Abstract
This article examines international evidence for the benefits of decentralisation based on new information published recently by the OECD. It finds benefits from decentralisation, but notes that whether these are realised or not is influenced by the nature of the multi-level governance framework. The applicability of decentralisation to New Zealand is also considered.

Keywords decentralisation, citizenship, localism, centralisation, democracy

Governments in 2016 and asks whether the findings are applicable to New Zealand (OECD, 2016). It frames the concept of decentralisation as the transfer of authority and responsibility for public functions from a central government to subnational governments, regional and local, within its jurisdiction through primarily delegation or devolution (Shah and Thompson, 2004; OECD, 2017; Smoke, 2017). Decentralisation has three dimensions, political, administrative and fiscal:

- **Political decentralisation** involves the redistribution of powers and responsibilities through, for example, delegation or devolution, often in accordance with the subsidiarity principle (Smoke, 2017). It also includes measures to enhance democratic legitimacy, such as free elections and a constitutional/legal status for local governments, and enable voice and exit.¹

- **Administrative decentralisation** ensures that local authorities have the authority to manage their own administrations and staff within the law and the freedom to enter into contracts. It is also measured by the ability to establish by-laws to regulate local matters without seeking permission from higher-level authorities.

- **Fiscal decentralisation** concerns whether or not local governments have revenue autonomy and adequacy, expenditure autonomy and the freedom to borrow without seeking permission from higher authorities (see OECD 2016).

For the purposes of the article, decentralisation is calculated by the share of total public expenditure which is allocated by subnational government (i.e. spending decentralisation), a measure that acts as a proxy for the range of powers and responsibilities held by each system. As a measure it contains a number limitations, the most significant being its failure to reflect levels of fiscal autonomy: that is, the level of discretion councils have to allocate revenue to address local priorities (see Reid, 2015). Discretion varies according to revenue sources; own-sourced revenues, such as local taxes, are generally associated with high levels of autonomy. The same tends to be true with general purpose grants but not with tied grants: these are tagged for a specific purpose and tend to allow little discretion.

Despite the diversity of revenue sources – that is, the combination of taxes, grants, etc. – internationally, more positive economic, social and democratic outcomes appear to be correlated with higher levels of public expenditure allocated by subnational government:

There seems to be a positive correlation between the level of spending on decentralisation measured by the share in GDP, or in public spending, and the development level of the countries, measured by the GDP per capita. (OECD, 2016, p.23)

The OECD also notes, however, that decentralisation is no panacea for the problems faced by countries. Of equal importance are how the process is designed and implemented, the degree of maturity of country institutions, adequate subnational capacities, and the quality of multi-level governance, including coordination mechanisms (ibid.).

**The economic case**

In early 2012, facing a recession and rising unemployment, David Cameron, the then UK prime minister, asked Lord Heseltine, a former Conservative cabinet minister, to review his government’s economic development strategy and offer bold solutions. Heseltine’s report, *No Stone Unturned* (2012), contained one overarching message: that increasing centralism was bad for business. He was particularly critical of the way successive governments had reduced the role of local government to that of a service provider, undermining the leadership role councils had previously played in economic matters. Heseltine’s intuition appears to be justified. The international evidence indicates that per capita gross domestic product is higher in fiscally decentralised countries than in centralised ones (see Figure 1).

Despite the existence of outliers, such as the Republic of Ireland, which benefits from its low tax status for large tech firms, and Norway, with its oil wealth, the general pattern within the OECD is for GDP to be higher in countries that are fiscally decentralised. The relationship is further reinforced by a World Bank study which found that economic activity is stronger in those countries where local governments have high levels of political autonomy and tax and revenue assignment (fiscal decentralisation). Blöchliger (2013) estimated that a 10% increase in the level of decentralisation is associated with an average increase in per capita GDP of 3%. He also concluded that a 1% increase in the decentralisation ratio has a similar effect on GDP as a 1% reduction in tax.

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¹ Source: OECD, 2016

**Figure 1: Relationship between levels of decentralisation and GDP**

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citizens that use or benefit from those services. In summary these are:

- decentralisation enhances voice and exit, thereby reducing the economic cost of under- or over-provision of local public goods (see Bailey, 1999; Oates, 1999);
- placing decision making about local services close to the citizens who receive the services addresses the problem of information asymmetry faced by higher-level governments;
- aligning the beneficiaries of services with those who pay reduces the risk of externalities and spillovers that result in allocative inefficiency;
- fiscal decentralisation enables municipal entrepreneurialism (Katz and Nowak, 2016).

The democratic case
The current state of democracy has been the subject of considerable scholarship, with a growing number of commentators arguing that the world is experiencing a democracy recession characterised not only by declining trust in democratic institutions but also by the rise of a new form of populism, with authoritarian leaders who, once in power, use their new positions to subvert the same democracy that enabled them to gain office in the first place (Grayling, 2017; Economist Intelligence Unit, 2017). Feelings of disempowerment, especially in regions experiencing economic decline, are not a new phenomenon. Writing in 1996, Michael Novak noted how the belief that community problems could be solved at the local level lost favour as public affairs were gradually removed from the reach of citizens. He blamed the growth of at-large citywide systems of political representation in the United States, which, by the end of the 20th century, had ‘handed governance to corporate and professional elites [who] possessed a scientific and rational view of governance’ (Novak, 1996, p.16). While the powers of ward-based councillors are very different, New Zealand has also experienced a growth in at-large systems of political representation at the local level.

At issue is the question of how citizens learn about democracy and what seems to be important is the practice, not just voting in national elections but, more importantly, participating in the political arenas that affect them directly.2

The importance of participation is not limited to strengthening democratic values; participation also contributes to levels of social capital. Social capital is a way of describing the stock of informal norms and values in a community, particularly reciprocity and connectivity, which enhance cooperation and social cohesion (Putnam, 1995). In this context decentralisation provides avenues for participation that cannot be achieved at a national level alone, and we see a positive correlation between citizen participation in clubs and associations and levels of fiscal decentralisation (see Figure 2).

Further evidence of the benefits of political participation comes from a study of Swiss cantons. Cantons with higher levels of sub-municipal autonomy and active forms of direct democracy, such as referenda, had higher levels of self-reported individual well-being compared to cantons that had less autonomy and fewer opportunities for local political participation.

Using recent interview data from 6,000 residents of Switzerland, we show that individuals are cet. par. happier, the better developed the institutions of direct democracy are in their area of residence. This also applies to a second institution, the degree of government decentralisation (federalism). (Frey and Stutzer, 2000, p.2)

Relevance to New Zealand
While New Zealanders may not feel they live in a highly centralised state, the reality is quite different. In 2009 the Economist, referring to the work of think tanks such as the New Local Government Network to promote decentralisation, noted that the United Kingdom was the most centralised country in the OECD except for New Zealand (Economist, 2009). While levels of decentralisation tend to vary over time, as Figure 3 illustrates, as far as fiscal decentralisation goes we sit firmly towards the bottom of the table.

The most decentralised countries tend to be federations, such as Canada and Switzerland; however, Denmark, a unitary country, stands out as the second-most fiscally decentralised state in the OECD. New Zealand, at 11.26%, sits at the fiscally centralised end of the spectrum as part of a group of countries that includes Greece, the Republic of Ireland and Israel.

Although it is not well recognised in our social and political histories, New Zealand has not always been as fiscally centralised as it is today, as exemplified by the
commentary on the Municipal Corporations Act 1842, our first local government statute. The statute (which was very short lived and replaced in 1852) reflected a commitment to local autonomy and the self-management of local affairs which is as relevant today as it was then: the inhabitants themselves are best qualified … to provide for the wants and needs of their respective 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. (New Zealand Journal, 1842, quoted in Craven, Goldingham-Newsom and Hartwich, 2019, p.8)

Despite the optimism of the legislators in 1842, municipal autonomy has always been a contested space, as regular complaints about rampant centralisation from local government leaders testifies, although ministers also had concerns about council performance (Bush, 1980). Speaking at a course on careers in local government for ex-servicemen in 1949, the then minister of internal affairs, W.E. Parry, in response to demands that councils be given broader roles and powers had this to say: ‘additional responsibilities [do] not harmonise with the unwillingness to accept, on the part of many local authorities, the responsibilities which they have at the present time’ (Stephens, 1949, p.v).5

The minister’s view that new responsibilities might distract councils from performing their existing roles was clearly not an isolated one. Sixty years later one of his successors, Rodney Hide, who was clearly driven by similar concerns, amended the Local Government Act 2002 to prescribe a list of ‘core services’ that councils should have regard to (s11A).

The question of local government’s role was also the subject of a number of papers in the 1980s, a period in which the New Zealand state was undergoing major reform. The first, published by the New Zealand Planning Council, asked whether central government’s attitude to local government reflected a partnership or was simply paternalistic (Sowman, 1984). The report found no evidence of a partnership but did make useful recommendations about how one might work, including criteria for the allocation of public services. A second paper, by Jonathan Boston, was prepared for the Institute of Public Administration in 1988. In that paper Boston, having examined the arguments in favour of decentralisation, turned his attention to the degree to which they had utility for New Zealand. His conclusion was that they didn’t, for at least seven quite significant reasons, which are set out below. Given that quite a lot has changed over the last 30 years, it is reasonable to check whether Boston’s reservations still apply.

The lack of citizen interest in local government as illustrated by low voter turnout

Although average voter turnout in local elections has declined by almost 20% over this period (general election turnout has also declined, but by less), the argument is ultimately circular as turnout in local elections is highly correlated with the system’s level of salience. Salience describes the degree to which a system of local government is seen as relevant to the lives of citizens and is often assessed on the basis of local taxation or expenditure levels or decentralisation (see Reid, 2016; Rallings and Thrasher, 2007).6 Figure 4 shows a positive correlation between decentralisation (salience) and voter turnout in local government elections.

In relation to salience, the most useful example is that of Switzerland, one of the world’s most decentralised countries. Reflecting that country’s high level of decentralisation, voter turnout is consistently higher in local elections

![Figure 3: Decentralisation among OECD members](source: OECD, 2016)
The capacity of citizens to play a meaningful role in the increasingly complex and specialised task of policymaking that modern democracies require

The view that the complexity of modern societies requires the skill and talent of a cadre of highly qualified experts to govern has well and truly begun to lose traction. Evidence is growing of citizens having a more direct involvement in the business of governing, from the citizens’ assemblies used in Iceland and the Republic of Ireland to the growth of deliberative democracy as exemplified recently by New York City’s adoption of participatory budgeting (Harkins and Egan, 2012). In addition, participatory approaches to decision making are increasingly used by both central and local government in New Zealand: for example, the post-earthquake reconstruction of Christchurch.

Most of all, citizen trust in the role of experts has been undermined by the failure of the current economic order to deliver fair outcomes, with the global financial crisis and growth in regional inequality resulting in the rise of populist authoritarian movements and decisions such as Brexit (Grayling, 2017).

The lack of evidence that dispersing power actually enhances liberal democratic values

The counterfactual to dispersing power is its concentration. Despite the value of MMP the New Zealand model, given the power held by a small number of political actors in cabinet, depends to a high degree on the democratic propensity of those actors. While we have generally been privileged by the quality of our leadership, the degree to which power is concentrated is a risk, as noted in the 1960s by John Roberts, then professor of public administration at Victoria University, who saw ‘an effective local government structure is an important counterweight to the growth of central government power’ (Roberts and Sidebotham, 1968, p.1). In the last three decades we have also come to better understand the role of active citizenship and its value to a strong democracy; as Michael Sandel wrote, ‘the formative aspect of republican politics requires public spaces that gather citizens together, enable them to interpret their condition, and cultivate solidarity and civic engagement’ (Sandel, 1996, p.349).

Sandel also argues that contemporary issues make the politics of neighbourhoods more important, as they not only constitute sites of civic activity and political power, they also equip citizens for self-rule, a pluralism that calls into question the wisdom of concentrating power.

The susceptibility of local governments to ‘capture’ by vested interests

Noting that the term ‘capture’ tends to be applied by groups who find that their particular preferences have been overlooked by the majority of voters, one of the strongest arguments for decentralisation is in fact the inability of vested interests to ‘capture’ local government, unlike the risks posed by New Zealand’s relatively unfettered form of central government. Relevant considerations are:

- New Zealand voters tend to support candidates who stand on platforms that are ‘place’ rather than ‘policy’ centred and organised political party platforms tend to do poorly;
- even if a ‘capture’ scenario was to occur, turnover at the local level is high, with on average 35% of local politicians changing with each triennial election;
- should groups with a single policy platform win a majority in a council, their ability to impose it without a significant level of support from citizens is very constrained given the legislative and constitutional checks and balances that apply to local government.

Recognised concerns about the accountability, effectiveness and efficient management of local authorities

Capacity in local government is often associated with size. Since 1988 local government has gone through extensive reforms that have addressed the fragmentation problems, strengthened managerial and administrative capability and introduced a new accountability framework. The average size of a council jurisdiction in New Zealand, excluding Auckland Council, is between 40,000 and 50,000 residents, compared to 7,000 in Europe and a similar number in the United States. Today there would be little or no difference in the competency and qualifications of management in an average-sized council and its equivalent-sized government department. In addition, citizens trust local governments more than they trust central government; not only is this the case in New Zealand but also in the United States, the United Kingdom and Australia (Pew Research Center, 2018; IGPS and Colmar Brunton, 2018).
The relatively minor differences in culture and socio-economic status between localities and regions – in other words, the existence of homogeneous preferences for most public services

Since 1988 socio-economic differences between localities and regions have grown significantly (as has also occurred in the UK), representing perhaps one of the more damming failures of the centralised model. The average per capita GDP of the three poorest regions in New Zealand is currently $41,000, compared with $67,500 in our three most prosperous regions. High levels of spatial inequality are now seen to be directly related to high levels of centralisation (Billiborough, 2018).

Neither are regions and localities as ethnically and culturally homogeneous as they once were. The increasing heterogeneity of our towns, cities and regions requires a much more disaggregated approach to governance than the centralised model.

The quality and competence of local politicians and the difficulty of ensuring the advancement of national objectives should there be substantial devolution

While suggestions that there is a qualitative difference between national and local politicians should be contested, the level of skill and experience of local politicians is related to the mandate of our local government system – that is, the narrow range of tasks that councils presently undertake. A change in responsibilities will interest citizens with a different range of aptitudes and interests.

With regard to the achievement of national objectives, highly decentralised countries, such as those in Scandinavia, seem to have little problem with this issue and part of the answer concerns how governments think about strategy and how multi-level government relationships operate in practice. Successful strategy does not have to be a process steered by an elite group of officials and politicians whose decisions ‘cascade’ down to a diverse range of organisations charged with implementation, as our failure to deal with chronic issues like child poverty and poor housing, despite multiple strategies, is testament to. Rather than the UK approach of narrowly defined targets with specific performance measures, national objectives may be more successfully achieved by defining outcomes or setting a broad vision that encourages innovation and diversity. The current coalition government’s focus on intergenerational well-being may in fact provide the basis of such a model.

Conclusions

Decentralisation is not a panacea for every ill that affects the public realm, but international experience suggests that there can be economic, democratic and social benefits. The challenge of getting there, however, should not be underestimated. As attractive as it sounds, ‘big bang localism’ (Jenkins, 2004) can never be a political reality; change will need to occur incrementally, within the context of policy and activity reviews. There is no shortage of low-hanging fruit where more local discretion, through either devolution or a ‘right to influence’, could materially enhance community well-being – for example:

• social housing – councils are simply better placed than central government to assess local demand and develop innovative responses;
• education – schools play a vital role in how communities work and are important hubs for multiple services. Their location, design and configuration should be sensitive to local needs and circumstances;
• services to older citizens – these should be located with local government rather than fragmented across district health boards and ministries, as is common in Australia. Enabling citizens to ‘age in place’ needs an holistic approach that is sensitive to community context, such as the mix of local service providers;
• financing instruments – local authorities’ ability to attract investment and growth is limited by the narrow range of funding and financing powers available. There is no correct answer as to how these should be funded. Options range from local taxing powers and revenue sharing to general purpose grants. What is essential is that funding allows for local discretion and differentiation. In addition, attention needs to be given to the way in which intergovernmental processes work and how central government ‘steers’.

Decentralisation should also been seen in the context of the current government’s desire to shift to a well-being orientation, as this is designed to drive a more joined-up and less siloed approach to public policy. Because of their focus on place and local knowledge, councils are in a strong position to shape public expenditure in their rohe and mobilise local organisations, such as iwi/Māori, businesses and community groups, as well as citizens themselves, in order to identify local priorities and establish meaningful partnerships with government departments. Current signs are not that promising, with policy changes, such as those proposed for education, housing and water services, appearing to lack any serious consideration of decentralised options.

Any strategy needs to be sensitive to the circumstances of our different communities. What Auckland needs to prosper and what it can undertake, given its capacity, is very different to a rural council’s in the South Island. If we are to move from our highly centralised model, whether through decentralisation or through opportunities that may be created by the government’s focus on intergenerational well-being, we need to accept that ‘one size fits all’ approaches to policy and government are no longer possible.


1 See Bailey, 1999 for a discussion of the relevance of Hirschman’s work on voice, exit and loyalty to local government. ‘Exit’ in this context refers to an individual’s decision to move to another local government jurisdiction.
2 This is reflected in the Local Government Act 2002, where it states that the purpose of local government is to enable ‘democratic decision-making ... by, and on behalf of communities (s10).
3 https://ic.euroa.eu/eurastat/statistics-explained/images/1/1d/Social_participation_and_integration_LCIE18.xl
4 OECD figures apply only to member countries with multi-level government systems.
5 Concerns that local government’s role was gradually being diminished did not go away. Graham Bush notes that ‘the bogey of aggressive centralism’ was raised by the Municipal Association in the 1970s, along with complaints of government officials taking a ‘Wellington knows best’ attitude (Bush, 1980, p.112).
6 Local government taxes in New Zealand constitute approximately 2% of GDP, one of the lowest proportions in the OECD.
7 Local government turnout data collated by the author; it excludes federations and countries from the former East European bloc.
8 See https://www.innovations.harvard.edu/participatory-budgeting-new-york-city.
9 When Boston was writing, the Local Government Official Information Act 1987, a cornerstone of local accountability, was barely a year old and would not yet have had much if any effect.
10 The current government’s plan to create a centralised Urban Development Authority, rather than give such powers to councils themselves, highlights the issue.
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