

The coming revolution in local government (*Pouvoir local — La révolution en marche*)

A lecture at the Aix-en-Provence Summer University 2000 on the theme of Subsidiarity
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Ladies and gentlemen,

The title that has been assigned to my talk today is "*Le pouvoir local — La révolution en marche*". As soon as one looks at this title, two questions come immediately to mind: "which '*pouvoir local*'?" and "what revolution?". Let us, therefore, define our terms, beginning with "*le pouvoir local*".

In the context of our discussions here at the Summer University at Aix-en-Provence, the only real and unadulterated "*pouvoir local*" is individual autonomy and freedom. When the individual is sovereign — which means when he is free to act on his own knowledge, knowledge of himself, of his wants and needs, of his particular and unique circumstances, of the resources he has at his disposal, and of the ends or objects he pursues in seeking happiness and the good life — that is true "*pouvoir local*". But that is not the "*pouvoir local*" that is envisaged in the title of this lecture.

On the contrary, we are here to examine a collective power, a state power: local government. This is in fact the level of government which is least distant from the individual on a continuum which stretches from municipalities up through regional, provincial or state, national and international governments. I will return in a moment to the question of why one should prefer local political power to the others wherever possible (the principle of "subsidiarity"), but for the moment, I would like to invite you to spend a moment reflecting on the other question: What "revolution"?

For my part, I believe that we are talking about the revolution that occurs when we put at the very heart of local government a fundamental preoccupation with individual preferences and choices, when we impose on local elected officials greater accountability vis-à-vis their performance as providers of public services, and vis-à-vis the satisfaction of their citizens. The revolution occurs also when one uses competition as the fundamental principle on which all public services are based, instead of relying on the good will and best efforts of public sector monopolists who are supposedly more intelligent and better informed than the populations they are supposed to serve.

Why this insistence on the importance of local or municipal government? Normally people talk about local government as the level of government closest to the people, and this is certainly true. But it is not the real reason why one might wish to see more power in local hands, *given the right circumstances*. I will return to what those circumstances might be in a moment.

For now, let's talk about why local governments are, in principle, the *least objectionable* of all levels of government. The answer is not "because they are closest to us", but rather something slightly but essentially different: they are the least ignorant about us.

This may seem to be a strange thing to say, but in fact the fundamental condition that we as human beings, including rulers, must deal with is not the tremendous knowledge that we possess, but rather our huge and daunting ignorance, an ignorance that we cannot escape.

And while we as human beings are ignorant of many things, in politics and government, three forms of

ignorance loom especially large. These three forms of ignorance are:

1. Ignorance of ourselves, who we are and what we want;
2. Ignorance of our true circumstances and of the resources that we possess to pursue our goals; and
3. Ignorance of the consequences of our actions, which are always greater than our intentions.

Because these points are so very important to understanding the strengths and limitations of local government, indulge me for a moment while I make them concrete with a few stories that illustrate the nature of human ignorance in these areas. We will then discuss how that ignorance is relevant to local government as the least objectionable form of government.

Let's start with ignorance about ourselves. Difficult as it is to accept sometimes, we actually know relatively little about ourselves; in fact human life is largely about a voyage of self-exploration, learning about what it means to be the person that we are. I would argue that this is the essential definition of what it means to be free.

Let me use a concrete example. A friend of mine is quite a well known philosopher in the United States, yet philosophy, the central activity of his life, is something that he came to relatively late in life, and quite by accident.

He was serving in the US military, and while he was travelling on a military transport plane one day, he read an article by William F. Buckley in the *National Review*. He was so struck by the article, that he wrote a letter to Buckley expressing his own thoughts on the topic of the article. To his astonishment, Buckley replied, and this gave rise to an exchange about ideas which launched this man on a distinguished career and transformed his life. In other words, he learned that philosophy was for him to be the central activity of his life, and he learned this as the result of a chance incident with profound and unforeseen consequences.

This, of course, is one of the chief reasons why human freedom is so important — because we need to be free to explore these things that we discover about ourselves throughout our lives.

What about the next form of ignorance that I mentioned, ignorance of the circumstances in which we find ourselves?

Let me tell you another story, this time from a town near where I live: Springhill Nova Scotia. Springhill, originally founded on coal mining, had been in decline for decades following the closure of the mines. One snowy winter's day, a man was out talking his dog in the town and noticed a patch of ground where the snow had melted and steam was rising. His curiosity was piqued, and on investigation he discovered that the mine shafts underneath the town had filled with water that was being heated geothermally.

A chance leak of this heated water to the surface, combined with a man who was not content merely to see, but to observe, transformed this town. An entire industrial park has been built based on the exploitation of this cheap, plentiful, but strictly local and accidental source of energy.

And what about the final form of ignorance I mentioned, ignorance of the consequences of our actions? Well of course each of the previous examples illustrates this idea rather well. It was no part of William Buckley's intentions in writing his article to help my friend become a philosopher, and it was no part of my friend's intentions on getting on that military transport plane to change his career. Nor was it any part of the intentions of the coal mining companies in Springhill to create a new future for the town 100

years hence, no more than the man who discovered the power potential of what lay below intended to do so as he left home. His sole intention at the time was to walk his dog.

But let us lift our sights a little higher. Consider something as simple as the invention of the motor car. No one foresaw the myriad social transformations that would be wrought by this invention as people began to see and exploit its potential. Certainly its inventors were no better at crystal ball gazing than anybody else. They believed that the total number of cars in the world would be forever limited by one insurmountable obstacle: the number of members of the working class intelligent enough to be trained as chauffeurs.

Yet the car industry was nearly to destroy, for example, the horse industry. Almost 20 million horses lived and worked in North America at the turn of the century, creating work for vast armies of blacksmiths, livery boys and makers of nails, harnesses and saddles. Hay and oats were major cash crops. Of all this nearly nothing remains today. Local institutions like the rural school and church fell victim to the school bus and the Sunday drive. City centres shrank, suburbs blossomed, hemlines, drive-ins and highways went up, barns, travel time and (arguably) sexual mores came down. Millions of individual ideas, adjustments, desires and innovations all conspired to work a transformation on the face of society which even the most prescient could not have envisioned.

This universal human ignorance is necessarily shared by our political leaders. It is in fact necessarily impossible to govern in full possession of anything like

- An adequate picture of the complexity and uniqueness of their circumstances, or those of their individual constituents or communities;
- A complete understanding of the consequences of the policies that they pursue; or
- A thorough grasp of the desires, wants and ends pursued by the individuals they govern.

Notice that, the farther removed decision makers are from the concrete facts of individual life, the more they have to govern on the basis of theoretical abstractions, of ideologies, of statistical portraits, of polling results, from which the messy complexity and contingencies of human life have been stripped. Yet this is to remove what makes life real and worth living, because it is what makes us the individuals that we are.

All of which brings us straight back to local government.

Local government is the level of government the most able to be *relatively* aware of the real concrete circumstances of their populations and to be able to see and correct the damaging and undesirable consequences of their policies.

The other advantage that should be stressed about municipal governments is the following: their small scale and great number permits the carrying out of a great number of experiments with different types of policies. Given the large number of local government units that exist in most countries, that has some important consequences.

For example, organised minorities and pressure groups benefit from centralised political power because that means that they can concentrate their lobbying power on a central point of authority, in the national or the provincial capital. When power is widely dispersed to many small units of government, however, that reduces their lobbying power because it is spread so thinly.

In the same vein, this tremendous decentralisation reduces significantly the ability to pass the costs of

local decisions along to larger communities, which forces voters to be more fiscally responsible. When governments cover relatively small geographical areas, it reduces significantly the cost of "voting with your feet". It is much cheaper to move from one town to the town next door than it is to move to another country.

The third consequence of the existence of a large number of local government units allows the benefits of successful experiments to be copied by other local and even more senior governments, and obtains the information about which experiments are successful at lower cost than when entire provinces or countries must try out policies to see if they work.

A good example is the London borough of Wandsworth in central London. According to the Deputy Leader of the borough council, Maurice Heaster, "Our public housing was a disgrace: more than 100 high-rise apartment blocks where no one wanted to live. They needed money spent on them and they needed occupants with a new, more house-proud attitude.

" As long ago as 1978, we began to sell council-owned flats and houses to the tenants.... [O]ver the years, we have sold 20,000 of our original 40,000 properties. Every estate, every block, now has a healthy mix of home owners and tenants. We have generated £500 million in capital receipts."

It was from Wandsworth that Mrs. Thatcher drew the inspiration for her famous (and hugely popular) programme of council house sales.

Without that successful local experiment, it would have been far more difficult to "sell" such a policy at the national level, which leads to my fourth and final point: decentralisation, when linked to a high degree of competition between localities, increases the likelihood of spreading local policies and practices when these are successful, and getting rid of them when they are not. Imitation is a powerful force.

But none of these positive effects can or will be realised without a vital element of competition, and it is precisely the introduction of this competition that constitutes the revolution that I mentioned at the outset. Because of the ignorance of municipal officials about their own population, the true costs of various services, and the potential of new methods to deliver efficiencies and improved service levels, we need a framework for local government that spurs competition, which is really only another way of talking about maximising experimentation and ending rigid monopolies in the supply of local government services. Competition is a discovery procedure that is vital to ignorant human beings.

At the local level, competition takes place on two dimensions:

First, there is competition within municipalities. By this I mean that the most successful municipalities, places like Charlotte, North Carolina, Phoenix, Arizona, and Indianapolis, Indiana, are more and more getting out of the game of directly supplying traditional local government services where local government employees under a rigid contract supply individual services, such as garbage collection or sewer and water services, to the residents of an entire city as a typical public sector monopoly.

Instead, the model that is emerging is of a much smaller local government that acts as a kind of buyer's co-op on behalf of the residents of the locality. Service standards are set, and contracts are let on the basis of those standards, to competitive bidders. The winning bidder is then held accountable for his success or failure in reaching the agreed standards.

Naturally the monopolists are the ones who resist the most, and especially public sector unions, but the

benefits are so great from contracting out and privatisation – as Jim McDavid has been instrumental in documenting with respect, for example, to garbage collection — that the momentum is clearly with the reformers.

Again, let me quote the example of Wandsworth:

In 1978, a reform group won election in Wandsworth, a poor inner-city borough of London, England. Since then, market-driven reforms have made the borough a showcase of successful approaches to municipal government, and the reform group has been re-elected five times.

[The councillors who governed Wandsworth prior to 1978] saddled residents with high property taxes. They pursued a philosophy of dependency and patronage. For them, good government meant big government. Up to half the population lived in homes owned by the council. One in seven of the working population were on the council payroll. They stifled enterprise and destroyed efforts to improve the quality of life.

We changed all that. We changed it in Wandsworth and we changed it throughout the whole of UK local government. ... Every year, there is a new savings round. Every year, managers are required to find new ways of delivering their services at reduced cost. It works. In the last 18 years, we have achieved a cumulative annual savings of around C\$240 million. In real terms, this has been equivalent to a savings of 6 per cent on each year's net budget.

While proper accounting and time sheeting had held costs down and helped to increase productivity, the discipline of competition and the rigour of devising specifications has enabled us to take a huge leap forward. We have moved away from pricing on hourly rates, developing instead fixed fee and unit cost models.

The real added value from this consistent focus on the smaller authority with few directly provided services and fewer employees on the payroll has been a freedom to experiment with new ways of working. Managers released from time-consuming burdens of administering to vast armies of employees can, at last, concentrate their energies on the important outputs of service quality. It is no coincidence that the council's reputation for radical thinking and creative management has coincided with this downsizing of the entire workforce....

We believe in councils demonstrating a true accountability to their residents — not just at election time and not merely confined to their traditional functions. We keep in touch with residents' concerns through a constant programme of customer surveys. We identify areas where the council can use its influence to enhance the quality of life for local people.

The other kind of competition that it is vital to preserve is that *between* municipalities on the local level. One of the things that drives local government toward reform is the ease with which people vote with their feet. One strategy for frustrating this crucial means of disciplining and controlling the quality of local policy and holding local officials accountable, is to expand the boundaries of local government to such an extent that the costs of exit become prohibitive.

This movement toward what we call municipal amalgamation is driven, ironically, in many cases by the business community, who believe that we have "too many governments", resulting in "overlap and duplication". Surely, it stands to reason that having only one mayor, one council, one city hall, and one public works department would save money and promote efficiency.

But as Gordon Tullock, a prominent economist, argued in a recent book, "There is much more centralisation in governments than in the economy. This is in spite of the fact that there do not seem to be any very obvious economies of scale outside a few special areas like the military and, possibly, diplomacy. Tullock is properly drawing our attention to the fact that in both government and the economy, small and large organisations exist, and both can be efficient in those things where they enjoy advantages. But being large in itself is no guarantee of anything.

In fact, there are good reasons for thinking that bigger government will be less efficient and responsive, not more. Certainly in the private sector thinking is running the other way, as the break up of giants releases hidden value in their assets. And of course we all know that the experience of amalgamation has been to drive costs up to the highest level, rather than down to the lowest.

The other danger, of course, is that of cartelisation. This is what happens when local governments refuse to compete, but simply agree that they will all aim for the lowest common denominator. Like amalgamation, this too can frustrate the revolution through a refusal by the several governments in fact to compete. It is not unusual, in practice, for cartels of local governments to complain about outliers who do engage in vigorous competition, accusing them of "raiding", "unfair practices", "social dumping", provoking a "race to the bottom" and so forth.

This is where senior governments can usefully play the role of stimulator of competition, through actions such as those taken in New Zealand and Australia. here, for example, there are laws obliging local governments to use compulsory competitive tendering for all services. Local governments undergo regular audits, where service levels and taxation levels are compared, permitting the publication of league tables and other instruments of accountability that grant to local voters much greater insight into the performance of their local government and hence more means to hold them accountable.

Public sector competition, like private sector competition, is not "wasteful", but is a healthy discipline that promotes efficiency, accountability and good service. Such competition, where it has been introduced into local government, has transformed it for the better. Given that decentralisation and subsidiarity are already contributing to a reinvigoration of local governments, this is one revolution we should hasten to encourage.