LOCAL GOVERNMENT TAXATION IN NSW

BOOK REVIEW

"The Taxable Capacity of Local Government in N.S.W." is a Research Monograph (No.13) issued by the Centre for Research on Federal Financial Relations at the Australian National University, 1976. Its author is Mr. P.D. Groenewegen.

The aim was to investigate the difference in "taxable capacity among local government areas in NSW", and to study "one aspect of the fiscal horizontal imbalance known to exist among more than two hundred local government authorities". It is not quite clear which imbalance should be corrected nor what is the criterion of correct balance. (It is surely not suggested that areas should be made the same in all ways. The word imbalance seems to be an emotive word used for political ends by those seeking the investigation). No justification is given by the author for his statement that "the importance of such a study hardly needs to be stressed".

Taxable capacity is defined as "the procuct of a standard tax rate and the revenue base to which that rate is applied". One can but ask why differences in this should be equalised in some way. The choice of the amount of revenue collected and spent should be decided by the electors concerned.

The author says that for the purposes of the Study, "it has been decided to measure differences in relative taxable capacity by constructing indexes which have regard only to differences in the per capita revenue base". The reason for this odd decision is "because relative differences in taxable capacity can be measured without reference to the standard tax rate". The reviewer suggests that there is no such standard tax rate anyway.

The author himself appears to be uncomfortable with some of the basic premises and basic information on which the statistical study is founded. Although there is a suggestion that justice is being sought, the author seems to go along with a number of concepts of taxation which are both unjust and uneconomic, such as, that revenue collection should be related to wealth or income of individuals. The monograph is of course not a study of what is the correct form of revenue collection.

A large amount of statistical information concerning local government revenue is provided with various tables also showing derived data such as per capita rates, etc. The statistics of course show that some councils have different revenues in total, and different revenues per head. A council is then said to have a deficiency in taxable capacity if it has taxable capacity below the average; and as not being deficient if above. What is significant about the average figure for the indicator is quite unclear. It is amusing to read that by this definition, "it was *shown* that there was no net revenue disability over the state as a whole because the aggregate positive and negative disabilities cancelled out". It would indeed have been surprising to reach any other result because all that it means is that the average was not above or below the average. These are perhaps petty criticisms and the author himself agrees that the statistical approach is far from ideal for a number of reasons.

When the term "capacity" is used it normally suggests some limiting condition, but Mr. Groenewegen does not mention the real economic limit to site rating revenue, which is of course the full site rent. The only mentioned limit to increased site taxation is "the strong political constraint" which prevents increased utilisation of this tax base, and he refers to "political intolerance of rate burdens". Surely we are not expected to accept this as an economic or ethical reason for increasing income tax to subsidise site holders. One feels somewhat sympathetic to Mr Groenewegen for he appears to have been encouraged to make this investigation with a view to assisting a political decision to allow a grants committee to use increased income tax to replace site taxes. However one must feel very satisfied with Mr. Groenewegen's integrity and intellectual approach as seen in some general conclusions reached in the last few pages, from which the following extract is taken:

"The question whether rate burdens have risen dramatically in the period of this study is difficult to answer, because the answer depends on the criteria used. It is true that rates per head in New South Wales have been rising steadily; between 1961 and 1970 they rose by 66 per cent. Even if allowance is made for the rate of inflation, there was an appreciable growth of 35 per cent during the decade. It is interesting but not surprising to note that these are the general measures of rate increases used when this topic is considered in the press or in the publications of the New South Wales Local Government Association.

"When more meaningful relative indicators are used, this picture of rising rate burdens changes dramatically. Relative to Gross Domestic Product (GDP), there has been a fall in rate revenue collected in New South Wales from approximately 0.6per cent in 1961 to 0.5 per cent in 1970. *Relative to Federal income tax collections in New South Wales, rates fell from 24.7 per cent to 15.8 percent between 1958 and 1971, while relative to New South Wales State tax collections they fell from 61.6 per cent to 43.7 per cent over the same period.* In other words, when compared to the rising tax burdens imposed by the other levels of government, these rate increases have been rather small. This *is* suggests that local government has not been exploiting its tax base to the same extent as other governments.

"This apparent under-utilisation of the tax base by many councils in New South Wales has been noted at various points throughout this study. In the Sydney Metropolitan area, for example, it was shown that below-average tax effort predominated, especially in relation to the New South Wales average, and that this may

be taken as an indication of low tax base utilisation. Similar considerations applied to non-metropolitan cities and municipalities. However there are difficulties of interpretation here arising from the inverse correlation between U.C.V. per capita and rates struck. Furthermore, a good indication of tax effort requires income data, which were not available for individual councils. These results are in line with Bentley's observation that the rate of growth of the New South Wales local government tax base has greatly exceeded the rate of growth of rate revenue, and that local government in fact has had the most rapidly growing tax base of all levels of government. This study also substantiates the remarks made by Professor W. Prest, to the effect that compared with U.S. and Canadian property owners Australian property owners are lightly taxed.

"In his calculations, Prest included land taxes and water rates, so that multiple tax base utilisation was not a qualifying consideration in this context. The impact on local government finance of the Federalism Policy of the Federal Government elected in 1975 cannot be assessed at this stage.

"If these conclusions have remained valid, and there is no reason to believe that they have drastically changed, *a large part of the case for alternative revenue sources for local government disappears*. Before local government is granted additional revenue sources or taxing powers, there should therefore be a thorough investigation of the degree of utilisation of their present tax base. If this is judged to be too low, access to additional revenues should be refused unless a convincing case can be made out on other grounds.

"The grants now paid to local government by the Federal Government on the recommendation of of the Grants Commission cannot be cited as evidence of vertical fiscal adjustments to compensate for inadequate revenue sources. Their purpose is to achieve horizontal balance through fiscal equalisation.

"One alternative case for additional revenue sources for local government is an equity one. Benefits from services provided by a council, especially those from more recent activities in health, welfare and recreation, accrue not only to taxpayers who pay their costs but to all residents. It is therefore fair that all residents should contribute to council revenue, for example through a residents' poll tax as has been proposed by the Royal Commission on Rating, Valuations and Local Government Finance and by other commentators on local government finance. The difficulties involved in this benefit argument have been discussed previously, but may be recapitulated.

"To a large extent, the relevance of the benefit principle depends on the incidence of rates and on the incidence of local government expenditure. If tenants pay the rates imposed on their landlords, then many residents are de facto ratepayers *and the argument in favour of special resident taxes loses much of its force.* Furthermore, what little knowledge there is about expenditure incidence suggests that benefits are unevenly distributed, and that they are frequently diffused outside the boundaries of local government areas. The claims that the newer services provided by local government in health, welfare and recreation (the benefits of which are unrelated to property ownership) have been rising rapidly, and that this phenomenon reinforces the need for imposing new local government taxes on residents, were not substantiated in this study.

"The relative importance of these expenditures has remained remarkably steady between 1958 and 1971 except for spending on libraries, one of the activities supported by State government grants. The case for additional tax powers requires rising relative shares of these types of expenditure if it is to be convincing.

"Another case for alternative revenue sources for local government has been based on international comparisons. As the paper by Professor Prest has shown, this is a dangerous argument. First, in the countries with which Australia is most frequently compared, that is in the United States and the United Kingdom, local government has far greater responsibilities than in New South Wales. In the second place, the alternative revenue sources available to local government in the United States, which are so envied by the New South South Wales Local Government Associations, raise less than 10per cent of local government revenue in in that country. This is rather small, even when the much greater responsibilities of American local government are ignored. It can be convincingly argued from comparisons with North America that New South Wales local government should be fully self-sufficient from rate revenue provided that it adequately exploits its tax base.

"*There therefore seems to be no real case at present for additional revenue sources and tax powers for New South Wales local government.* The increases in rate burdens, on which much of this argument depends, have been *largely exaggerated*, although it remains true that in some council areas rates are high due to revenue or cost disabilities of the kind which equalisation grants are intended to alleviate. *The other arguments in favour of additional revenue resources for local government do not stand up to more detailed analysis*, especially when this is combined with statistical investigation. The following conclusion is much closer to the truth: gradually rising tax base utilisation and the growth of the tax base will enable most councils to maintain and even to expand the services provided to their constituents.

The above comments must not be taken to imply complete approval of the rating system as a system of taxation. Elsewhere I have argued for the abolition of this tax and its replacement by a net worth tax, provided that the tax reform package of which this proposal forms a part is accompanied by new initiatives in revenue

sharing in the Australian federation as a whole. To pursue this topic further would lead this discussion too far from the subject matter of this study.

It is sad to realise that since that was written, recent government decisions have granted many millions unnecessarily to the Grants Commission for local government. But, what is sadder is that our "eminent economists" cannot see (or else for political reasons, they will not state it) the simple fact that site value taxation is absolutely sound morally and economically and that it causes prosperity; although they do seem at last to be realising that all other types of taxation including deficit budgetting are stifling the economy and causing unemployment - but that is not the subject of the monograph.

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THE ENCLOSURES

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THE ENGLISH WORD *PARK* comes via the old and modern French *parc*, from the medieval Latin *parricus*. In English, *park* is first recorded from the 18th century when it had the meaning: an enclosed tract of land held by royal grant or prescription, for hunting. A park differed from a chase in that it was enclosed by fence or hedge.

The concept of a park entered British culture with the Norman invaders in association with the royal or noble prerogative of hunting. This is typically a nomadic pursuit and, in the culture of invading nomads, even when they have settled down, is expressive of their contempt for the earlier inhabitants, tied to a location by the practice of agriculture. In this respect the customs of the Normans greatly resembled those of the westward moving Huns and the eastward moving Mongols who conquered China. Traditional marks of prestige die hard and I find it fascinating that nine hundred years after the Norman invasion, hunting is still an expression of the status of the British landed gentry.

A park is not necessarily a wilderness, except in the sense that it is uncultivated, nor is it a forest. The early royal game parks of England could include patches of dense forest or scrub land but only open woodland or grassland was suitable for both deer and equestrian huntsmen. Indeed, the term *parkland* has come to have a fairly precise meaning in ecology, connoting something between savannah and open forest. (My objection to regular winter burning of national parks is that this destroys the understorey of shrubs and juvenile trees and tends to convert the area into 'parkland').

By the 16th century, park could mean a field or paddock, the word paddock having come from the dialect word *parrock*, close to the Germanic root (*parrak*, a field or enclosure). By the 17th century it had come also to mean an *enclosed piece of land for public use*. It thus came rather close to meaning a *common*.

In the middle ages, or earlier, the basis of land division over the whole of southern Britain was the vill, usually corresponding with a parish and having agreed borders with neighbouring vills. Within the vill the arable land was divided into fields, usually three of these to permit rotation of crops. Each house hold of the vill owned and worked a strip, or strips of land in each field. Non-arable land was allocated to sheep pasturage and what was left over, in other words the waste land, was deemed to be common land, or common for the use of all households.

It offered coarse grazing, firewood, rough timber, sometimes turf and game. It would seem precarious to expect a group of villagers to share such resources equitably, but elaborate rules and customs grew up over the centuries to regulate the exploitation of the renewable resources of the common. The number of cattle that a household might turn out to the common in summer could be no greater than they could feed from their own field strips in winter.

A householder might not collect more fuel from the common than he could reasonably use in his own home.

This rather socialist approach to land utilisation was not acceptable to the Norman conquerors, and when they parcelled England out between themselves, each overlord desired ownership of all the lands in his fief. He could not directly expropriate the villagers, although he could tax them out of their land, but he saw no reason not to assume control of the commons.

The Normans were legalists, and in 1235 they enacted the Statute of Merton, which granted to 'the great men of England' the right to make their profit out of their lands, wastes, woods and pastures, provided that sufficient land was left to satisfy the needs of their tenants. Needless to say, tenant and lord seldom agreed on what was sufficient, but in legal form if not in practice the onus was on the expropriator to prove that he had not taken too much. He had as it were to make an environmental impact statement but it was as much a placebo then as it is now.

The Second Statute of Westminster in 1285 went further and permitted the lord to *enclose* common land for his own farm, for sheep grazing and for hunting; in other words to make a park.

Having no competency in law and little in history, I cannot traverse the course of enclosures over the subsequent 600 years. Millions of acres were enclosed, becoming the personal property of an aristocrat although still subject in many cases, to the vestigial rights of the families of the original neighbouring freeholders. From 1300 to 1700 the rate of enclosure varied but thereafter it rocketed. It has been estimated that between 1720 and 1870 one acre in seven in England changed from common (which was virtually no ownership) to the private ownership of a member