper debate about the relative roles of central and local government. Dr Hartwich's paper challenges New Zealand's communities and policymakers to think in a different manner – to think about the opportunities and advantages that "localism" might bring.

I welcome Dr Hartwich's contribution to the debate.



Malcolm Alexander
Chief Executive
Local Government New Zealand

Introduction

“A global perspective on localism” sounds more like a macro perspective on microeconomics, a top-down approach to grassroots engagement, or even an integrated world theory on local government. But local government in different jurisdictions is far too diverse to even attempt an overarching definition.

However, localism in the global context is not as odd as it may initially appear. This paper is not about a new general theory of local government. But there are various perspectives on local government that this paper will explore – not least from an international, comparative perspective.

We may live on two small islands, geographically isolated from the rest of the world, but at least when it comes to local government, New Zealand is not as special as we may like to think it is. Although some of the challenges faced by local government in New Zealand are unique, there are enough similarities in responsibilities and difficulties with other developed countries to conduct comparative research. But local governance in other countries also works differently enough to allow comparisons that enable us to see our own system of local government in a different light.

That’s the beauty of comparative research: The things you compare are simultaneously extremely different – and very similar. Or, as the saying goes: “Ginger Rogers did everything Fred Astaire did. But she did it backwards, in high heels.”

This paper compiles and analyses the comparative aspects of local government from historical, philosophical, economic and international perspectives.

Historical background

There are 196 countries in the world today. In modern parlance, these countries can be called nation states. Politics within this network of nation states refers to the policies in each national jurisdiction and its relationships with other nation states.

From a historical perspective, this is not what 'politics' used to mean. Indeed, the word 'politics' already contains a clue to its origins. It is derived from the ancient Greek word *polis*, which literally means 'city'. Only later did *polis* acquire the secondary meanings of 'citizenship' or 'a body of citizens'. But the root of the word 'politics' refers to the workings of a polis, a city.

The modern system of governance, law and democracy (which incidentally comes from two other Greek words, *demos*, meaning 'the rule of the people', and *kratos*, meaning 'power') is derived from this ancient model. That model was not of the nation state but of the city or the city-state. In ancient Greece, there were dozens of them: Aegium and Athens, Chalcis and Heraklion, Rhodes and Sparta, to name a few.

The birthplace of modern civilisation is the city. This is where citizens came together to regulate their own affairs, to debate and discuss, to form coalitions, to promote the arts and public works, and to create an education system.

In fact, 'citizen' is another such word that hints at the historical importance of cities. The word derives from the ancient Latin word *civis* – which did not so much state the nationality of a person, but simply meant that this person lived within a city. From this Latin *civis* developed the old French word *citeien*, which translates as 'city-dweller, town-dweller, or a citizen'.

The concept of citizenship has as much to do with the city as politics has to do with the ancient *polis*.

These historical roots of politics and citizenship show that in the beginning, all politics was local. Not only that but the absolute scale of politics was tiny by today's standards.

Athens was the largest of the ancient Greek city-states. It is celebrated as the foundation of Western civilisation and the birthplace of modern democracy. While there were no official censuses back then, estimates suggest that at the peak of Athens' power (fourth century BC), its total population was about 250,000 people (of which only about 30,000 were citizens; the rest were slaves, women and so on). That's just marginally bigger than Hamilton today.

It is a similar story with the other great power of the classical era. At the peak of the Roman Empire, the city of Rome was only slightly bigger than Athens. Estimates vary but the Roman population was probably somewhere between half a million and a million inhabitants.¹ In any case, the capital of the ancient world's largest empire was smaller than modern-day Auckland.

Throughout most of human history, cities were the dominant force of political affairs. From the very first cities of Mesopotamia in the seventh millennium BC, to ancient Athens and Rome, to the city-states of the Middle Ages, cities drove the development of political affairs, of culture, of democracy, of finance, of the arts, of education. History was made in and by these cities.

Reminders of this proud history of cities can still be found at every corner in Europe. Visit Florence and you can see a city built by the Medici family's business sense. Visit any of the port cities of the Hanseatic League, and their civic pride and their connectivity to other trading places can still be felt. Visit any of Europe's old

university cities such as Oxford or Bologna and the impact higher education and research have had on the life of these cities over centuries is palpable.

Cities were not only driving economic development but also promoting individual liberty. Serfs fleeing from oppression in the countryside could gain citizen's rights after one year of having lived in a city. Cities made it possible for people to escape the narrow confines of the feudal system. This was applied in what is now Germany and is known as the principle of *Stadtluft macht frei* ('urban air makes you free').

Nation states

The system of governance that we have come to take for granted today has little in common with these historical origins. Since the fifteenth century – and certainly since the Treaty of Westphalia, which ended the Thirty Years' War in 1648 – a system of nation states has replaced the previous dominance of cities.

What we have observed over the last four centuries is a centralisation of power across the world. This centralisation has happened at different speeds and to different extents. There are places in which local democracy and municipal autonomy play greater roles than in others. But with very few exceptions such as Singapore, Hong Kong, Monaco or the Vatican, we are now living in a world in which cities have been relegated to a lower tier of government – often a second tier and, in federal systems, a third tier of government.

Unfortunately, it also means that a local government is now often seen as a second or third rate form of government – a mere recipient of orders, targets and goals determined in a national or state capital.

City government is no longer the driver of politics – on the contrary, in some jurisdictions it is now defined as a mere creature of the higher tiers of government.

The decline in the global importance of local government is deplorable. Although it makes good sense to centralise some aspects of government in modern, industrialised societies, there are significant negative side effects and objections – philosophical and economic – to this centralising tendency.

The philosophy of localism

Because we now take the existence of central, national governments and their dominant role in a country's politics for granted, we have forgotten to ask the right questions about local government. On the question of which tasks could realistically be assigned to local government, the default position is that the tasks will be assigned by central government. The central government calls the shots and defines the role and scope of local government.

In fact, we should be asking completely different questions. British author and journalist Sir Simon Jenkins did just that in his book *Big Bang Localism*, published almost a decade ago. His guiding question was not what local government might possibly do, but rather: “What is it we need of a central administration that cannot be achieved locally? What is essential to a state?”²

What Sir Simon referred to is the political principle of subsidiarity. Often celebrated in theory but seldom applied in practice, subsidiarity proposes that responsibilities should always be delegated to the lowest possible tiers of government in order to promote a more efficient provision of services.

The principle of subsidiarity is derived from Catholic social teaching. It means that higher tiers of government should only fulfil a subsidiary function for those tasks that cannot adequately be dealt with by lower tiers. It is a principle that is now often referred to, for example, in the context of the European Union, where it makes obvious sense.

Of course, the EU commission in Brussels should not be engaged in regulating street lighting in Palermo or Helsinki. That is something which local government is able to do and for which no central coordination or oversight is necessary. At the other end of the spectrum are issues such as foreign policy and defence, which cannot be organised by city councils and should be dealt with by national governments or perhaps even by the European Union as a supranational organisation.

The problem with the principle of subsidiarity lies not in theory because it makes perfect sense in theory. The problem lies in practising it. Pressure groups and higher tiers of government will always find reasons for centralising power and decision-making when it serves their own agenda. As the Swiss lawyer and philosopher Robert Nef once wrote, “Power always inclines towards centralisation and centralised power towards absolutism.”³

This drive towards centralisation is clearly evident in the European Union – but it is a general problem in all multi-tiered jurisdictions, including New Zealand.

Instead of defining the role of local government, we should be asking why central government exists and why the tasks it currently performs cannot be dealt with at the local level.

Subsidiarity is a central element of good governance. Rather than distancing government from the people and relegating it to distant

capitals and higher bureaucracies, government should be closer to the people it is supposed to serve. This is the best way of enlivening democracy, engaging citizens with the political process, and preserving individual freedom.

Philosophers from Alexis de Tocqueville to Friedrich Hayek have emphasised the crucial role local government plays in preserving a liberal order.

In his great treatise *Democracy in America*, de Tocqueville analysed the system of local government in early nineteenth century America in great detail and with a considerable degree of admiration. Long before it became known as the principle of subsidiarity, de Tocqueville wrote:

In order to understand the consequences of this division, it is necessary to make a short distinction between the affairs of the Government. There are some objects which are national by their very nature, that is to say, which affect the nation as a body, and can only be intrusted to the man or the assembly of men who most completely represent the entire nation. Amongst these may be reckoned war and diplomacy. There are other objects which are provincial by their very nature, that is to say, which only affect certain localities, and which can only be properly treated in that locality. Such, for instance, is the budget of a municipality. Lastly, there are certain objects of a mixed nature, which are national inasmuch as they affect all the citizens who compose the nation, and which are provincial inasmuch as it is not necessary that the nation itself should provide for them all. Such are the rights which regulate the civil and political condition of the citizens. No society can exist without civil and political rights. These rights therefore interest all the citizens alike; but it is not always necessary to the existence and the prosperity of the nation that these rights should be uniform, nor, consequently, that they should be regulated by the central authority.⁴

He emphasised the value of local rules and local autonomy. Such local diversity is a source of strength for America and not a weakness that needed to be overcome, he argued.

In another passage, de Tocqueville explained in even greater detail why a system of devolved, non-central government works best for its citizens:

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.

Local government in early America worked because it resulted in a greater public spirit than in Europe at the time, according to De Tocqueville. But the greatest benefit of strong local government is its contribution to the defence of liberty.⁵

The same idea also featured in the writings of Hayek, one of the great economists of the twentieth century and an avid defender of free market economics. Although as such he should have been critical of any kind of government intervention, he had great sympathies for local government. In *Constitution of Liberty*, he wrote:

While it has always been characteristic of those favoring an increase in governmental powers to support maximum concentration of these powers, those mainly concerned with individual liberty have generally advocated decentralization. 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.⁶

Local government economics

Hayek pointed out the link between the philosophical and economic reasons favouring local government. Hayek, like de Tocqueville, was concerned about the dangers of centralised power. As Lord Acton famously said, “All power tends to corrupt; absolute power corrupts absolutely.”

But the argument in favour of local government goes beyond such reasoning. Hayek saw local government as the best provider of the services that markets cannot produce at all or do not produce adequately.

As an economic liberal, Hayek was suspicious of government as a service provider. But if there was to be a public service provider, then he clearly preferred local government to central government.

Hayek’s preference is valid from an economic perspective. Apart from government intervention, economists fear few things more than monopolies. Where a national government provides public services, it would be a monopoly. For an economist, these are two evils in one.

Economists therefore favour competition in the provision of public services, and one way to ensure competition is to let local government provide public services. This idea goes back to a seminal article, ‘A Pure Theory of Local Expenditures,’ published in 1956 by Charles Tiebout in *The Journal of Political Economy*.⁷

Tiebout’s thesis is that different cities may offer different sets of public goods at different taxation levels. Citizens, who are free to move from city to city, can then choose which package best suits their preferences and move to those places. The competition between cities ensures that people get what they want.

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. Of course, non-economic variables will also be considered, but this is of no concern at this point.

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.⁸

This is the basic economic argument in favour of the local provision of government services. It can treat citizens as consumers, at least in theory. Just as consumers can shop for the best deal, they should be free to choose the public services they wish to consume. Of course local governments are often local monopolies, particularly as providers of services, but at least there is some level of choice in moving between different jurisdictions.

Another economic argument, one that Tiebout does not make in his article, is that competition in just about any other market ensures that councils will deliver good services at competitive prices to their citizens. Central government never has such an incentive because to

escape the central government monopoly provider, residents would need to emigrate from the country. Few people would leave their country over the cost and quality of public services, but they can easily move to another local authority to enjoy the better services it provides.

The philosophical and economic case for local government shows that it is local government that provides the best insurance against abuses of power. Localism can create a public spirit that engages large parts of the community. It can help preserve a free and democratic society, and deliver government services based on sound economic principles.

These are good arguments in favour of a strong, reasonably autonomous level of local government founded on the principle of subsidiarity. Unfortunately, the drive towards nation states has undermined the functions, status and responsibilities of local government. Although this is a global trend, it is particularly acute in New Zealand.

International comparisons

To put New Zealand's local government system in perspective, we need to compare it with other industrialised countries. These countries may differ in population and geographic size, but they are at a comparable level of economic development and share many of New Zealand's social and legal institutions. The best reference group are the member states of the Organisation for Economic Co-operation and Development (OECD).

There is, however, one obvious difference among OECD countries: Some of them, such as the United States, Switzerland and Australia, are federal systems with three tiers of government. Others, such as

Denmark, France and New Zealand, operate only on two tiers of government.

How much government activity happens below the national level in these different but comparable countries can be calculated by grouping together local and regional government for federations because they are both forms of sub-central government. In many federations, the state and regional governments perform functions that would otherwise be administered by the local government.

It is also true that the size of some state level structures makes them resemble local governments in other jurisdictions. For example, with an average population of about 300,000 people, the canton is the middle layer in the Swiss three-layer structure and may be treated as a form of local government.

The first comparison is of the share of local and state government as a percentage of all public spending.⁹ The OECD summarised its findings based on 2010 data:

The relative share of sub-central government spending in total public spending varies greatly across countries, ranging from 6% in Greece to more than 60% in Denmark and Canada. On average in 2010, sub-central government expenditure represented about 30% of total public spending, or 14% of GDP, but in three countries, sub-central governments account for more than half of public spending (Canada, Denmark and Switzerland). Spending decentralisation (the share of subcentral government expenditure in total public spending and in GDP) is higher in countries with three levels of government (federal and quasi-federal) and in North European countries than in unitary countries.

So according to the OECD, sub-central spending accounts for about 30% of all government spending. At 11%, the figure for New Zealand is not even half this international average, which means the central government in Wellington controls 89% of all public spending.

Across the OECD, only Greece and Ireland have less local government spending, but these two countries are probably not the best benchmarks for good governance.

Astonishingly, even supposedly super-centralised countries like France have a greater devolution of government spending than New Zealand. French local government accounts for about 21% of France's government spending.

So New Zealand's local government is small by international standards. Unsurprisingly, New Zealand also lags in local government's share in public investment. Across the OECD, more than 60% of public investment is driven by sub-central governments. In New Zealand, it is only 44%.

The underlying reason for New Zealand's small size of local government is historical. Few early settlers had money, and only the state could borrow from abroad and use the money for schools, hospitals etc. It seldom trusted local authorities to spend wisely the money it had raised. As a result, whereas local government in most other OECD countries fulfils a large variety of roles in public services, it is completely absent in some areas of government in New Zealand:

- Across the OECD, sub-central government accounts for more than half of all government spending on education. In New Zealand, it is zero.

- Across the OECD, sub-central government accounts for about a third of all government spending on health. In New Zealand, it is zero. What money was gathered for hospitals and charitable aid in earlier times ceased in 1957.
- Across the OECD, sub-central government accounts for about a quarter of all government spending on public order and safety. In New Zealand, it is zero.
- In the areas in which New Zealand local government contributes *more* than nothing to overall government expenditure – economic affairs, recreation, culture and religion, environmental protection, housing, and community amenities – it still accounts for a share below the OECD average.

New Zealand is unusual in extent of the role of sub-national government compared to similar countries. Unsurprisingly, New Zealand's local government also has lower revenue than local government elsewhere – where there is not much spending, there is less need for income.

More significant is the composition of New Zealand's local government revenue. In hardly any other OECD member nation does property taxation play such a dominant role as in New Zealand. In fact, two-thirds of OECD countries have elements of personal income taxation at the local government level. Across the OECD, sub-central governments receive about 29% of all personal income tax revenue. In New Zealand, all personal and corporate income tax goes to the national level.

Comparing the headline figures for local government spending and revenue internationally shows New Zealand as an outlier in the developed world. It is hard to find another country in which local government is as limited and marginalised as it is in New Zealand.

For the historical reasons described earlier, local government has been relegated to a subordinate role in politics. New Zealand is setting a benchmark for centralisation. Where other countries trust their local and state governments to fulfil a wide range of government functions, New Zealand local government receives only the crumbs falling from central government's table. As a result, local government keeps looking to central government for more funding, thus reinforcing centralism. Only occasionally has local government in New Zealand sought other methods of raising funds, and inquiries have usually confirmed the status quo.

This is a pity because local government could (and should) do a lot more, as seen in international revenue and spending statistics. This does not mean local government should be allowed to grow unrestricted and add to overall government spending. Economic liberalism advocates smaller, not larger, government. But there is a need to recalibrate the distribution between central and local government.

Of course there are pertinent differences between the historical development of local communities in New Zealand and Europe. European cities and communities in many cases existed prior to industrialisation – certainly before the current nation or the modern political nation. Communities grew upward joined together in a limited manner as the world changed.

The normal trajectory is for local people to organise their own affairs and cede over time certain arrangements to a higher level of government, as they came under the auspices of the modern

nation state and the institutions it implies. This did not happen in New Zealand. There was no great tradition of localism because New Zealand was settled, developed and run out of the colonial offices and by organisations such as the New Zealand Company. There was some willingness to fund a limited array of services locally such as early schools, hospitals and charitable aid. But demand outran money and political pressure on governments saw them take over responsibilities. In 1900, New Zealand established the first central Department of Health in the British Empire.

With a modern understanding of how a nation should be administered, the colonists imported arrangements from the United Kingdom but only the administrative arrangements: how best to organise the administration and good governance of the nation. These administrative arrangements did not stem from an impulse to localism or a commitment to democracy. There was no localism because there was nothing organically local: Everyone was settled and transplanted, and the tasks assigned to local government reflect that reality to this day.

New Zealand did not start with the city that transformed into countries: It was a rag tag collection of whalers, sealers and small settlements with people seeking to get ahead economically – and quickly! There was no feudalism, no local rallying point. Maybe local government was seen as an unnecessary cost and luxury.

It is no accident that New Zealand's provinces were abolished as early as 1876, having existed for fewer than 25 years. The trend towards centralising is not new – there was a great consolidation in 1989, and talk around 'super cities' today points in the same direction.

This originates from a widespread view in New Zealand that local government tasks are essentially administrative, and have little to do with local democracy or community identity.

For any sort of localism agenda to succeed in New Zealand, a commitment to actively foster a culture of localism is needed, along with a constant restatement of the importance of subsidiarity and local institutions.

In the spirit of Sir Simon Jenkins' question, New Zealand should have an open debate about which current central government functions can be performed by local government. To paraphrase John F. Kennedy: Ask not what local government might do; ask what central government is *really* needed for!

Inspiration for this great central-local recalibration of government can be found in the activities of sub-central tiers of government in countries such as Britain.

Although Britain had been on a path of continuing centralisation for many decades, it has started to rediscover its localist roots more recently. Re-discover because for a long time, Britain had a strong culture of municipal autonomy and local pride. Magnificent town halls from an earlier era can still be seen dotted all over Britain. The best example is perhaps Manchester Town Hall, which looks like a smaller version of the Palace of Westminster – Victorian, neo-Gothic architecture at its best. When it was built in the 1870s, Manchester Town Hall symbolised the important role of local government. Liverpool too has an edifice of similar significance. It was also at a time when British councils were almost entirely funded by local taxes and levies. England experienced a golden age of local self-government “with a type of politically strong and multi-functional local government unparalleled (and much admired) elsewhere in contemporary Europe”.¹⁰

Fast forward to the early twenty-first century, and British local governments now typically depend on central government grants for more than three-quarters of their budgets. The culture of local

autonomy and independence too has changed with this change in funding.

How did this happen?

Driving the decline of UK local governments was the end of the British Empire. Once Westminster no longer had to deal with Australia and India, it turned its attention to Anglesey and Ipswich instead.

A more pertinent factor was that the British expected more and more services from government. There was an ambitious programme after World War II to build a socialist 'New Jerusalem' orchestrated from London.

Then there was the political reflex by UK parliamentarians to drag local political issues into the national debate. After all, when challenged about local issues in Parliament, it is hard for any government minister to say: 'Nothing to do with me! You would have to raise these questions with the relevant local authorities'.

However, in recent years there has been growing recognition in Britain that centralisation has gone too far. In particular, the Conservative Party, when it was in opposition until the 2010 election, developed a strong platform of localist reforms. It was driven by think tanks such as my former employer, Policy Exchange, and supported by leading Tory politicians such as David Cameron, Michael Gove and Nick Boles. The coalition government is slowly but steadily strengthening the institution of localism.

For example, in 2012, police commissioners were elected locally for the first time to give local communities greater say in the policing of their areas. However, the conduct of the elections was not handled well so voter turnout was low. Still it was a positive and bold first step.

Another example is the British government's approach to give communities greater financial support for housing and development. Previously, central government tried to increase housing supply by fixing house building targets and passed them down to local government to reach.

Now the central government is trying to facilitate development by encouraging and supporting local communities, rather than by forcing them to act against their will.

Closer to New Zealand is another sign of a growing awareness of local government – Australia will soon be holding a referendum on it (it was originally meant to coincide with the federal election but had to be postponed due the change of prime minister and the new election date).

Traditionally, local government in Australia has been a neglected and often unloved tier of government. But over recent years, Australia has recognised that local government needs reform and discussions have been taking place about the constitutional recognition of local government.

The problem is that Australia may not end up with a strengthened local government system but one whose dependence moves from the states to Canberra. That's because the main driver behind constitutional recognition of local government in Australia is Canberra's wish to directly engage with councils, which it can't at the moment. Constitutional recognition may not necessarily change

local government's neglected status. Councils, on the other hand, regard a place in the Commonwealth's constitution as a potential source of revenue in the future.

Britain and Australia are examples of countries with weaker systems of local government that are in the process of becoming stronger – in Britain it is a process of rediscovering localism, while in Australia it's about starting to value it. For real inspiration on what local government can do and what it could look like, it is worth looking at countries with much stronger and more established traditions of localism.

Health care in Scandinavian countries such as Denmark is largely decentralised. Denmark's central government hardly plays any role in health, and counties provide hospital services. Funding for these services is organised at the county and local levels, which levy health taxes.

The United States has a long history of the tradition of localism, even before de Tocqueville espoused its merits. It is still important today – American municipal governments are usually in charge of urban planning, housing, policing, fire services, emergency medical services, parks and recreation, transportation, general public management, and the provision of basic public services. However, the situation differs from state to state.

France is often considered the epitome of centralism. But since President François Mitterrand started the process of decentralisation in 1982, French municipalities and departments have gained greater powers and autonomy. France went through a period of institutional decentralisation when power was delegated to new authorities. This was accompanied by territorial decentralisation, which saw powers being passed to lower tiers of government. Since then, local government has become more important. In 1982, French local

government spent the equivalent of €56 billion. By 2010, this had increased to €213 billion.

Germany, where I was born, is a country with a long history of localism. In fact, the history of German localism is much longer than the history of Germany as a nation state. The various kingdoms, principalities and cities of Germany were only first united into what we now call Germany after the Franco-Prussian War in 1871. Before that, Germany may have existed as a *Kulturnation* (a cultural nation) but not as a political entity.

This long history of political fragmentation is still reflected in contemporary Germany. Not only is Germany a federal republic comprising 16 'Länder' or states – three of these states (Hamburg, Bremen and Berlin) are city-states – but it also has a much devolved system of governance.

Germany may be said to operate on a five-tier model of government. There is the increasingly important level of the European Union, followed by the national government in Berlin. Then there are the 16 states. Below that are the *Regierungsbezirke* (government districts) in some of the states, and finally there is a strong tier of local government.

Within this system, local government has a crucial role to play guaranteed by the Basic Law, the German constitution. Article 28 states:

Municipalities must be guaranteed the right to regulate all local affairs on their own responsibility, within the limits prescribed by the laws. Within the limits of their functions designated by a law, associations of municipalities shall also have the right of self-government according to the laws. The guarantee of self-government shall extend to the bases of financial autonomy;

these bases shall include the right of municipalities to a source of tax revenues based upon economic ability and the right to establish the rates at which these sources shall be taxed.

This is a strong statement. Combined with the concept of *Daseinsvorsorge*, one of those untranslatable German words meaning that the state has to provide essential public services, it gives local councils a wide range of responsibilities. It also means that local government enjoys sovereignty to decide its own affairs.

The areas administered by German towns and cities include:¹¹

- provision of water, electricity, district heating and gas
- wastewater services and waste removal
- land use planning
- construction and maintenance of local roads and green areas, parks and cemeteries
- construction and operation of own sports and social facilities
- cultural and educational work, including construction or maintenance of own and promotion of private cultural and educational facilities
- construction and operation of hospitals and old people's homes
- local public transport
- construction and maintenance of schools

- funding and maintenance of fire brigade
- promotion of local authority economic institutions.

On top of these genuine local responsibilities, the cities also perform functions delegated to them by the state – for example, they perform registration tasks, issue driving licences and passports, register vehicles, and organise state and federal elections within their city boundaries. Little wonder then that the bulk of German public servants are not employed by the national government and its agencies but by state and local governments. There are 5.5 million public servants at the state and local levels but only 725,000 at the federal level.¹²

This does not mean Germany has an ideal system of governance. It has numerous problems, not least of which are local government's constant and understandable complaints about being underfunded. Then there is the practice of cost-shifting, whereby higher tiers of government design policy schemes and pass them down to councils to be funded and implemented.

Nevertheless, Germany also shows what local government is capable of doing and the relatively low need for a national government.

Switzerland has an even greater degree of localism than Germany. It is an even more devolved country whose 8 million people are served by 26 cantons and more than 2,500 semiautonomous municipalities. Tax powers, especially for income taxation, are mainly devolved to these sub-central tiers of government.

Switzerland also demonstrates the benefits of such devolution, especially on the fiscal side. It has created competitive federalism and

competitive localism wherein neighbouring cantons and councils have to actively compete for inhabitants and businesses alike.

Where councils and cantons are independent and competing, this tends to lower the overall tax burden while simultaneously improving the quality of public services provided. “The fiscal and financial sovereignty of the Swiss federated states has been one of the best kept secrets of the relative quality of public governance in Switzerland for decades.”¹³

This is an extension of Tiebout’s model of competitive localism that not only allows councils to offer different tax and services bundles but also to compete on the quality of the services delivered.

Conclusion

In a world that has experienced great centralising tendencies since the advent of the nation state, New Zealand is probably an extreme case. Central government in New Zealand is far stronger than in other comparable countries, and conversely local government is far weaker.

There are good economic, political and philosophical reasons in favour of localism. Local government is evidently closer to the people it serves. It is better able to reflect the needs of local communities. It is important for the health and vitality of democracy. As Hayek said:

Nowhere has democracy ever worked well without a great measure of local selfgovernment, providing a school of political training for the people at large as much as for their future leaders.¹⁴

Local government can be more efficient in the services it provides. Arguably, it could also provide them at a better quality within a system of competitive localism.

A number of developed countries are standing in stronger localist traditions or trying to move in a more localist direction. This is exactly what New Zealand should be doing as well.

Centralism is not the best way to deal with local issues. But dismantling New Zealand's centralist ways of government requires building new structures of localism.

From a liberal economics perspective, local government is the only tier of government that offers the best chances of delivering good governance given the chance.

As Sir Simon Jenkins wrote some years ago:

I am a minimalist about all tiers of government. Free citizens need constantly to be on guard against them. But I am particularly sceptical of the upper tier of government because it is the most detached from private citizens and, by experience, the least efficient.¹⁵

In this spirit, let's make government more efficient and explore ways to develop a new localism for New Zealand.

- ¹ The Population of Ancient Rome, Blog post by Pierre Cloutier (27 January 2009), <http://makinapacalatxilbalba.blogspot.co.nz/2009/01/population-of-ancient-rome-in-popular.html>.
- ² Simon Jenkins, *Big Bang Localism*, London: Policy Exchange, 2004, p. 16.
- ³ Robert Nef, *In Praise of Non-Centralism*, Berlin: liberal Verlag, 2004, p. 10.
- ⁴ Alexis de Tocqueville, *Democracy in America*, Volume 1 (1835), Chapter XVIII, available at <http://www.gutenberg.org/files/815/815-h/815-h.htm>.
- ⁵ *Ibid.*, Chapter XV.
- ⁶ Friedrich August von Hayek, *The Constitution of Liberty*, Chicago: University of Chicago Press, p. 260.
- ⁷ Charles M. Tiebout, "A Pure Theory of Local Expenditures", *Journal of Political Economy* 64 (5), 1956, pp. 416–424.
- ⁸ *Ibid.*, p. 418.
- ⁹ OECD and Korea Institute of Public Finance, *Institutional and Financial Relations across Levels of Government*, Paris and Seoul, 2012.
- ¹⁰ Hellmut Wollmann, "Local Government Reforms in Great Britain, Sweden, Germany and France: between Multi-Function and Single-Purpose Organisations", *Local Government Studies*, 30 (4), 2004, p. 643
- ¹¹ Dieter Haschke, Local Government Administration in Germany, *German Law Archive*, 1997, <http://www.iuscomp.org/gla/literature/localgov.htm>.
- ¹² German Federal Statistical Office, *Personal des öffentlichen Dienstes – Fachserie 14 Reihe 6 – 2011*, <https://www.destatis.de/DE/Publikationen/Thematisch/FinanzenSteuern/OeffentlicherDienst/PersonaloeffentlicherDienst2140600117004.pdf>.
- ¹³ Pierre Garelo (ed.), *Taxation in Europe 2012*, Paris: Institute for Research of Economic and Fiscal Issues, 2012, p. 159.
- ¹⁴ Friedrich August von Hayek, *The Road to Serfdom*, London: Routledge, 1944.
- ¹⁵ Simon Jenkins, *Big Bang Localism*, London: Policy Exchange, 2004, p. 95.