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Swiss success: Small is beautiful

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If there is one country Prime Minister John Key seems to be as fond of as New Zealand, it is Switzerland. He has talked about making this "the Switzerland of the South Pacific," although admittedly that was before the release of the Panama Papers.

What Mr Key probably has in mind is a country that is spectacularly rich and intensely relaxed about providing a safe haven to financial fortunes and their owners. But beyond this rather superficial ambition, why not make New Zealand more like Switzerland?

Okay, I hear you say, in more than one way we are already. It's just a matter of taste if you prefer Lindt over Whittaker's chocolate. Lake Wakatipu is just as scenic as Lake Zurich. And where they are yodelling, we have the haka.

In other ways, however, there are quite a few differences.

For a start, it is worth realising the geographic proportions. We often think of New Zealand as a small country but if that is true then Switzerland is just tiny. It is roughly the size of Canterbury. Put differently, you could fit six-and-a-half Switzerlands into New Zealand.

Though much smaller in size, the Swiss population is larger than New Zealand's: There are 8.1 million Swiss compared to just 4.7 million Kiwis.

The most striking difference regards the level of economic development. In 1960, Switzerland's GDP per capita was 23% lower than New Zealand's. Today, it is 93% above ours.

Within the past couple of generations, the Swiss have not only caught up with New Zealand. They have not only overtaken us. They are playing in a league of their own.

If you discount for oddities such as Monaco, Liechtenstein or Luxembourg, Switzerland is probably the wealthiest country in the world. Okay, not quite: Norway and Qatar are still a tad wealthier. But then again they have oil.

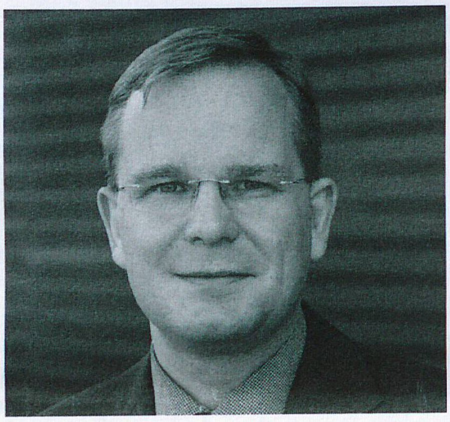
Meanwhile, Switzerland has next to no natural resources. And even its cheese is holey.

If you are looking at Switzerland from the outside, you cannot help but wonder how this small piece of central Europe – mountainous and with no obvious strategic advantages over its larger neighbours – made itself a world-class economy.

Well, for a start it probably helped that the Swiss never became part of the EU. Where other European countries succumbed to the idea of an integrated continent, the Swiss stubbornly remained independent and did their own thing. And it worked well, so there is hope for Britain after Brexit.

More importantly, Switzerland organised its internal affairs differently from the rest of the world. Very differently.

In New Zealand, many believe we are hopelessly over-governed. Quite a few pundits think we have way too many councils.



From a Swiss perspective, this debate must seem bizarre because New Zealand only has 78 councils – 67 territorial authorities plus 16 regional councils, of which five are unitary authorities. In per capita terms, there is one council for about 60,000 New Zealanders.

Switzerland, by contrast, has 26 cantons. They are regional tiers of government, responsible for education, police and welfare policies (among others). They also have income tax-raising powers. These cantons range from more than 1.4 million in Zurich to the just 16,000 in Appenzell. On average, there are just over 310,000 people per canton.

There is also a third tier of government, the communes; no fewer than 2324 of them. They are much more powerful than their New Zealand counterparts. For a start, they also have the right to levy income taxes.

If New Zealand had as many councils as Switzerland there would be almost 1400 – not 78. Most New Zealanders would instinctively say this is the surest path to disaster. Councils here are often regarded (wrongly, I would say) as inherently wasteful and incompetent.

For Switzerland, on the other hand, the decentralised nature of government has had the opposite effect. Far from inhibiting economic development, it has enhanced it.

For many years, Switzerland has been ranked as the world's most competitive country by the World Economic Forum (New Zealand is 16th).

The key to Switzerland's success is its decentralised nature. If every tier of government has income tax-raising powers, and if the various tiers of government are small in size, it is not difficult to imagine what this set-up will do to economic development. As councils and cantons can feel the results of their political decisions in their own pockets, of course they will pursue growth-friendly policies. As they realise that their residents are not just inhabitants but taxpayers, of course they will try to keep them happy.

Switzerland has chosen a path to economic development that is diametrically opposed to New Zealand's and to most other developed economies. Instead of trying more centrally controlled policies, Switzerland has opted for the principle of subsidiarity. That means relegating decision-making to the lowest tier possible.

From a New Zealand perspective, the Swiss approach to governance is the polar opposite of what we have been trying so far. But even we have to realise that Swiss government yields much better results than we could ever hope for.

In a nutshell, Switzerland shows that big does not always mean better, and that small can be quite beautiful. It also demonstrates government needs performance incentives in order to, well, perform. That is not so surprising if you are in business but for government, apparently, it's a big discovery.

If we want government to act more like an entrepreneur, we need to subject it to the same financial incentives entrepreneurs are exposed to.

In Switzerland, lower tiers of government that are doing the right thing to build their economies reap immediate financial rewards in the form of higher tax revenue.

If Mr Key really wanted to make New Zealand the Switzerland of the South Pacific, that is what he should be thinking about; change the way we are governed, have more local and less central government, and provide financial incentives for each tier of government.