

SECRETS OF SWISS SUCCESS

LESSONS FOR NEW ZEALAND

A study of the way Switzerland works yields some key insights into how to do things better in New Zealand, argues **Oliver Hartwich**

On 14 February 1961, the Swiss Consul General to New Zealand sent a diplomatic cable back to his home government to report on a meeting he had just had with Prime Minister Keith Holyoake. Having exchanged the usual diplomatic niceties, the Prime Minister expressed his astonishment at Switzerland's system of direct democracy. As a conservative, he said, he could not quite understand why a government would subject itself to the whims of the people like that. He then asked the Swiss diplomat if Switzerland would start to centralise its political structures, which looked clumsy and slow to him.

The Swiss diplomat calmly explained to the Prime Minister how direct democracy, federalism and localism were at the heart of Switzerland's successful model. But in his cable, he noted: 'This seemed plausible to [the Prime Minister], without convincing him, and he remarked that he would take a look at Switzerland himself.'

We do not know if Prime Minister Holyoake ever visited Switzerland. What we do know is that in the 56 years that have passed since this meeting, not much has changed in New Zealand-Swiss relations.

When New Zealanders look at Switzerland, they see a country that may superficially remind them of their own. Mountains, lakes and stunning scenery are features of both New Zealand and Switzerland. At the same time, New Zealanders do not know much about the way Switzerland works—and they understand it even less. Switzerland's highly decentralised system of government seems confusing; their direct democracy may appear archaic; and though there is a Swiss federal government, it is

always made up of all major parties with no real parliamentary opposition.

From a New Zealand perspective, it is hard to imagine how this weird system of government works. It is even harder to figure out how Switzerland has managed to become rich: a land-locked country, with no natural resources, four official languages but now twice New Zealand's per capita GDP.

For New Zealand's new government, there are plenty of good ideas it could import from Switzerland. Beyond the more decentralised structure of government, Switzerland also holds important lessons in education policy and labour market regulation. It is worth exploring them to see if they can help us improve our own economic performance.

A direct and participatory democracy

If there is one standout feature of Switzerland's system of government, it is its system of direct democracy. Yes, there are other countries that have referenda as well—and over



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the years New Zealand has voted on its flag, asset sales and the electoral system. But in no other country are referenda such an integral part of the political process as in Switzerland. Referenda have a long history in Switzerland, going back hundreds of years. Involving the people in political questions started in Switzerland at a time when other European nations were still governed by absolutist monarchs.

At a formal level, there is a difference between the nature of the sovereign in New Zealand and Switzerland. In New Zealand, derived from its British heritage, sovereignty rests with parliament. In Switzerland, meanwhile, the sovereign is the people. This difference is much more than a formality. It has practical implications. Because the Swiss parliament is not the sovereign, it is not the highest instance of political power. Hence, parliamentary decisions can be overturned in referenda. It is democracy in the original meaning of the word. The people rule.

For this reason, too, there is not the usual dichotomy between government and opposition in the Swiss parliament. All major parties jointly form the government, comprised of just seven federal councillors. These councillors have a dual function: they are members of the government and thereby jointly responsible for governing the country, while at the same time they head up a government department just as a minister would in New Zealand. In other words, under this system there is no parliamentary opposition because the opposition is the people.

The benchmark for initiating a referendum is low. For example, only 50,000 signatures are required to subject a new federal Act of Parliament to a plebiscite. This has the effect of slowing down legislation because there is always potential for legislation to be challenged in this way. But although this process slows down the work of parliament, it probably also means that the quality of legislation is higher—and there is more need to make a good case for legislative change. A shoddy piece of law, pushed through parliament without a proper public debate, is more likely to be struck down in a referendum. Conversely, good legislation, especially once confirmed in a referendum, will create more popular buy-in.

Direct democracy is not just a feature of government at the federal level, it is practised at all

tiers. Councils, cantons and the federation each call their respective citizens to the polls several times a year. What is impressive about this is not just the routine with which serious questions of policy are decided by the people but also the disciplining effect this can have on government spending. In the city of Zurich, for example, referenda must be held for any proposed capital expenditure exceeding CHF 20m (around NZ \$28.3m) or recurring expenditure of CHF 1m (around NZ \$1.4m) per annum. It would be interesting to speculate about how some of New Zealand's more controversial pieces of public expenditure would have fared had they been subjected to a similar level of public scrutiny.

There is no parliamentary opposition because the opposition is the people.

Another impressive feature of Swiss democracy is the nature of the parliament. It functions as a part-time institution. The National Council, one of the two chambers, meets four times a year for three weeks at a time. As a result, professional politicians are a minority in the parliament. Of the 244 members of both chambers, only 43 are full-time politicians. There are, however, 49 practising lawyers, 43 entrepreneurs, 19 consultants, 18 farmers, 12 teachers and 8 medical doctors.

It is perfectly acceptable to be a member of parliament while continuing to pursue one's professional career. For instance, Roger Köppel, the publisher and editor-in-chief of the weekly newsmagazine *Weltwoche*, was elected to Parliament in 2015 with the highest vote count of any candidate. Christa Markwalder, Head of Government and Industry Affairs at Zurich Insurance Group, has been in Parliament since 2003 and served as President of the National Council in 2015-16. Peter Spuhler, the owner of Stadler Rail and one of Switzerland's most successful entrepreneurs, served as an MP for 13 years. Hans-Ulrich Bigler, the CEO of the Association of Small and Medium Enterprises representing 250 business organisations and 300,000 companies, has been in Parliament since 2015.

Such biographies are not the exceptions in the Swiss parliament but the rule. As a part-time

institution, parliament can attract high-calibre candidates, introducing considerable professional expertise into the legislative process. This engagement in public affairs is in no way resented—even though it requires flexibility of employers for dealing with employees elected to public office. Moreover, the level of civic engagement in politics is much higher than in New Zealand. Public office and public administration are held in high regard.

The Swiss experience demonstrates that a different way of running local and regional government affairs is not only possible. It may be beneficial.

Federalism and localism

Direct democracy, with its constant referenda and public assemblies, may be the most eye-catching element of Switzerland's system of government. Equally, if not more important for the functioning of Swiss government is its highly-devolved nature. Coming from New Zealand, it is hard to comprehend just how decentralised Switzerland is. A few comparisons may help to understand it better.

With a population of 4.8 million and a landmass spanning 268,021 km², New Zealand has 78 sub-central units of government. These include territorial authorities, regional and unitary councils. Switzerland, meanwhile, has more inhabitants: 8.4 million. But its area is much smaller at only 41,285 km² (roughly the size of Canterbury) and within this small country, there are 26 cantons (regions) and 2,294 communes. In other words, where New Zealand has an average of 61,500 people per sub-central unit of government, the corresponding value for Switzerland is only 3,620 people. And where the average New Zealand sub-central unit covers 3,400 km², in Switzerland that area is just 18 km².

The small size of Swiss political units is already astonishing. But these political units are not only small but also powerful. In fact, communes and cantons are the most important part of Swiss political life. Symbolically, this is visible in the fact that Switzerland does not even have an official capital. Bern is the seat of the federal government and parliament but it is only the de facto capital.

Practically, the importance of the two lower tiers of government is reflected in their tax revenues. The Swiss Confederation receives taxes equivalent to 9.5% of Swiss GDP. Cantons and communes combined receive more than that—10.5%.

Based on these figures, Switzerland appears to be one of the most decentralised countries on earth. However, the term 'decentralised' is misleading. That is because Switzerland was never centralised to start with and so it did not have to decentralise. It would thus be more appropriate to speak of Switzerland as a non-central country. This is one of the country's great strengths.

From a New Zealand perspective, this may sound odd. We have been taught to believe that bigger usually means better. After all, this was the main argument behind the Auckland super-city merger and the government's drive to amalgamate further parts of the country.

Many New Zealanders believe that local government is the more incompetent and wasteful part of government. Giving local government more power and money thus seems counterintuitive. Given this widespread perception of local government, New Zealanders would not easily understand why Switzerland's super-devolved system has a competitive advantage. However, the Swiss experience demonstrates that a different way of running local and regional government affairs is not only possible. It may be beneficial.

The key to understanding Swiss local and regional government lies in one word: incentives. Because there are local, cantonal and federal taxes for both personal and company incomes in Switzerland, each tier of government participates in increasing its tax revenue. And because the structures of local government are so small, there is competition between neighbouring councils. They not only compete in the delivery of public services, but also on tax—each council is able to set their own individual tax rate. It is the government equivalent of competition in the marketplace.

Such competition has a disciplining effect on councils and cantons. When they pursue wrong and wasteful policies or introduce overly burdensome regulations, there is an exit option for residents. They could just move a few kilometres down the road to find themselves in another jurisdiction. Of

course, that does not mean that the Swiss constantly move in search of lower taxes and better services. But just the option of doing so has a disciplining effect. Underperforming councils would also struggle to attract new residents.

The way that local and cantonal government are funded determines their behaviour. In Switzerland, they are rewarded for positive economic outcomes. When a village, a city or a region grows, their budgets automatically grow too. Out of this growth, new infrastructure can be funded. It also makes it easy to tell residents why economic growth is good for a place.

When economic growth happens in Switzerland, local communities directly benefit from it. They are then able to fund new community infrastructure like libraries, schools and sports facilities. They might also receive tax cuts as communes can make use of economies of scale. Councils may also choose to cooperate with neighbouring councils in the delivery of public services without having to merge with them.

This localism, which is a key feature of Switzerland's structure of government, is the antithesis to New Zealand's centralism. Political decisions are taken much closer to the people affected by them. And although smaller political units may lack economies of scale they make up for scale effects by being more efficient. Swiss local and regional governments also have much stronger financial incentives to promote economic growth than their New Zealand counterparts. Competition between neighbouring jurisdictions ensures that councils pay close attention to the wishes and needs of their residents. Tax competition at the local level is a crucial element of this competition. Councils can voluntarily cooperate in service delivery without having to amalgamate.

Contrast this Swiss model with New Zealand. When economic development occurs, all the GST, income tax and corporate taxes end up with central government. Local government may only be able to increase its rates somewhat but typically not enough to cover the additional infrastructure expenditure, let alone share the spoils of growth with existing residents.

The Swiss model holds valuable lessons for reform of the way local government is organised and funded

in New Zealand. At the same time, there are some structural differences between our two countries. As mentioned above, it is easier never to centralise than to decentralise. New Zealand also lacks the Swiss tradition of trusting bottom-up decision-making. We currently do not attract the same calibre of people to public office as Switzerland does. Having said that, a different set-up of local government in New Zealand would change both the way in which local government behaves and make an engagement in local politics more attractive.

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Dual education

At first glance, the state of tertiary education in Switzerland may appear surprising. Switzerland is home to continental Europe's only world-leading university (ETH Zurich). Of the top 100 universities in the world three are in Switzerland, which is remarkable given the size of the country. And yet only about 20% of Swiss school-leavers opt for an academic education. How can that be?

The answer is that there is a highly attractive alternative to academic studies: Switzerland's dual education system. To translate this into 'vocational training' would not do justice to what the Swiss are offering to the majority of their school-leavers. It is a combination of learning-on-the-job and further school studies at dedicated education institutions. Time is spent in almost equal measure between theory and practice—and both theory and practice are acquired in parallel.

Dual education also differs from New Zealand's understanding of vocational training because it encompasses more jobs than those we would typically associate with vocational training. They include both blue- and white-collar jobs, and dual education is regarded as a pathway to many jobs that require a university degree in other countries. In Switzerland, however, it is possible to rise to 'C-suite' jobs—such as chief executive officer (CEO), chief financial officer (CFO), chief operating officer (COO) and chief information officer (CIO)—after taking the dual education pathway.

Switzerland offers a highly developed, flexible and differentiated range of education options. However, the basic idea behind the Swiss dual education system is easily explained. Swiss school-leavers should receive a high-quality education that will lead them to gainful employment. It should also enable them to continue their education journey along flexible pathways. This then creates a high skills, high wages economy.

In other countries, New Zealand included, parents are often disappointed if their children decide against a university education. Not so in Switzerland: There is no higher social status associated with a university degree, and conversely there is no stigma associated with taking a vocational training pathway. Both options are equally accepted and similarly well-regarded.

The cooperation between companies and schools in the delivery of vocational training is a crucial determinant of dual education's success. Companies are a key driver behind delivering solid education—and they are a key beneficiary of this system as well.

Youth unemployment in Switzerland stands at 3.6%, there are more than 58,000 companies

training apprentices, and the savings for businesses from vocational training are estimated to be more than NZ \$700 million each year.

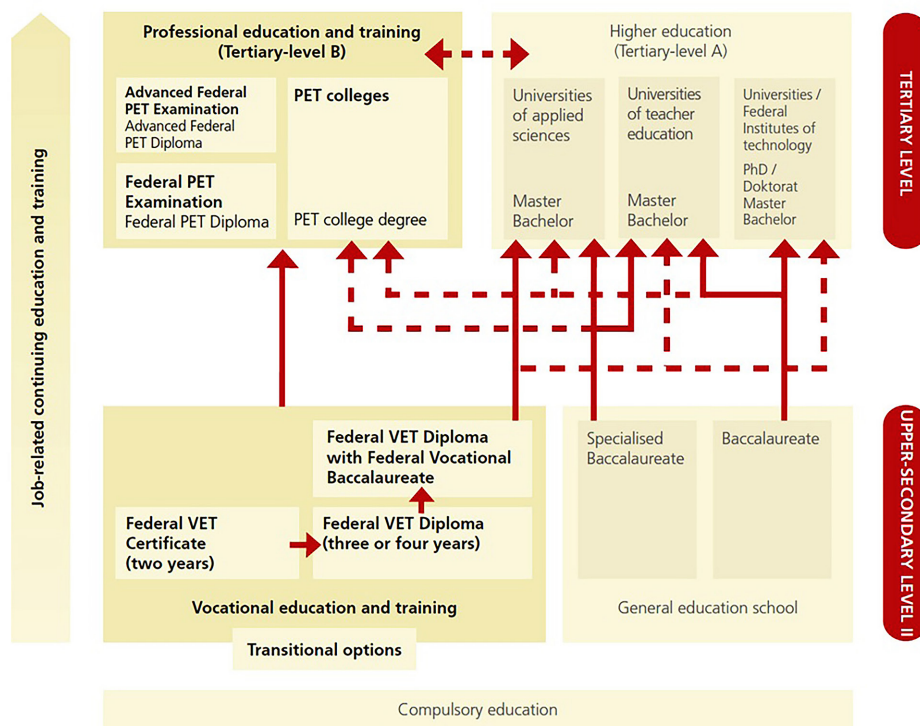
A flexible labour market

Another feature of Switzerland that is executable in New Zealand is the liberal nature of its labour market. Switzerland is a country in which it is easy to enter into and terminate employment contracts.

In Switzerland, unlike most other developed economies, there are practically no legal protections for employment contracts (with few exceptions). Unless agreed otherwise, an employee can be laid off with a month's notice in their first year. For employees in their second to ninth year with the same company, that notice period increases to two months, and for employees serving longer than ten years it is three months. No reasons need to be given for terminating an employment contract.

Though it is easy to appreciate such a deregulated labour market from a business perspective, it is remarkable how much public support there is for keeping the labour market liberal. It is also worth

Figure 1: Basic structure of the Swiss education system



Source: Federal Institute for Vocational Education and Training, 'Tertiary education with high labour-market relevance: Swiss professional education and training' (2014), <https://www.bibb.de/en/17764.php>

emphasising that this flexible employment law goes hand in hand with a low unemployment rate and a very low number of working days lost to employment disputes and strikes. There is also no stigma attached to having one's employment contract terminated.

As director of the Swiss think tank Avenir Suisse, Dr Peter Grünenfelder, put it:

There have been various federal referendums calling for additional regulations or restrictions in the labour market, such as: 6 Weeks Paid Vacation for All (2012), Initiative 1:12: recommending a fixed range between the highest and the lowest salary in a company (2013), and the Federal Minimum Salary (2014), but all were blatantly rejected. The only exception was the Minder initiative adopted in 2013. It denoted the nation's exasperation regarding certain policies, which excessively benefitted the compensation arrangements of senior executives in some large companies based in the country.

The level of national consensus on such sensitive and politically charged issues is impressive. There is a broad social consensus for keeping employment laws liberal and, in turn, the flexible Swiss labour market is a success factor for the Swiss economy.

Conclusion

In a landlocked country with few natural resources, the Swiss have built one of the most prosperous countries on earth.

Among the factors behind Switzerland's success are its political system which is built on citizen participation and engagement; its highly decentralised nature which fosters competition for better development ideas; its high-quality and flexible education system which provides tailor-made pathways for its young people without pigeon-holing them; and its flexible labour market.

These are the key elements of the Swiss success story, a narrative that Switzerland has formed in a way that New Zealand rarely has. It is a narrative that emphasises Switzerland's independence.

Harmonisation is the antithesis of what Switzerland is about. Where other countries try to harmonise their practices with the rest of the world or aim for best practice, Switzerland strives for smarter solutions.

However, there are two mistakes we could make when it comes to applying the Swiss lessons to New Zealand:

- We could either naively believe that whatever Switzerland does well could work equally well in New Zealand; or
- We could unthinkingly dismiss Swiss lessons by asserting that Switzerland and New Zealand are too different to learn from each other.

Both views are mistaken. We must acknowledge where, for historical and geographical reasons, New Zealand will never be like Switzerland. One cannot replicate history or transplant national narratives. Conversely, to just point out how different our two countries are would be a missed opportunity. It would be an ignorant view of the kind that Prime Minister Holyoake demonstrated more than half a century ago.

What we should do instead is this: Acknowledge the differences that exist, but work to identify individual aspects and elements of Switzerland's policy settings that could well work in New Zealand—even in a modified form. Among them are the ideas of:

- High citizen engagement in democratic processes;
- Decentralisation and tax competition to incentivise economic growth;
- The dual education system, which creates high-quality and diversified training pathways; and
- A broad national consensus to keep the labour market flexible.

Developed economies can and should learn from one another. Especially, newly elected governments may find inspiration for their reforms in other jurisdictions. But any such learning requires moving beyond old stereotypes and prejudices. We need to question ourselves to become open to new ideas.