Rates, Roads, Rubbish & Redistribution: the Politics of Local Taxation

Martin Mowbray

The 'long standing problem as to how local government activities should be financed'[1] has, if anything, increased in importance over recent years. Testimony to this is given in the recent proliferation of official reports and other studies dealing with fiscal aspects of local government.[2] Apart from the occasional historical publication, these are only to be compared in frequency and volume with the not unconnected level of concern with administrative procedure and boundary reform. Publications on actual programs or services are comparatively rare and insignificant.

Despite the degree of official public interest in the collection and disbursement of funds by local government, no apparent recognition is given to the bourgeois problematic within which this issue of council finance is located. That is, the particular ideological implications of the framing of the question 'how do we fund local government' are nowhere admitted, let alone explored. The funding problem is seen as one internal to the viability or operation of local government rather than as part of the process of managing capitalist social relations and the preservation of conditions for the accumulation of capital. In other words, the exigencies of the capitalist state are discounted in the official discourse, which is made up, instead, of technical analysis directed at answering an incomplete question.

The following review is concerned with demonstrating the particular ideological bias of the common frame of reference for considering local government finances. Examination will be made of the property rating system, revealing its state service functions. Such an analysis cannot come logically out of the simple terms of the debate contained by the contemporary literature on council finance. It will be argued that the object of property rating is not simply to finance the traditional public works and services of local government councils, but that it is an integral part of state intervention at the local level with the effect of maintaining existing class relations. Rating will be seen to complement other capitalist social institutions, including the balance of the taxation system, in two ways: firstly by having the effect that the material costs of producing other gross inequalities are disproportionately borne by the poorer classes, to the advantage of the wealthier; and, secondly, by bearing, through its very nature and the terms of its expression, an ideological form supportive of the capitalist hegemony.

The procedure to be followed will be to scan various key aspects of the local property rating process for evidence of its regressive, redistributive and other system-preserving effects. Evidence will be based on published authority, published statistics and my own analysis of available data on Sydney local governments.

THE ORIGIN OF LOCAL GOVERNMENTS' PRINCIPAL REVENUE BASE

Historians and others have frequently noted the traditional 'primary' role of Australian local government services to property rather than 'to people'.[3] Purdie writes that - 'the history of local government shows that its principal function in the past was to provide a limited range of works and services which were intended primarily to service the property of local ratepayers'.[4] He does not go on to show that the present activities of councils serve any very different end. This is consistent with Manning's testimony that 'the role of local government has been and still appears to be the provision of physical works and services for property'.[5]

Barrett's[6] work on the origin of local government in Victoria constitutes extensive and persuasive evidence that service to property has been perhaps the most important ongoing motivation for the incorporation and operation of local government.

The policy to implement a private monopoly pattern of land ownership in Australia, instead of some other model of tenure (not necessarily less consistent with capitalism), led to the proliferation of freeholders. These, particularly the more commercially oriented, were not long in raising demands for the provision of a physical and administrative infrastructure necessary for a degree of comfort, health, supply of labour, and facilitation of trade - in the way of markets, roads, sanitation, water and other utilities (apart from anything else, typhoid and cholera epidemics were not good for business), plus some order in physical planning. Colonial authorities, themselves considerably interested in promoting commerce, law and order, had the task of finding the means to finance, administer, and, very importantly, legitimate these measures. This concern gave rise to considerate tension between land owners demanding services and the colonial office wanting to limit expenditure.

Larcombe noted that by the 1850s, 'apart from a few road trusts, the colony was without any significant form of local government ... The absence of a local system thrust upon the government the responsibility for the provision of all services, a task it could not or was not prepared to undertake ... The home government had never been happy with the rising costs of the colony and sought means of forcing the colonists to contribute towards the expense of local services.'[7]

Foremost amongst the various possible new methods for state finance was that 'most obvious of all taxes'[8] - rates levied on property holders. Since no direct system of taxation existed, land holders were naturally far from anxious to agree to any levy that could diminish their wealth. A representative contemporary (1835) comment was, ' ... the proposal of such a measure where direct taxation was unknown was like asking the inhabitants to cut their own throats'.[9]

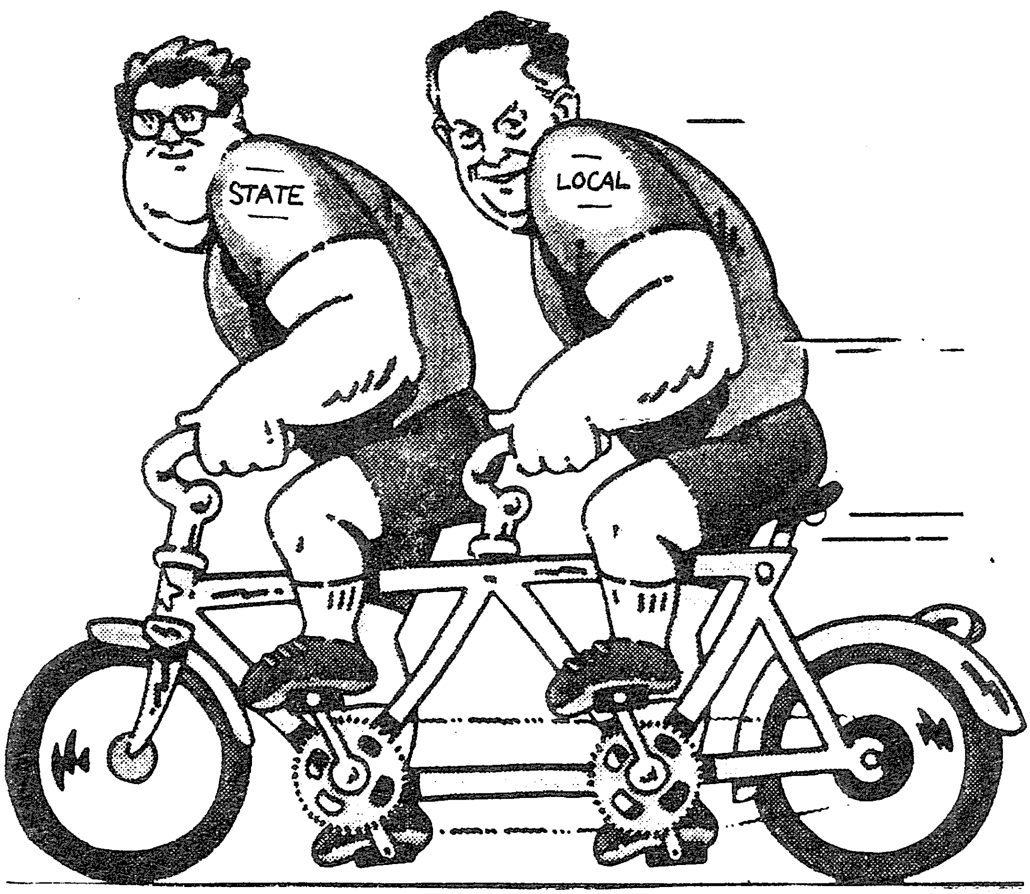
The slogan principle, and classic bourgeois parliamentarist battlecry, 'no taxation without representation' was variously invoked as both a claim and a defence against an imposition unsympathetic to land owners - especially those with larger holdings. 'Any measure which "obliges the people to tax themselves, without having any control over the disbursement or appropriation of their revenues" was considered "altogether unconstitutional - unreasonable - absurd and ought to be resisted".'[10]

The need of the state to extend services and increase its revenue raising capacity prevailed. Very soon after overhaul of the English system, through the Municipal Corporation Act of 1835, local governments were set up in New Zealand and the various Australian colonies, in rapid succession.

The immediate acknowledged need their incorporation met was to extend the existing state administrative apparatus. As Larcombe puts it, 'Municipalities were merely creations for ... (central governments) convenience to do the tasks which the government could not or would not perform'.[11]

A less apparent aspect was the legitimation of the extended state machinery through a rudimentary democratic form. As in the British model, authority was devolved to the hands of private property owners to elect, from amongst their own kind, committees.[12] These early local governments set the precedent of being bound to operate within centrally determined regulations flexible enough to suit the interests of wealthier and more influential sections of the population

The early local government systems provided not just for ratepayer-only franchise, but also a 'cumulative voting scale' (although N.S.W. did not fall into line with the other colonies on this until the 1867 Municipalities Act). This was justified under the general rubric of 'no taxation without representation'. The co-operation of wealthier landowners with municipalisation was sought through the principle of voting power being proportional to rates paid. The Maitland Mercury in 1867 epitomised this reasoning: 'The few who contribute heavily to the municipal funds are entitled to such an amount of influence at the elections as would prevent their being swamped by the many who contribute little; and cumulative voting is simply an expedient to secure this end'.[13] In N.S.W. landholders continue to have a vote in each municipality or shire in which they own land. Until 1980, and elsewhere still, commercial tenants could also vote in separate local government areas, including the one in which they reside.



The system of volutary or permissive incorporation that existed in N.S.W. until 1906 mirrored the power and interest of larger landowners. Until the Local Government Extension Act, 1906, only a very small, predominantly urban, proportion (0.9%) of the State's land was incorporated and rated.

Just as squatters in N.S.W. and Queensland were able to resist increases in the prices of land sold or leased by the crown, the rich were commonly able to avoid rate contributions. When two prominent members of the N.S.W. Legislative Council who had been enthusiastic supporters of the 1858 Municipalities Bill discovered its propensity to cause their properties to be rated, they strenuously protested. Residents on the north shore had petitioned for the incorporation (the necessary legal procedure) of St Leonards East and these MLCs, with Alexander Berry, through the nature and strength of their opposition forced the governor to proclaim the municipality with greatly reduced boundaries.[14] Berry is better known for having 'beat the system' by defying municipalisation of his extensive holdings in the Shoalhaven district on the south coast of N.S.W.[15]

For the unincorporated rural bulk of the State's land area, central government provided the essential public expenditure on services to property. This, very conveniently for rural landowners, was funded directly from consolidated revenue, not from rates levied on the affected properties. (It is worth noting here, too, that a very high proportion of total state capital investment in the nineteenth century was in rural areas.) Other local public amenities benefiting rural areas were supported by rates levied in the rural towns which were likely to be municipalised. In areas which were municipalised, rates until after 1906 favoured rural and speculative interests because levies were based on value of improvments rather than on land or unimproved values. Rates paid on property became, from the outset, the predominant source of local government revenue. They remain the most substantial single source of income and the only form of taxation available to councils, supplying about 56% of total local government revenue.[16]

THE MYTH OF THE RATEPAYERS' BURDEN

The imposition of rates has generally been justified on the benefit principle.[17] The hypothetical principle is to collect contributions from individuals in accordance with the value of benefits they derive from usage of the services so funded. The popular invocation of the benefit principle to describe or evaluate rates obfuscates the real incidence or impact of the tax in terms of, firstly, who actually carries the burden of the account and, secondly, who reaps the major returns accruing from the money spent.

Maiden, for a long time a leading administrator and authority on local government, provides a good example of the use of the benefit principle approach in quoting, with approval, the N.S.W. Local Government and Shires Association's view that 'an intolerable burden has been placed on the property owner, who, under the present system, is virtually called upon to finance all local government activities, irrespective of the nature and extent of the service given'.[18]

Contrary to such rhetoric, it becomes, on closer examination, clear that the rate burden is not simply carried by the ratepayer - a point which has interesting ramifications if the benefit principle is to be taken seriously. The notion that it is 'the ratepayer' who carries the burden of local finance has strong evaluation or emotive content which needs to be recognised in order to understand its persistence. O'Regan, writing on the New Zealand situation, makes this point clear: 'Some local politicians and editorial writers give the impression that ("Mr Average Ratepayer") is closely identified with the old age pensioner and that economically he is to be classed somewhere between the widow and the orphan. In rural areas he is no doubt a farmer, but a small, struggling, honest, god-fearing farmer. In the town and city he is a sober, industrious, thrifty homeowner ...'[19]

It is clear too, as Groenewegen demonstrates with various examples, such as in the case of exempt property, that the benefits of rate revenues don't simply accrue to those who write the cheques that match the rate notices.[22] A truer picture of the incidence of the local rate can be gained by reviewing the circumstances of different categories of ratepayers. In the case of commercial property the rate is paid out of a cash flow not necessarily available to private dwellings. The burden can be transferred, through prices, to the consumers (who may sometimes be local residents) of the products or services produced on the property. Secondly, rates can be claimed as part of costs for income tax purposes, (and are not subject to the same upper limit as owner-residential property) and are thus indirectly subsidised. The extent of such subsidy reflects the profitability of the enterprise - the higher the marginal rate of taxation the greater the value of the concession. Thirdly, rates can be set off against capital gains from any increase in exchange value of the property.

Landlords are not in a dissimilar position. They also have the ability to disencumber themselves, or at least share the cost, by offloading the rate levy to tenants.[23] Rates are also a legitimate claim against the landlord's income tax, and the latter also stands to make a capital gain from the property. Commercial property holders and landlords are in these ways able to regard rates as simply a part of overall tax or cost considerations in fixing the capitalised value of their property.[24]

It is acknowledged that a few economists advocate a ('new') view that property taxes are not simply a transferrable cost, but, along with other taxes, constitute a charge on all capital.[25] Aaron, for example, propounds a more systematic conception of the effects of property taxes, which he says are not in national terms borne by landowners, but by all owners of capital. The property tax, to Aaron, is simply an element in the overall cost of using taxed capital goods - including land: 'Since not all capital goods are taxed, investors will shift resources from heavily to lightly taxed (or untaxed) activities. Through these adjustments the rate of return to all owners of capital goods, even those not directly subject to property taxation, will be reduced.'[26]

If Aaron is correct, and he is prepared to except various applications of the 'new view', the question of the source of the profits concerned is not really affected. That is, even if rate increases cannot (Aaron admits that under various conditions they can) be simply transferred the gross return on capital invested in property is still paid for by consumers. While the after-tax yield may conceivably be reduced by increased costs, the discounted yield is nonetheless derived from prices paid for the consumption of goods and services (including accommodation) produced. Further, if 'the assumption that owners of real property attempt roughly to maximize long run profits'[27] is valid it would seem reasonable to assume too that the pressures of increased production costs (including any rate increases) are likely to be felt by the consumer as much as the investor. The suggestion that cost increases are to be understood simply as a charge on profit does not appear tenable.

Turning to owner occupiers it can be seen that while this group do not have the same facility as commercial ratepayers to avoid the impact of rates, they are nevertheless much better placed than non-property owners. In the first place, to a certain ceiling, rates are a legitimate income tax deduction. This transfer is the more valuable because homeowners, since they are likely to have higher incomes, have a higher marginal rate of tax than non-property owners.

The owner occupier stands also to incur capital gain, in time, from the property. This represents real income - an increase of economic power.[28] This income is usually realisable through some form of trading down, removal to a place where property values are lower, or at least through the estate in the longer run. Another property generated income, of a non-cash type, is imputed rent, where landowners, as their own landlords, receive tax free 'rent'.

The capitalised value of the property to the owner occupier is calculated by: adding its (imputed) rent producing capability to its rate of increase in exchange value, deducting costs (including rates) and finding the capital sum that would realise this net figure at the going rate of interest on capital. In this way, rates can be seen as a charge on an income not available to the tenant.

The situation of the occupier-purchaser may, however, be somewhat different to the one of the outright owner. The extent of the debt on the property is critical for assessing benefits from the tax. The rate is based on the value of the land irrespective of mortgage or other debts on the land and all improvements. The effective owner may in a great many instances be the financier.[29] At best, ownership is shared. Nevertheless, rates are only paid by the occupier. We can see here that the benefits of services funded by the rates are shared by the financing body since these help maintain or enhanced value of the property, making the loan a secured proposition.

A defense sometimes given for local government rates is that they constitute a tax on capital gain - as property valuation increases, so does the rate assessment. In a similar way, rates are held to be the closest thing we have to a wealth tax. These claims are somewhat misleading since, as I have argued with the help of the concept of capitalisation, rates are a charge against whatever income is available from use of the property. For many ratepayers, the apparent levy on capital gain is transferable. Accordingly, those that derive high returns on property investments find council rates, and increases on same, incidental. Rates would only appear to be a real tax on capital gain or wealth where they cannot be offset by income on the property.

THE POLITICAL USE OF RATEPAYER IDEOLOGY

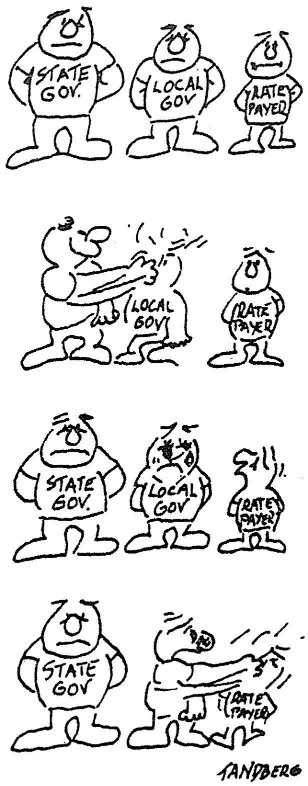
Having reviewed some reasoning that undermines the conventional view of local government rates, it is of considerable further value to look at the political use of the orthodox position. The argument here is that the conventional misrepresentation of the true incidence of the rate burden facilitates the continued role of local government, via its property servicing roles, in the process of capital accumulation.[30]

A precondition for deriving income or wealth through the agency of property is obviously that there be a certain surety that the latter's value will be protected or increased. Necessary practical ingredients in this are the provision of basic physical works and a relatively orderly system of land use - over which property capital can exert appropriate, overt or covert, influence and gain other advantages. As noted above, local government has historically helped bear this state function.[31] The traditional preoccupations of roads, bridges, drains, water supply, garbage disposal and land-use controls remain the most important functions and application of funds in Australian local government.

Considerable pressure from conservative interests is directed at ensuring that councils do not deviate significantly from this path. Federal Government contributions to the debate on the Local Government (Personal Income Tax Sharing) Amendment Bill 1980 provide good examples.[32] In this the Members for Macquarie and Paterson complained bitterly about the spending by some N.S.W. councils, of untied revenue sharing funds, on social welfare - an activity 'not considered within the ambit of local government'. To these honorable gentlemen, untied grant money should be used to cut local taxes so as to 'ease the rate burden'.

Presumably their belief is linked both to the current enchantment with the so-called 'taxpayers revolt' and to government policy of investment-led economic development ('supply side recovery') as well as to the traditional 'benefit principle' view that it is simply property owners, through property rates, who pay for, and therefore should reap the benefits of, local government.

B.H. Manning describes this 'pervasive view in local government that, because a significant part of its revenue is derived from property, expenditure should relate to property works and services. At the heart of this is the feeling that ratepayers are few, a small proportion of the population who alone pay for the amenities which everyone enjoys.'[33] Ian Manning notes further that, though councils are legally entitled to provide a fairly wide variety of services, conservatives invoke the benefit principle, arguing that, since rates fall directly on the ratepayer, councils should limit themselves to the provision of services likely to cause an increase in the value of land.[34]



FOSTERING RATEPAYER IDEOLOGY - cartoon from The Age

The crude falsehood of the 'ratepayers burden' provides an ideological defense against attempts to shift minimally the focus of local government activity away from concerns that most suit commerical, industrial and finance capital. In this we have a clear example of a 'colonized consciousness' so helpful in legitimating a system of taxation that concentrates the surplus of production.

This traditional argument has been substantially bolstered over recent years by overall reductions in Federal Government remissions to local government, accompanied by continual exhortations as to the need to keep the size of government minimal.[35] This policy has been given practical effect by the N.S.W. Government through increased constraints on council borrowing and the introduction of controls on rate increases - pegged since 1978 to the Consumer Price Index (C.P.I.) slightly discounted. Taken with the facts that the costs of road and other physical works, and compulsory contributions to statutory authorities (precepts) have increased more rapidly than the C.P.I., local government has become even more structurally bound to devoting the vast proportion of its financial resources to physical, property related, works. The ideology of the ratepayers burden along with connected historical and political factors contributes very significantly to the inflexibility of the demand that councils give property services overwhelming priority.

DISCOVERING THE REAL INCIDENCE OF LOCAL RATES

While most authoritative commentators on local government finance concur that, in relation to income, rates are regressive,[36] very little available data exist to provide an accurate picture of the overall situation.[37]

The data provided by Bentley, Collins and Drane constitute some of the meagre statistical evidence available.[38] The authors suggest that local rates in 1966-67 ranged from approximately five per cent of the lowest incomes, to less than one per cent of the highest income groups. While for most incomes the distribution is rather flat, the proportion increases rapidly for the lowest ten per cent of ratepayers. The issue of regressivity in relation to tenants is not taken up here or elsewhere in the Australian literature so that considering tenants are more likely to receive a lower income than homeowners,[39] the picture may be regarded as a substantial understatement of the real situation.

Supportive statistics are quoted by the Local Government Minister's Conference,[40] Jones[41] and Thomson.[42] The latter uses the following table:

Table 1: Rates as a Percentage of Household Disposable Income

Category	Household Disposable Income (per week)					
	Under $80	$80 to less than $140	$140 to less than $200	$200 to less than $260	$260 to less than $340	$340 or more
	(%)	(%)	(%)	(%)	(%)	(%)
All Capital Cities	6.4	3.9	2.8	2.1	1.7	1.3
Other Urban Areas	5.6	3.2	2.5	2.0	1.5	1.1
Rural Areas	3.9	1.1	0.7	0.7	0.3	0.2

Source: Australian Bureau of Statistics, Household Expenditure Survey, 1975-76

The following statistics were calculated from data available for the Sydney Statistical Division local governments. While caution must be exercised in interpreting these correlations, they do suggest support for the previously available data.

Table 2: Statistical Correlations: Councils in Sydney

	r	r^2
Rate in dollar and median household income	- 0.53	0.29
Rate in dollar and median family income	- 0.33	0.11
Rate in dollar and median personal income	- 0.35	0.12
Rate in dollar and percentage of public housing	- 0.33	0.11
Average rates and median household income	- 0.36	0.13
Average rates and percentage of dwellings owned	- 0.37	0.13
Average rates and percentage of public housing	- 0.56	0.32

These calculations are based on the general rate in the dollar for local governments within the Sydney statistical divisions. For the first four calculations all 40 local councils are included. For the last 3, the City of Sydney council is omitted because of the exceptionally high average rate assessment ($1769, compared with the next highest of $770 and a mean of $346): this would have swamped other aspects of the correlation. The rate data are taken for the latest available period (1981 in the first four cases, and 1980 in the last three cases), while the latest data for incomes and housing tenure relate to the last census of population (1976). A correlation coefficient (r) of 1.0 would indicate a perfect positive relationship, -1.0 would indicate a perfect negative relationship; 0 would indicate no systematic statistical relationship. Clearly the correlations are generally negative, i.e. higher income areas pay lower rates in the dollar and lower average rates. The coefficient of determination (r^2) indicates what fraction of the total variation in the former variable is explained by the latter. This is rather low in most cases. Overall the significance of the results lies more in the direction than the magnitude of the statistical relationships.

Any overview of the pattern of intra-jurisdictional rate assessment levels reveals a rather flat distribution.[43] Rates are set as a proportion of some measure of the value of property (valuation base). The rate in the dollar may vary only in relation to broad types of land use such as residential or non-residential, urban, rural or mining uses. The official debate on the merits of 'differential rating' does not embrace the possibility of rateability being specifically related or tied to income or some other wealth-related factor.[44]

The circumstances are difficult to reconcile with the ability-to-pay principle - commonly held, along with the benefit principle, to be a necessary equity consideration in tax structure design. This rule is allegedly taken account of in order to achieve some form of 'justice between taxpayers by taxing them in accordance with their financial circumstances'.[45]

Considering the fact that there is no existing operational method or, for that matter, official interest in determining individual or household ability to pay rates, the capacity-to-pay principle seems to have little to do with determining the incidence of council rates in practice. This is, of course, unless the assessed value of land is a reliable indicator of capacity to pay. Not the least of the problems with this is that the land value, or rate valuation base, does not, as noted earlier, say anything about mortgage debts. Nor does it reflect the value of capital improvements. Neither the intensity of the development of the site, nor its financial returns are taken into account in formulating the assessments. Land valuations have no necessary connection with the income or wealth of the land owners and tenants.

Cross jurisdictional inequities, measured by capacity to pay, occur where certain areas are subject to escalation of property values not matched by increases in real income levels. A clear example of this problem is evident in the rapid increase in prices of inner Sydney properties occupied by working class persons whose spending power has declined over recent years. Even in areas where land values are relatively much lower than in inner cities, property rates are by no means necessarily lower. All rating systems have two components: valuation base and a rate of tax. While per capita valuation base (such as Land Value, or Unimproved Capital Value) values may vary from one council area to another, so too may the rate of tax, or utilisation made of that base. Groenewegen, in his study of the taxable capacity of N.S.W. local government, found that 'local government areas with low per capita rateable values tended to utilize their tax bases heavily, while those with high values tended to a low utilization of tax base ... It has been argued by some that land values have some relationship to the taxable capacity of individual ratepayers. If "poor" councils need to impose relatively high rates of taxation on their relatively "poor" residents in order to obtain their revenue requirements, their greater tax effort is a consequence of their relatively low tax base. This is a further illustration of the "regressivity" of local rates.'[46]

Comparisons between councils illustrate this regressivity in the incidence of rates. That developed high income areas frequently charge lower rates than developing areas comprising low income groups reflects the need to provide new roads, kerbing and guttering, street lighting, water, sewerage and drainage and other facilities already present in older parts of cities. Most of the infrastructural burden in new areas has to be met by the newly established households - even though private developers might act as intermediaries in paying for works before passing the costs on.

Residents of new suburbs have frequently to pay, through local government structures, not only for the cost of water and sewerage reticulation in their own areas and some of the costs of amplification of mains and headworks, but also money to amortise loans formerly raised for established parts of the city.[47] At this earlier period such developmental costs were spread across all consumers. Discontinuation of this arrangement represented an effective transfer of the expansion costs to property buyers in newer, mainly residential, metropolitan fringe areas.

Another important factor in this tendency for rates to be highest in low income areas is that the political intolerance of relatively high rate levels or increases is probably greatest amongst the middle and upper classes. This is especially so given the conventional, hegemonic prevalence of the 'ratepayers burden'. Apart from the natural amenity of many areas occupied by wealthier classes which may reduce the need for publicly provided facilities, the existence of greater privatised facilities may have the same effect. Amenities of a social, recreational and educational kind are more likely to be privately supplied ('private wealth versus public squalor'). At the same time public facilities maintained by less wealthy councils may still be accessible because of greater awareness, mobility, confidence and other propensity to utilise opportunity. Higher rating councils often have a high proportion of private or public tenants, who may be less reactive to rate levels because of the ideological shield that only property owners pay rates.

Barnett and Topham suggest another causal element in higher property value areas having lower rates.[48] If rates are capitalised into the value of otherwise idential properties in jurisdictions with different rates, then the exchange value of the lower taxed property should be higher. Similarly higher rates could be reflected in downward capitalisation of property values.[49]

Another part of the picture of overall regressivity in rates is that councils, at least in N.S.W., have a practice of setting a minimum rate which is uniform within the local government area and, in any case, varies very little from one local jurisdiction to another.[50]

TAX AVOIDANCE, LOCAL GOVERNMENT STYLE

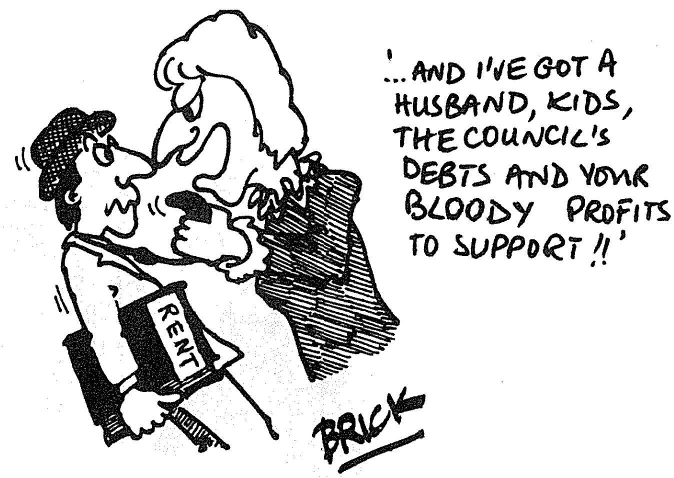
1. Exemptions and Rebates

Rate exemptions (or excisions) and rebates are important considerations in the study of income transfers carried on under the auspices of local government. Whoever, in the final analysis, actually carries responsibility for local tax payments indirectly subsidises those who, one way or another, derive benefits from services provided by local government but who pay reduced, or no, rates. This simple truth is generally downplayed by use of terms of reference that focus only on the revenue loss by councils rather than transfers of costs. The full revenue raising capacity of local authorities is viewed as not realisable when local areas include properties exempt from rating.[51]

Exemptions generally include crown land not used for profit; land used for educational purposes, property used for religious purposes, including the homes of clergy, hospitals, benevolent institutions, libraries, parks, various clubs, etc. Bains and Miles estimate the average loss of potential rate revenue in N.S.W., because of immune properties, as up to 16 per cent of total rates collected. The 1967 Royal Commission of Inquiry into Rating, Valuation and Local Government finance found the average at 7.8% of total collections and that in many municipalities and shires the losses at more than a quarter of the total rate levy.[52]

Non-rateable property, like crown land, is very common in both inner city areas and on the fringe of urban areas. In some cases ex gratia contributions are made, considerably below the going rate level. Exempt groups are determined by the state government and local councils have very little power themselves to grant or refuse exemptions.

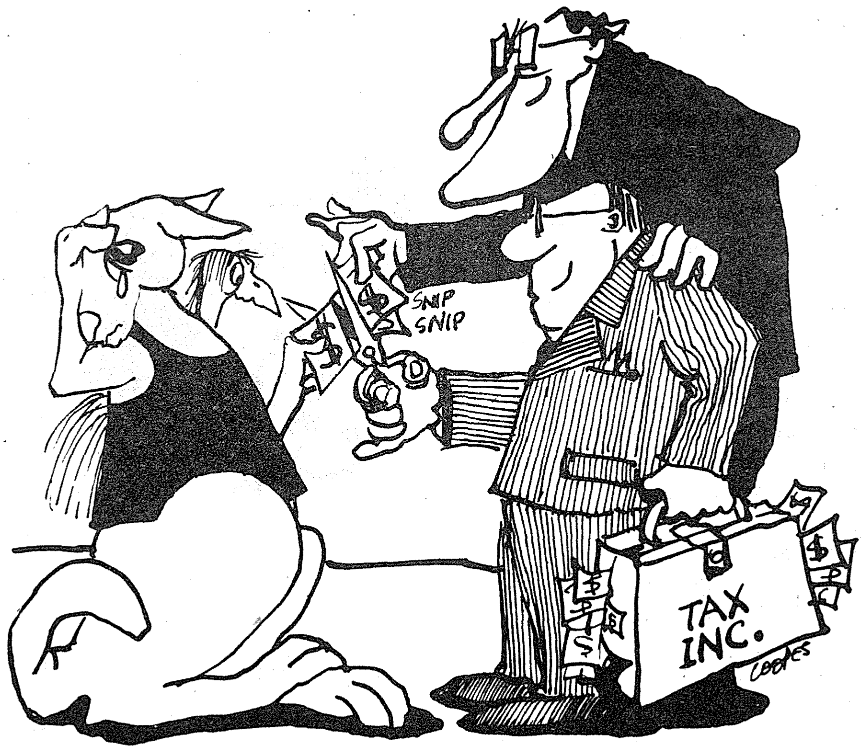
Benefits from state instrumentalities and other exempt property may be seen to accrue to interests quite separate from those of persons who carry the rate burden. It may well be the case that, since it appears rates are regressive as to income, and since lower income groups may derive less material service (if not more dis-service) from many rate-exempt institutions, that exemptions indirectly redistribute away from the lower classes. Local government thus may constitute a covert welfare apparatus for the wealthier classes through providing services necessary for accumulation of wealth, most notably through property.



Further evidence to support this line of argument may be derived from analysis of the operation of pensioner rebate schemes. Councils, variously, allow rebates for age, invalid and widows pensioners.[53] They also have powers to reduce or waive interest on overdue rates, in cases of hardship, or to write off rates altogether. Census and other data reveal considerable uneveness in the distribution of pensioners by local government area so that for equivalent rebates there are interjurisdictional inequalities.

Several other inequitable features apply. Firstly, as Gorenewegen implies, through local government rate-based revenue, poorer persons pay disproportionately more to subsidise pensioners by rate rebates.[54] Secondly, the benefits accrue only to those pensioners who are owner or purchaser occupiers. Pensioner tenants, who are more likely to be poorer, continue to contribute to rates through their rental payments.[55] In a tangible sense pensioner tenants subsidise those who derive most benefit from local government operations. No councils, of course, provide alternative and equivalent subsidies to pensioner tenants, who still effectively bear a share of the rate burden. Thirdly, pensioner rebate schemes generally do not involve any deferred charge on property and thus preserve the asset intact for the longer term advantage of the beneficiaries of the estate concerned.[56]

There are also less formal forms of rate avoidance. In N.S.W. the Local Government Act provides that where rates are outstanding councils may levy an extra charge of not less than five and not more than ten per cent per annum simple interest. This operates, as Fairfield council complains, as a reward for developers to not meet rate commitments: 'As rapid development occurs there are many large holdings owned by genuine developers, speculators and otherw where the ten per cent interest rate acts in no way as an incentive for payment of amounts outstanding. In many instances the purchase of the land involved is financed by lending institutions at a rate of interest between eighteen and twenty per cent. The owner, in fact, can "borrow" from Council by way of non-payment of rates at a rate of interest of only ten per cent.'[57]



Another dodge is for larger property owners to utilise the urban-rural differential rating provisions of those councils with such schemes. Since the rural rate is less than the urban rate,certain property holders exploit the 'loophole' of loosely defined rural land. Occupiers of five acre properties with at least one beast per three acres can get a concession for rural rating.[58]

The final point to be made here in arguing the redistributive impact of local government rating arrangements is in relation to what councils fail to tax. The view that increases in the value of property that result from the provision of council or other public services, or simple rezoning of land use, should accrue to the whole locality through its local government, via a betterment tax, is neither new nor unreasonable. Indeed it has, in very partial, inoccuous and ineffective terms, been tried in various places, including N.S.W.

The logic of such a tax is clearly demonstrated in an ex-Mayor and sitting N.S.W. M.L.A.'s plea that: 'Windfalls that result from the rezoning of land should be partly shared by local government ... In the federal sphere it will be untaxed as capital gain in ... most cases unless it happens to be shown as part of a business ... Therefore on the local government level where the source of profit is entirely related to land it seems to me quite logical and fair and reasonable that a slice and quite a substantial slice of that fortuitous profit should go to the local government council which is now charged with the responsibility of providing services for the development of that land and future maintenance of those services.'[59]

In this issue we find a further illustration of how the services of local government are instrumental in the transfer of wealth through property ownership. These, I have argued, are paid for disproportionately by lower income earners including, notably, non-property owners. By such means we can view the basic and entrenched redistributive effects of local government councils. The very idea of a practical and effective local levy on unearned, council induced, or mediated, hikes in the exchange value of property runs counter to the fundamental historical thrust of local government. A true 'benefit principle' in local revenue collection, where beneficiaries' total receipts reflect their real contributions, is unthinkable.

CONCLUSION

It is clear from this examination of major aspects of local government's financial structure that councils are in no way benign institutions. They have not been, and are not now, neutral terrain for capture as some left Labor groups seem to imagine. Given the picture of local taxation drawn above, it would seem more might be asked of progressives holding council office than simply adding assorted humanitarian and environmental programmes and reforming decision-making practice. As desirable as the latter policies may be, existing inequitable structures, such as the rating system, need to be better understood and acknowledged - even if they can't be reformed inside capitalism.

* * * * *

FOOTNOTES

1. Clark, D.L.,'"Roasting the Landowner Before a Slow Fire": The Origins of Rating on Unimproved Land Values', in Roe, Jill (ed.), <u>Twentieth Century Sydney: Studies in Urban and Social History</u> (Sydney: Hale and Iremonger, 1980).

2. For a detailed list, see, Power, J., R. Wettenhall and J. Halligan, <u>Local Government Systems in Australia</u> (Canberra: A.G.P.S., 1981).

3. Barrett, B., <u>The Civic Frontier: The Origin of Local Government in Victoria</u> (Melbourne: Melbourne University Press, 1979) p. 15; Manning, B.H., 'The Role of Local Government in Community Development', in Mathews, R.L. (ed.) <u>Local Government in Transition</u> (Canberra: ANU, 1978) p. 31; Parkin, Andrew, 'The States and the Cities', <u>Australian Quarterly</u>, Spring 1980, p. 316; Purdie, Donald M., <u>Local Government in Australia: Reformation or Regression?</u> (Sydney: 1976) p. 37, and Robbins, J.R., <u>Local Government and Community in South Australia</u>, Ph.D. thesis, University of Adelaide, 1975, p. 338.

4. Purdie, <u>op.cit</u>., p. 37.

5. Manning, <u>op.cit</u>., p. 31.

6. Barrett, <u>op.cit</u>.

7. Larcombe, F.A., <u>The Origin of Local Government in New South Wales 1831-58: A History of Local Government in New South Wales</u>, Vol. 1 (Sydney: Sydney University Press, 1973) pp. 142-3.

8. Clark, *op.cit.*, p. 145.

9. Larcombe, *op.cit.*, p. 30.

10. Larcombe, *op.cit.*, p. 48.

11. Larcombe, F.A., *The Stabilization of Local Government in New South Wales 1858-1906: A History of Local Government in New South Wales*, Vol. 2 (Sydney: Sydney University Press, 1976) p. 138.

12. Such sentiments did not die with the Victorian era. Vandeloo, in a survey of 400 Councillors in the State of Victoria in 1979, found that only 51.2% agreed that all residents, not only ratepayers, should be entitled equally to vote at council elections. Forty-five per cent disagreed with this. See Vandeloo, Ted, 'Consensus and Conflict in the Attitudes of Local Councillors', *Local Government Administration*, Vol. 18, No. 10, June-August 1980.

13. Larcombe, *op.cit.*, p. 155.

14. Larcombe, *op.cit.*, p. 165.

15. Larcombe (1973) pp. 277 ff.

16. See Bains, M.A. and Miles, T.G., 'New South Wales', in Power, Wettenhall and Halligan, *op.cit.*, pp. 123-228.

17. Groenewegen, P.D., *The Taxable Capacity of Local Government in New South Wales*, Research Monograph, No. 13, Centre for Research on Federal Financial Relations, Australian National University, Canberra, 1976, p. 43; Haratsis, B.P., *Local Government Rates in Victoria* (Melbourne: Hargreen Publishing Company, 1979) p. 42; Local Government Ministers Conference - Joint Steering Committee, *Joint Study into Local Government Finances: Australia and New Zealand* (Canberra: A.G.P.S., 1976) p. 59.

18. Maiden, H.E., *The History of Local Government in New South Wales* (Sydney: Angus and Robertson, 1966) p. 330.

19. O'Regan, Roland, *Rating in New Zealand* (Wellington: Barandium, 1975) p. 166.

20. Dunleavy, Patrick, *Urban Political Analysis: The Politics of Collective Consumption* (London: Macmillan, 1980) pp. 148-9.

21. Groenewegen, *op.cit.*, p. 44; Harris, C.P., *Local Authorities and Social Welfare Services and Facilities in Australia*, Discussion Paper, James Cook University of North Queensland, Townsville, 1975, p. 24; Local Government Ministers Conference (1976), p. 126; Malony, N.G., 'Sources of Finance and Accountability in Local Government', *Local Government Bulletin*, Vol. 34, No. 2, April 1979, p. 30; Manning, *op.cit.*, p. 41; Manning, Ian, *Municipal Finance and Income Distribution in Sydney* (Canberra: A.N.U., 1973) p. 57; Neutze, Max, 'State and Local Property Taxes', in Mathews, R.L. (ed.), *State and Local Taxation* (Canberra: A.N.U., 1977) p. 308 and p. 324, and Thomson, Norman J., 'Local Government and the Grants Commissions', *Australian Quarterly*, Vol. 51, No. 3, September 1979, pp. 87-97.

22. Groenewegen, *op.cit.*, p. 43.

23. In the United Kingdom private and public tenants are levied rates.

24. The property's capitalisation is the conversion into a capital sum of its foreseeable net return. This means that the rate is simply regarded as a cost against gross return in determining the merit of the investment - compared with the going interest (return) on invested capital.

25. Aaron, Henry J., *Who Pays the Property Tax? A New View* (Washington D.C.: Brookings, 1975); Mieszkowski, Peter M., 'On the Theory of Tax Incidence', *Journal of Political Economy*, Vol. 75, No. 3, June 1967.

26. Aaron, op.cit., p. 20.

27. Aaron, op.cit., p. 53.

28. The logic of this argument is set out in Harvey, D., Social Justice and the City (London: Edward Arnold, 1975) chapter 2.

29. Sources of mortgage in Sydney in 1976: Trading banks 21%, Savings banks 22%, Building societies 22%, Building societies 27%, Housing Commission 2.4%, other (Finance companies, Credit unions, etc.) 26% (Poulsen and Spearritt, Sydney: A Social and Political Atlas (Sydney: George Allen & Unwin, 1981)).

30. The significance of this is underlined by the fact that the mean percentage for rented dwellings in Sydney councils is 27% (and apparently increasing) - ranging up to 70% for the highest L.G.A. (Standard Deviation = 15).

31. Castells and Harvey provide detailed arguments to show how urban space is produced and shaped to respond to the needs of capital. See, Harvey, op.cit. and Castells, M., The Urban Question (London: Edward Arnold, 1977).

32. Hansard, House of Representatives, 25.3.80: pp. 1175 and 1181.

33. Manning, B.H., op.cit., p. 40.

34. Manning, I., op.cit. See also Keane, Maurice, 'The Local Government Act - Key to Public Enterprise', paper given at Progressive Local Government Seminars, Bathurst, 17.2.79 and Goulburn, 21.2.81, summarised in Challenge, 17, April, 1979.

35. For a perfect example see Treasuere Howard's address to the Local Government and Shires Associations of N.S.W., Sydney Town Hall, 13.4.81.

36. Bentley, P., Collins, D.J. and Drane, N.T., 'The Incidence of Australian Taxation', Economic Record, Vol. 50, 1974; Clark, op.cit., p. 145; Groenewegen, op.cit., p. 44; Haratsis, op.cit., p. 54 ff; Manning, I., op.cit., p. 57; Neutze, op.cit., p. 321 ff; Thomson, op.cit., p. 92; Henderson, Ronald F. and Lewis, R.B., 'Urban Local Government and Personal Welfare', in Mathews, op.cit., pp. 98-114.

37. Some of these point to mitigating factors within the overall picture of regressivity (e.g. Neutze, pp. 321-4, and Thomson, op.cit., pp. 92-3). They note problems with the 'snapshot' view (e.g. Bentley, Collins and Drane) and of current cash incomes rather than a lifetime picture. Imputed rent is also seen to be excluded.

38. Bentley, Collins and Drane, op.cit., p. 501.

39. For example, the statistical correlations for Sydney councils between median household incomes and percentage of dwellings rented and percentage owned are .58 and .67 respectively.

40. Local Government Ministers Conference - Joint Steering Committee, Differential Rating in Australia and New Zealand (Canberra: A.G.P.S., 1979) p. 75.

41. Jones, M.A., Local Government and the People: Challenges for the Eighties (Melbourne: Hargreen, 1981).

42. Thomson, op.cit., p. 92.

43. For Sydney councils, average rate assessment mean = $346, standard deviation = $246, rate in dollar:mean = 1.503¢, standard deviation = .435¢.

44. The major example of this omission is: Department of Environment, Housing and Community Development, Differential Rating in Australia and New Zealand, 1979.

45. Haratsis, op.cit., p. 43.

46. Groenewegen, op.cit., pp. 47 and 73-4.

47. Neutze, op.cit., p. 326.

48. Barnett, Richard R. and Topham, Neville, 'A Critique of Equalizing Grants to Local Governments', Scottish Journal of Political Economy, Vol. 27, No. 3, p. 236; November 1980, pp. 235-49.

49. Barnett and Topham argue further that equalisation subsidies to lower income areas which are used to lower rates or improve services enhance the value of property and provide windfall gains to the property owners. Not all of the latter may have low incomes, nor even live in the jurisdiction concerned.

50. Minimum rates: mean = $130; standard deviation = $33.

51. Department of Environment, Housing and Community Development, Differential Rating in Australia and New Zealand (Canberra: A.G.P.S., 1979) p. 75.

52. Bains and Miles, op.cit., p. 181.

53. In N.S.W. the cost of rates written off for pensioners is partially met by the State Government to the value of 50% or $120 for general rates, whichever is less. Questions as to regressivity of centrally collected revenues are also appropriate.

54. Groenewegen, op.cit., p. 69.

55. Neutze, op.cit., p. 320.

56. Local Government Ministers Conference, op.cit., p. 63.

57. Fairfield City Council, Submission to N.S.W. Local Government on Rating, 1981, p. 5.

58. Fairfield City Council, op.cit., p. 4.

59. Ryan, Kevin, 'Relationship between State and Local Government', paper given at Progressive Local Government Seminar, Bathurst, 17.2.79 (reproduced in Challenge, 17, April 1979).