

From Localism Towards Localism a personal journey of policy discovery

Abstract

Localism has become a buzzword in New Zealand politics. Though well-established overseas, it is, however, still a relatively new concept here. In this essay, Oliver Hartwich explains how his experience of German localism shaped his policy work in Britain, Australia and now New Zealand.

Keywords local government, localism, devolution, central government, Germany, Britain, Australia, New Zealand, public policy, incentives, history

We take for granted those things that surround us. We do not question them. We accept them as inevitable features of our world. With German localists it is the same.

I realise this journal is called *Policy Quarterly*, but this article will not focus strictly on policy. Rather, it will be a personal reflection on the fate of localism in various countries. It is based on my

Oliver Hartwich is the Executive Director of The New Zealand Initiative. Before joining the Initiative, he was a Research Fellow at the Centre for Independent Studies in Sydney, the Chief Economist at Policy Exchange in London, and an advisor in the UK House of Lords. He holds a master's degree in economics and business administration and a PhD in law from Bochum University in Germany.

experiences of localism and I hope it may illuminate the complex policy choices New Zealand faces.

Before that, I should explain where I am coming from, literally and philosophically.

Ruhr localism

I was born and raised in the Ruhrgebiet or 'Ruhr Area', referred to sometimes as the 'Ruhr Valley' or simply 'The Ruhr'. This once heavily industrialised part of West Germany has a population slightly larger than New Zealand's (5.1 million people compared to 4.9 million), even though its area is much smaller (4,435km² compared to 268,021km² here).

The Ruhr appears to be a large city – a Ruhr metropolis.¹ Its public transport is highly integrated, motorways connect its parts, and residents commonly work in one place, live in another and pursue leisure activities somewhere else entirely. The Ruhr is one big city. Except it is not.

For historical reasons, The Ruhr's 53 municipalities never merged. They were small cities, towns and villages until coal mining and industrialisation took off in the 19th century. The ensuing growth transformed these places but local pride (and local rivalries) prevented an amalgamation into a single entity. The result is The Ruhr of today. By size it could claim to be Europe's fifth-largest city (after Istanbul, Moscow, London and St Petersburg). It would also be Germany's largest city – about a third more populous than Berlin and more than three times the size of Munich.

Yet, because of its decentralised nature, outside Germany The Ruhr is barely known, let alone its constituent cities. When I am

the three cities and the other 50 municipalities of The Ruhr to entice and grow new business, attract and keep people, and provide the best living standards they could in challenging circumstances. The Ruhr cities had to do all of that because under Germany's system of local government finance, local budgets depended heavily on local success. German cities cannot easily introduce new taxes and levies. They are also limited in setting tax rates. The best option to increase their revenues is to grow the tax base by bringing in more people and businesses (Evans and Hartwich, 2005a, pp.13–27).

This competition between Ruhr cities was on display when local politicians liked to have their photos taken for the local

a research project on Britain's housing affordability crisis, and I was fortunate to work with Alan W. Evans, a professor of urban economics at Reading University with decades of experience on housing and planning policy.

Initially our project meant to look at the usual suspects in housing policy, such as the Town and Country Planning Act 1947, land supply and the green belt policy.² The British debate about the reasons for the lack of land and housing supply is a mirror image of what New Zealanders are familiar with around the Resource Management Act and Rural Urban Boundary.

From an economist's perspective, it is only natural to look at such supply constraints when analysing an affordability problem. Price is a function of supply and demand. If we take (physical) housing demand as (largely) a given, then understanding supply and its constraints is the key to analysing house prices. Naturally, then, economists are drawn to the obvious obstacles to housing supply: building codes, planning rules, area designations and the like.

Of course, there are plenty of such obstacles to housing supply, both in Britain and in New Zealand. It is worthwhile to analyse them. It would be even more worthwhile to tackle them. However, as I started my research at Policy Exchange, I was reminded of Germany, which had experienced no significant house price increases for decades.

Germany is usually not a country one describes as deregulated. The big free-market reforms elsewhere during the 1980s (under Reagan, Thatcher, Hawke, Douglas) had largely bypassed Germany. That was because Germany had other things to do (not least unite after the fall of the Berlin Wall), and also because Chancellor Helmut Kohl was not inclined towards free-market economics.

Without being an expert in German planning laws, I suspected that Germany would not be too different from the UK with its planning system. If something is German, it is likely to be regulated. Why should planning be an exception?, I thought to myself. As I read about German spatial planning and construction codes, I found my suspicions to be correct:

That structural difference was Britain's lack of localism. Where the German cities I was familiar with competed for people and businesses, British cities were much more reluctant.

asked where I am from, my hometown Essen (population 580,000) rarely rings a bell. That is strange since it is home to eight of Germany's top 100 companies and boasts of more than 1,100 years of urban history. Sometimes I even resort to approximations like 'halfway between Paris and Berlin'.

With this sketch of my home region's geography, readers may already imagine what local politics in The Ruhr look like. Ruhr has also been struggling with the decline of its once dominant coal and steel industries. This process started in the late 1950s and led to strong sectoral change. The Ruhr's cities needed to attract new industries to make up for the closing of coal mines and steel mills. Crucially, they all competed with one another in this process because they all faced the same challenges.

I was born in Gelsenkirchen, grew up in Essen and studied in Bochum, cities within a few kilometres of each other. I have seen the intense competition between

newspaper when cutting ribbons. Economic development was celebrated because it promised progress, opportunity and prosperity. Moderating the local competition was the cooperation between cities, which was institutionalised through a dedicated association of local governments in the Regionalverband Ruhr (Regional Association Ruhr).

Growing up in The Ruhr, I took local competition for people and businesses for granted. It was clear that the overarching goal of local government was to promote economic development and create favourable conditions for growth. Mayors fought for residents and businesses. It was just how local government worked in The Ruhr. How could it be otherwise?

Centralist nimbyism: the UK experience

Following my law and economics doctorate, I left Germany for London. After working in the House of Lords, in 2005 I joined Policy Exchange, then a smallish think tank in Westminster. They hired me for

Germany was every bit as regulated as Britain in town planning. In fact, at least on paper, planning appeared much harder to navigate, because Germany is a federal state and planning happens on at least three tiers of government (four in states with regional administrative structures). So, there was a conundrum: why was Germany so much more successful in keeping house prices stable than Britain when its planning system appeared worse?

As an economist, I went back to the basics: demand and supply. Maybe German housing demand was systematically weaker? However, having looked through various demand factors (population, economic growth, density, household formation, migration), I found there was little difference between the two.

Around this time, however, I first noticed a big structural difference between Germany and Britain, and I wondered whether that difference could be the underlying reason for the divergence in their housing markets. That structural difference was Britain's lack of localism. Where the German cities I was familiar with competed for people and businesses, British cities were much more reluctant. That there was a Campaign to Protect Rural England, an organisation whose purpose is to fend off any new development in the countryside, seemed odd to me. Why would they want to block development? Before I moved to Britain I had not heard the term *nimby* ('not in my backyard'), either. Nor, in this context, *banana* ('build absolutely nothing anywhere near anyone'), certainly not in Germany.

The cultural hostility to building and development in Britain surprised me. At first I struggled to understand why the British appeared not to care as much about economic development as the Germans. However, during our research it became clear. A county councillor told me that residential development was a bad deal for English counties. Whenever new housing development happened, it was local government that had to provide the infrastructure. That was costly. Local government also faced a political backlash from local *nimbys* who feared pressure on public services or losing amenities.

Crucially, there was no guarantee that additional development would result in

larger council budgets, since most budgets arrived in the form of central government grants. But these grants were not updated often, and when they were there was no guarantee the new development would be adequately reflected and infrastructure spending compensated.

In sum, British councils were left alone with the economic and political costs of development. The upsides of development, meanwhile, went straight to central government in London in the form of increased tax revenues.

What I encountered in Britain was the opposite arrangement to that in Germany. With the opposite effect: where German cities were rewarded for positive development, British cities were punished.

It is fair to say that the idea to use fiscal incentives for councils has become more mainstream in recent years, and the *Economist's* leader demonstrates it.

Seen through this lens, it was understandable why Britain had not managed to supply enough houses to meet rising demand. Residential development was a costly undertaking for local government, and so every tool in the planning books was used to slow it down or avoid it.

Alan Evans and I contrasted these two approaches to development in a report which compared Germany and Switzerland on the one hand with Australia and Ireland on the other. We found that in Germany and Switzerland, local fiscal incentives for development were a countervailing factor to planning laws. In the two English-speaking countries, the absence of localism weakened economic development because development did not pay for councils.

The lessons from this research project into housing affordability were fascinating. As far as I am aware, this link between housing affordability and localism had not been made before. Previously, housing debates had been about demand side management, planning reform or direct government intervention in the provision

of housing. The idea to use local fiscal incentives to make housing supply more responsive to demand, as we laid it out in our final report, was new at the time (Evans and Hartwich, 2006).

In August 2017, more than a decade after our publications, the *Economist* ran a leader on Britain's housing malaise. It could easily have been the summary of our research:

Westminster needs to do away with the perverse incentives arising from local-government taxation, in particular the out-of-date system of council tax, which is levied on housing. Councils miss out on much of the extra local tax revenue from new houses, because it is

hoovered up and redistributed by central government. But they are lumbered with the cost of providing local services for newcomers. That should change. Councils should be allowed to charge taxes that reflect the true values of properties – and keep the proceeds. (*Economist*, 2017)

It is fair to say that the idea to use fiscal incentives for councils has become more mainstream in recent years, and the *Economist's* leader demonstrates it. However, there is still a long way to go before this insight is translated into actual policy. 'Economically straightforward is not the same as politically easy', the magazine put it in the same leader.

Australian central nightmares

I encountered plenty of such difficulties when I moved from Britain to Australia in 2008. Despite its different political structure as a federal country, I found that Australia faced the same localist deficiencies as Britain. It also grappled with the same housing affordability problems;

Melbourne and Sydney were perhaps even worse than London.

The Australian dream of a quarter-acre block had turned into a nightmare, with the younger generation finding itself increasingly locked out of the housing market. The homes their parents could afford were now out of reach for young Australians. I had researched this for my previous Policy Exchange project (Evans and Hartwich, 2005a). As in Britain, local government in Australia was weak and lacking in incentives to reward economic development.

Given my experience with housing policy and the lack of localism in Britain, I tried to bring the incentives approach to Australia. However, I found even less

takeover of income taxation by the Commonwealth government in 1942, which left the states with limited tax powers of their own and dependent on grants from Canberra (James, 1997). Australian federalism may not be dead today, but it is not what proponents of federalism wanted.

The situation of Australian local government is even more precarious. It is not mentioned in the Commonwealth's constitution because local government is a creature of individual states. Just as the states are weak vis-à-vis federal government in Canberra, so is local government vis-à-vis respective state governments. Against this background of weak federalism and even weaker localism, the Rudd government's move towards constitutional

government was never held. It is doubtful whether it would have succeeded. It is even less certain that it would have had any positive impact.

The negative effects of Australia's crippling centralism were and still are visible, especially in the debate around Australia's rapid population growth. For many years, increases in Australia's population have been one of the most controversial issues in Australian politics. Cultural issues aside, the unease is mainly driven by fears of overcrowding the main cities, lack of infrastructure, pressure on public services, and rising house prices. These problems were caused, or at least exacerbated, by lack of local government funding.

For a research paper for the Centre for Independent Studies, my colleague Adam Creighton and I surveyed Australian local government leaders about their perception of population growth. The results left no doubt that Australian councils were dissatisfied with their funding mechanisms. Tellingly, almost one third of respondents, particularly from larger councils, said population growth was damaging their bottom line (Creighton and Hartwich, 2011). Once again, the recommendation of our paper was to align local government funding with local economic activity. Predictably, it fell on deaf ears.

In Australia today only lip service is paid to federalism, and not even that to localism. Given the country's dysfunctional politics, only the most naïve optimists would expect any improvements towards greater subsidiarity and decentralisation.

New Zealand: leading the localist counter-revolution

I left Australia for New Zealand in 2012 to join the newly formed think tank The New Zealand Initiative as its first director. After the frustrations of campaigning for localism, devolution and subsidiarity in Australia, I was looking for a new challenge. I found it in campaigning against an even more centralised form of government here.

To my surprise, New Zealand turned out to be more centralist than either Britain or Australia. By some measures, New Zealand is the third-most centralised country in the OECD for government spending. It also suffered from all the

Where local government in most other parts of the developed world has access to a mix of different taxes (sales, income, corporate and property taxes), in New Zealand it is mainly rates that make up councils' revenue.

acceptance of localism there than in the UK. In fact, Australia was travelling towards even more centralism – something the 'fathers of the Federation' would have rejected. The model of government the drafters of the constitution of Australia had in mind was underpinned by subsidiarity. The Commonwealth was given limited, enumerated powers, leaving vast scope for the states' activity.

Over the course of the 20th century, aided by the Commonwealth-friendly jurisdiction of the High Court, power gravitated towards Canberra. I first encountered this while researching Australian trade practices law for my doctoral thesis. It was stunning to discover that part of this domestic trade legislation was enacted based on the Commonwealth's foreign affairs power, and this strange construction was upheld in the High Court (Hartwich, 2004, pp.250–1).

The most important example in the process of Australia's centralisation was the

recognition of local government seemed like a sign of hope. But it turned out to be mainly a symbolic gesture: the real reason for Rudd's interest in empowering local government ironically was a wish for more central control (Hartwich, 2009). Whenever the Commonwealth government wanted to engage with local government, it had to do so through the states. This must have been annoying for a micromanagementally inclined prime minister like Rudd. A potential constitutional recognition of local government would have made it easier for central government to engage (or, shall we say, interfere) with local government directly.

Tellingly, Australia's local government sector was excited by the constitutional initiative; not because it would have given councils more power or standing, but because it promised additional funding from Canberra. Due to the turbulence of Australian politics, however, the referendum on constitutional recognition of local

problems usually associated with the lack of local government incentives, not least an increasingly unaffordable housing market.

It was not just the small size of local government in New Zealand that surprised me. It was also its lack of funding options and limited scope of activities. Where local government in most other parts of the developed world has access to a mix of different taxes (sales, income, corporate and property taxes), in New Zealand it is mainly rates that make up councils' revenue. And where other countries assign a variety of functions to local government, from health to education and even policing, New Zealand local government is much narrower in scope.

From my first days at the Initiative, I made localism and decentralisation one of the key themes of our research. Our localism work was informed by my previous research in Australia and Britain, and driven by my passion to finally translate it into palpable policy changes. To be frank, the initial responses to these ideas ranged from sceptical to frosty. In my first meeting with then Minister of Finance Bill English in 2012, he asked me what was my favourite policy idea. When I said I would like to replace the rates system with new local taxes to incentivise councils, he looked at me as if I was from Mars. (He has since warmed to the idea.) Other politicians, businesspeople and journalists were similarly aghast.

Localism was an idea alien to New Zealanders in 2012, but mostly to Pākehā New Zealanders; to Māori the kind of decentralisation I had in mind sounded familiar. For the large majority of New Zealanders, however, giving more power and control to local government sounded more like a threat than a promise. The objections to localism we have heard over the years are always the same: New Zealand is too small to need a lower tier of government; local government is inefficient or even incompetent; having more local government would lead to a wasteful duplication of services and higher taxes.

Against these and other objections, the Initiative published report after report on the benefits of going local. An early series on housing policy, co-authored by former cabinet minister Michael Bassett,

recommended rewarding councils for residential development by giving them the GST resulting from new construction. It also showed how councils can be supported by privately financing infrastructure through bonds (Bassett and Malpass, 2013a, 2013b; Bassett, Malpass and Krupp, 2013).

We then explained how special economic zones could be used to trial and roll out new policies by incentivising councils. We demonstrated how localism could help unlock New Zealand's mineral wealth (Krupp, 2015, 2014). We analysed councils' finances and structures in series of reports which recommended a much clearer delineation of powers between central and local government (Krupp and

experience at first hand how a radically decentralised country can work (Hartwich, 2017).

After nearly seven years of making the case for it, localism has become a buzzword in New Zealand politics. The Productivity Commission has begun an inquiry into local government finance, which, judging by their first issues paper, recognises the importance of incentives (Productivity Commission, 2018). Local Government New Zealand, in conjunction with the Initiative, is running a year-long project on localism and has made it a unifying theme of its work and advocacy. Both the government and the National opposition speak positively about localism (though it

... nothing in my work in Germany, Britain, Australia and now New Zealand has given me reason to doubt my basic beliefs: incentives matter; councils can work effectively when given the right incentives; and decision making removed from the people it concerns creates problems.

Wilkinson, 2015; Krupp, 2016a, 2016b). We put localism in a global perspective (Hartwich, 2013) and recently published a primer on it (Craven, Goldingham Newsom and Hartwich, 2019).

With each research project we explained in greater detail what a future localist New Zealand could look like. Slowly this changed perceptions, so that after four or five years, localism was no longer regarded as a left-field idea but as a proposal worth considering.

Encouragingly, the OECD picked up our basic idea of local government incentivisation and made it part of its own recommendations to the New Zealand government in its biennial report (OECD, 2017). The Initiative also popularised the localist idea among our members through a study tour of Switzerland in 2017, where New Zealand business leaders could

is never entirely clear what they mean by it). Last but not least, of course, *Policy Quarterly* is dedicating most of this issue to the topic.

Towards New Zealand localism?

It is an exciting time to be a localist in New Zealand in 2019. Although we are still mired in a highly centralist form of government, at least the centralist mindset is changing. There is greater recognition that bringing decisions down to the community level can yield better policy outcomes. On an abstract level, more people now understand the role fiscal incentives play in the performance of local government.

It is the first time in my policy work that I have felt a genuine shift towards localist solutions. It did not happen in Britain, even though the government under David

Cameron (2010–16) introduced locally elected police commissioners. It certainly did not happen in Australia, where, if anything, even more centralism is emerging. In New Zealand, meanwhile, our policy discourse is now at least open to decentralisation. Still, there is much more work to do. People and politicians need to be convinced further; policies must be developed and implemented.

While working on localism over the years, I realised that it is much harder to embrace the concept when you have never experienced it. If you are from Germany or Switzerland, you would struggle to understand why New Zealanders put so

much trust in central solutions to local problems when the seemingly natural way would be to do the opposite. But for New Zealanders it is the other way around: they struggle to imagine how a decentralised country could work. As American psychologist Jonathan Haidt explains, people are shaped by their experiences and then try to dress their emotional preferences in a rational gown (Haight, 2012). So perhaps this partly explains my localist preferences. It is just the natural state of affairs I grew up with in The Ruhr and took for granted.

However, nothing in my work in Germany, Britain, Australia and now New

Zealand has given me reason to doubt my basic beliefs: incentives matter; councils can work effectively when given the right incentives; and decision-making removed from the people it concerns creates problems.

My own journey has been one of coming from *localism*, and I hope my new home of New Zealand embarks on a journey towards localism.

1 See, for example, the Regionalverband Ruhr's website, <https://www.metropoleruhr.de/en/home.html>.

2 These aspects were dealt with in the project's first report, Evans and Hartwich, 2005b.

References

- Bassett, M. and L. Malpass (2013a) *Different Places, Different Means*, Wellington: The New Zealand Initiative
- Bassett, M. and L. Malpass (2013b) *Priced Out: how New Zealand lost its housing affordability*, Wellington: New Zealand Initiative
- Bassett, M., L. Malpass and J. Krupp (2013) *Free to Build: restoring New Zealand's housing affordability*, Wellington: New Zealand Initiative
- Craven, B., J. Goldingham Newsom and O. Hartwich (2019) *#localismNZ*, Wellington: New Zealand Initiative
- Creighton, A. and O.M. Hartwich (2011) *Australia's Angry Mayors*, Sydney: Centre for Independent Studies
- Economist (2017) 'How to solve Britain's housing crisis', *Economist*, 3 August, <https://www.economist.com/leaders/2017/08/03/how-to-solve-britains-housing-crisis>
- Evans, A.W. and O.M. Hartwich (2005a) *Bigger Better Faster More: why some countries plan better than others*, London: Policy Exchange
- Evans, A.W. and O.M. Hartwich (2005b) *Unaffordable Housing: fables and myth*, London: Policy Exchange
- Evans, A.W. and O.M. Hartwich (2006) *Better Homes, Greener Cities*, London: Policy Exchange
- Haidt, J. (2012) *The Righteous Mind*, New York: Random House
- Hartwich, O.M. (2004) *Wettbewerb, Werbung und Recht*, Munich: Utz
- Hartwich, O.M. (2009) *Beyond Symbolism: finding a place for local government in Australia's constitution*, Sydney: Centre for Independent Studies
- Hartwich, O.M. (2013) *A Global Perspective on Localism*, Wellington: New Zealand Initiative and Local Government New Zealand
- Hartwich, O.M. (2017) *Go Swiss!*, Wellington: New Zealand Initiative
- James, D. (1997) *Federal and State Taxation: a comparison of the Australian, German and Canadian systems*, Canberra: Parliament of Australia, <https://bit.ly/2DQXVAr>
- Krupp, J. (2014) *Poverty of Wealth: why minerals need to be part of the rural economy*, Wellington: New Zealand Initiative
- Krupp, J. (2015) *From Red Tape to Green Gold*, Wellington: New Zealand Initiative
- Krupp, J. (2016a) *The Local Benchmark: when smaller is better*, Wellington: New Zealand Initiative
- Krupp, J. (2016b) *The Local Manifesto: restoring local government accountability*, Wellington: New Zealand Initiative
- Krupp, J. and B. Wilkinson (2015) *The Local Formula: myths, facts and challenges*, Wellington: New Zealand Initiative
- OECD (2017) *OECD Economic Surveys: New Zealand*, Paris: OECD Publishing
- Productivity Commission (2018) *Local Government Funding and Financing Issues*, issues paper, November, Wellington: New Zealand Productivity Commission