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ECONOMIC ASPECTS of LOCAL  
AUTHORITY EXPENDITURE  
and FINANCE

JOHN COPELAND, BRENDAN M. WALSH

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Economic Aspects of Local Authority  
Expenditure and Finance

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Brendan Walsh is a Research Professor with The Economic and Social Research Institute. The late John Copeland was a Research Assistant with The Economic and Social Research Institute while this Report was being prepared. His tragic death occurred a few hours after attending the final meeting of the Steering Group for the project. The paper has been accepted for publication by the Institute which is not responsible for either the content or the views expressed therein.

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## *Preface*

**T**HIS study was undertaken by the Institute on the invitation of the Minister for Local Government.

The terms of reference were :

1. (a) a review of the rôle of Rates in the Irish local government system, including a comparative survey of the systems of local taxation, especially property taxes, used in the other member states of the European Economic Communities;
  - (b) a study of the impact of Rates in the context of the Irish fiscal system as a whole, including a projection of the change resulting from the transfer from local to central taxation of that part of the cost of health services and the provision of local authority housing for letting which heretofore fell on the Rates;
  - (c) a study of possible schemes designed to reform the Irish Rates system including reforms designed to take greater account of individuals' ability to pay. This should include cost estimates for the various schemes;
  - (d) a study of possible improvements in the methods of levying and collecting Rates.
2. A study as to whether there may be practicable alternatives to the present Rating system.

A Steering Group, representative of the Department of Local Government and Finance, the City and County Managers Association and ESRI, was set up to advise on and monitor this project. Dr Ml. B. Lawless, retired Secretary of the Department of Local Government, acted as Consultant to the ESRI on the study and was also a member of the Steering Group. However, the authors wish it to be made clear that responsibility for the content and accuracy of the report rests entirely with themselves and that the terms of the report do not necessarily reflect the views of either the Minister for Local Government or the Steering Group.

George Ryan provided invaluable assistance in the preparation of statistical material for the report, and in checking and proof reading successive drafts.

Helpful comments on drafts of the report were received from our ESRI colleagues B. Dowling, R. C. Geary and R. O'Connor. P. T. Geary of UCD also suggested improvements on an earlier draft.

We are greatly indebted to the staff of the general office of ESRI for their indefatigable work in typing and copying several drafts of this report, and to Bernadette Payne for her help in preparing the typescript for publication.

## Glossary

**C**ERTAIN technical terms are used frequently in the course of this study. We list here some brief definitions that should be helpful to the reader.

*Agricultural Grant.* Grant payable to meet Rates relief on agricultural holdings. It is paid to the county councils by the state.

*Buoyancy.* The extent to which the yield from a tax increases automatically (i.e., without changes in the tax rate or structure) as a result of the growth in the base on which it is levied.

*Rates relief on agricultural holdings.* Refers to the benefits which rated occupiers of land get from the Agricultural Grant. Holdings of £20 valuation or less benefit from full relief. Larger holdings also receive partial relief, according to a sliding scale. There is also an offset against Rates for each agricultural labourer employed. The amount of relief or benefit is paid by the central government through the Agricultural Grant.

*Elasticity.* The responsiveness of one variable (e.g., the quantity of a good purchased) to a change in another variable (e.g., the good's price). Measured as the proportional change in the first variable divided by the proportional change in the second.

*Excess burden.* An excess burden arises when a tax alters the behaviour of households or producers in choosing between goods or inputs or in any other allocative process. By contrast, a neutral tax does not distort the choices made in the market place and is consequently more efficient in an economic sense: economic units are unable to avoid neutral taxes by altering their behaviour. Perhaps the only example of a truly neutral tax is a lump-sum poll tax.

*General or block grants.* Non-specific grants, which are not earmarked for a particular service, but are in aid of local expenditure as a whole.

*Progressive, Proportional, Regressive.* Used in connection with the incidence pattern of a tax according as the percentage of income paid in taxation rises, remains constant, or falls as income increases.

*Public Services.* Services which it would be very difficult if not impossible to provide through the market economy, and which therefore are provided collectively and financed through taxation. A basic attribute of such services is that they cannot be withheld from individuals who refuse to pay for

them. For example, it would be very costly, if at all possible, to confine the benefits of street lighting to those willing to pay.

*Rates.* This refers to the tax levied on most forms of (real) property in Ireland. We distinguish between three magnitudes, namely,

*Total Rates* = the total rates bill.

*Gross Rates* = Total rates less the state contribution in lieu of rates.

*Rates paid locally* = Gross rates less the Agricultural Grant. This is the rates bill actually paid by householders, farmers and businessmen.

*Revenue sharing.* A system of block grants whereby local authorities share in a designated proportion of the revenue yield of some or all of the central government's taxes.

*Specific grants.* Grants (from the central government to local authorities) in aid of a particular service or expenditure category.

*State contribution in lieu of Rates.* Government property is exempt from local Rates, but a payment "in lieu of Rates" is made by the state to the rating authority. This payment is included in the figure for Rates in the National Income and Expenditure accounts but is treated as a state grant in the Returns of Local Taxation.

*Tax effort.* A measure of the proportion of local resources devoted to local taxes, for example, the proportion of income paid in local taxes.

*Tax incidence.* The incidence of a tax refers to its effect on the after-tax distribution of income or purchasing power in the community.

*Tax shifting.* This refers to the degree (if any) to which the burden of a tax is not borne by the person or entity legally responsible for payment, but is shifted forward to consumers of the taxed commodity or backwards to the factors of production producing the commodity. This concept is crucial to the measurement of tax incidence.

*General Government* is used to refer to the combined public services (central, local and social security administration).

*Local Government* is defined in Section 2.

*Transfer payments.* (State) payments which are not counted as part of national product e.g., unemployment assistance or pensions. These payments may be contrasted with "exhaustive" expenditure by the state e.g., on wages and salaries.

### *Abbreviations*

Throughout this study we have used certain abbreviations, the most important of which are explained here.

- GNP *Gross National Product*
- EEC *European Economic Community*
- RLT *Returns of Local Taxation*
- NIE *National Income and Expenditure*

## General Summary

THIS study was undertaken at the initiative of the Minister for Local Government to review the rôle of the Rates, to study the changes that are occurring in the financing of local authorities, and to suggest ways in which the Rates could be reformed to take greater account of individuals' ability to pay. We were also asked to explore whether any practicable alternatives exist to the present rating system.

We begin with a brief look at the reasons for providing some public services by local, as distinct from central, authorities (Section 1). There are many conflicting pressures in providing such services efficiently and equitably: the desire to encourage local autonomy, but to avoid anarchy; to reduce regional disparities in the standard of services, while avoiding excessive local dependence on state grants; an attachment to the local property tax (the Rates) as a major revenue source, but an awareness of the defects of this form of taxation. These are the broad issues with which our report is concerned.

In discussing the Irish system of local authorities it is necessary to distinguish between the broad definition of local authority used in the *National Income and Expenditure* (NIE) and the somewhat narrower concept covered in the *Returns of Local Taxation* (RLT). In Section 2 we set out these distinctions in detail. Before 1971, the main difference between the two definitions of "local authorities" lay in the exclusion from RLT of vocational education committees, county committees of agriculture, and harbour authorities. Since 1971, the coverage of the two sources diverges further due to the exclusion of the returns of the regional health boards from RLT. For the most part, we confine our attention to the RLT concept of local authorities, because these *Returns* are of the most direct relevance to a study of the Rates.

It is not easy to obtain internationally comparable data on the economic rôle of local authorities. In Section 3, however, we present a limited amount of data for the EEC countries in 1972. It emerges that in these countries local authorities tend to account for a high proportion of government expenditure on current goods and services and capital expenditure, but a low proportion of government expenditure on social benefits and subsidies. Ireland falls roughly in the middle of the range of EEC countries with regard to most measures of the economic importance of local authorities. There is not a close correspondence between dependence on local taxes and the proportion of expenditure accounted for by local authorities. In general, grants from the central government are an important source of local authority revenue, and Ireland is not exceptional in this

regard or in the proportion of total local revenue raised through local taxation. By comparison with other OECD countries, however, Ireland in 1971 depended heavily on property taxes (the Rates) as a source of local revenue: in this we resembled the United States, the United Kingdom and Canada. In other countries a wider variety of local taxes is levied. Since 1971, however, the importance of the Rates in total tax revenue in Ireland has declined significantly.

In Section 4 we present evidence on the trends in Irish local authority finance and expenditure over the years 1953 to date. Health expenditure increased steadily in importance until the mid-1960s, but by 1977 it will no longer appear as a charge on the Rates. Similarly, housing expenditure will be almost fully removed as a charge on local taxation by 1977. By 1977 the only significant charges on the Rates will be Sanitary Services, Roads, and General Purposes. We also review the changes in the financing of each service over the period 1953-75, and show how all services are now financed to a greater degree from state grants than was the case in the 1950s. Finally, we review the importance of the Rates as a part of the Irish tax system and show how the yield of the Rates has declined from over 15 per cent of total tax revenue in the late 1950s to less than 9 per cent in 1973. Present policies imply that a further decline will occur in this percentage by the end of the decade.

In Section 5 we examine the cost of various possible policies with regard to the Rates. Our aim in this Section is to quantify the consequences of some possible reductions in the Rates, such as removing health and the relevant housing charges, or removing these charges and derating private residences as well, or completely abolishing Rates. We estimate, on the basis of 1972-73 expenditure levels, that these policies would cost respectively 4.3, 7.5, and 9.9 per cent of the yield of all taxes other than Rates and social insurance contributions. If this loss of revenue were to be made good by raising other tax rates, the increases required would be very substantial. If the increases in tax receipts which occur without any increase in tax rates ("revenue buoyancy") could be set aside exclusively to replace the loss of revenue from the Rates implied by the above policies (a very unrealistic assumption in view of the urgent demands for improved and extended levels of service each year), the three policies towards the Rates could be financed by one and one-fifth, two, and two and three-quarter years' revenue buoyancy (at 1971/72-1972/73 rates). While calculations of this type are important, we emphasise that the future of the Rates should be decided by considering the effect of this type of taxation (compared with the alternatives) on the distribution of income and the allocation of goods and services. Any possible repercussions on the whole system of local government as a result of reducing the importance of our only local tax should also be taken into account.

In Section 6 we discuss the base on which Rates are levied, namely, rateable valuations. We discuss the available evidence that there are significant anomalies



in this valuation system due to the fact that there has never been a general revaluation since the original Griffith valuation of 1852-65. We draw attention to the regional variations in the rateable valuation of agricultural land, as well as to the differences between individual holdings in certain regions. On the basis of a sample of recent sales of private residences in the Dublin area, we show that there appears to be a systematic tendency to undervalue more expensive, compared with less expensive, properties.

The importance of these considerations is not only that they weaken the link between the rating system and "ability to pay", but also that they give rise to inequities wherever rateable valuations are used in means testing and similar contexts. The case in favour of revaluation is, however, modified by the possibility that differences in effective tax rates within a local authority are reflected in house prices, and hence a revaluation could cause significant capital gains and losses. We lack evidence on the importance of capitalisation of the Rates in Ireland, but while capitalisation may offset some of the inequalities arising from the defects of the valuation system, it might give rise to others.

Our judgement, therefore, is that the Rates can only function as a fair tax if a general revaluation of all rateable property takes place. We recommend that in revaluing agricultural land, the German system, based on soil maps, should be taken as a model. In revaluing urban property, some consideration ought to be given to reducing the burden of the Rates on structures while raising it on sites: although we do not recommend that complete reliance be placed on site-value rating, we believe that the economic case for lessening the tax on structures and increasing it on sites is convincing.

The effective valuation of the country could be increased by removing some of the existing remissions and exemptions from Rates. Most of these have no economic justification. The obvious candidates for termination are the exemptions of ESB generating and transmission facilities and of mines. Some of the revenue lost to individual local authorities through Rates remission on new houses should be returned to them from central government funds. If all of these reforms were implemented, the Rates poundages could be reduced by at least 20 per cent without loss of revenue, and the burden of the tax would be spread more equitably.

The traditional view that Rates are regressive (i.e., comprise a larger proportion of lower than higher incomes) relies heavily on the theory that Rates are an expenditure tax whose principal effect is comparable to that of an excise (indirect) tax on housing. Most recent discussions of property taxation emphasise the fact that to some extent its effects resemble those of a tax on capital or profits and hence it may be a progressive tax (i.e., one which comprises a smaller proportion of lower than higher incomes). Our review in Section 7 of the available empirical evidence on the incidence of the Rates in Ireland leads to the

conclusion that the operation of Rates relief on agricultural holdings makes Rates progressive in the sector, and this imparts a slight progressivity to the rating system as a whole. The evidence for the non-agricultural sector suggests that Rates are a constant proportion of income in that sector. Our examination of the burden of Rates by county (in the Appendix to Section 7) confirms these conclusions and also shows how the extension of Rates relief on agricultural land made the Rates more progressive between 1959 and 1969.

The evidence presented in Section 7 suggests, however, that Rates may be a regressive tax on owner-occupiers who are retired. Many of these retired people own property acquired when their incomes (and the number of dependents in their families) were much higher than is presently the case. A recurrent tax on part of their gross worth (such as the Rates) may make heavy demands on their current income. The only offsetting virtue of the tax in this situation is the incentive it creates for such people to sub-let or sell part of their property, thereby increasing the supply of residential accommodation.

The most equitable way of removing this defect of the rating system is to give Rates relief to low income households, by rebating all or a significant part of the Rates liability of householders for whom the Rates are a particularly heavy burden. One group that may be identified as belonging to this category in Ireland are the non-contributory old-age pensioners. A Rates relief scheme for people with low incomes should be administered uniformly throughout the country and a significant part of its cost defrayed from central funds.

The relief granted under this scheme might not go far enough in helping many low income families with children, for whom the Rates are a particular burden. There is no problem in devising schemes which would benefit such families and also make the burden of the Rates more progressive: the example of granting Rates relief on agricultural holdings according to a sliding scale could be used as a model in the non-agricultural sector. Moreover, consideration could be given to a surtax on valuation over a certain ceiling, and to a children's allowance scheme analogous to the employment allowance in the agricultural sector.

Apart from the introduction of the Rates Waiver Scheme on a local option basis in 1970-71, there have been no attempts to adjust the non-agricultural Rates to take "ability to pay" or family circumstances into account. But there is no inherent reason why the Rates on private residences must remain a flat-rate tax, proportional to valuations. We emphasise in Section 7 that relatively simple adjustments could transform the Rates into a sharply progressive tax.

We stress, however, that the schemes we propose in order to make the Rates more progressive would operate equitably only on the basis of a fair valuation system. Any attempt to make the tax progressive by derating part of each valuation (or surcharging valuations above a certain size) would place an addi-

tional burden on the valuation system, and would add to the problems posed by a defective system. Thus, in the absence of a revaluation, the fairest way to make Rates more sensitive to "ability to pay" is a scheme which rebates some or all of actual Rates liability, taking account of the income and family circumstances of the ratepayer.

There is marked regional variation in the structure of local finances in Ireland. This topic is explored in detail in Section 8. In most of the poorer counties, Rates payable locally contribute relatively little to total receipts. In many of the counties of Connacht and Munster, less than 20 per cent of county council revenue account income was from local Rates in 1969-70, compared with over 50 per cent for Dublin county council. Similarly, the contribution of the agricultural grant to revenue account income varied from just over one-third of the total in Roscommon and Leitrim to only six per cent for Dublin county council; *per capita* receipts from Rates payable locally varied from less than £10 in many Munster and Connacht counties to over £20 in Dublin. State grants had the effect of greatly reducing the variation in *per capita* receipts, with the result that the relative variation between counties in total receipts per person was much less pronounced than that in Rates payable locally.

In the Appendix to Section 8 we explore these regional variations using an econometric approach. We conclude that county income influences local expenditure, with the richer counties spending more, other things equal, on local services than the poorer counties. The proportion of the Gross Rates met by the agricultural grant also appears to influence local expenditure. Finally, expenditure on the various services is influenced by local conditions or "needs" for the services.

In the concluding Section of the report we explore the options available to local authorities in Ireland in trying to find alternative revenue sources to the present rating system. The most obvious source of additional revenue for local authorities lies in a reduction of the exemptions from Rates. Such a reduction would yield an increase in Rates receipts of 20 per cent.

There appears to be little scope for introducing new local taxes that would have a significant impact on the revenue of local authorities in Ireland. While a local income tax might be feasible, it would have to be set at a low rate and probably made uniform between local authorities and perhaps even administered by the central government. It would hardly represent a genuinely local tax to the degree attained by the Rates at present.

It is likely that local authorities will continue to depend heavily on state grants to finance local services. In Section 9 we suggest that consideration might be given to the substitution of a system of general revenue sharing for part, at least, of the present network of specific grants. By revenue sharing we mean that,

for example, a certain percentage of the revenue yield of the state's taxes be assigned for disbursement to the local authorities. Revenue sharing would have the merits of embodying an explicit mechanism for equalising expenditure on local services between areas of the country, as well as allowing local authorities automatically to share in the buoyancy of central government taxation. In this manner, the proposal could significantly enhance the vitality of local government. The actual type of revenue sharing that might be used, and the formula for implementing it, would depend on a variety of political and social considerations.

The revenue sharing proposal is not, however, a suggested new revenue source, but rather a reorganisation of the existing state grants system which is presented for consideration. The merits of the proposal must be judged in relation to the past growth and likely development of the existing grants system.

## Section 1

### *The Problem Setting*

#### *Origins of the Present Study*

THE changing structure of local government finance in Ireland and elsewhere has generated a spate of literature in recent years. Two ESRI papers on the subject have already been published (Walker, 1962 and Walker, 1964).<sup>1</sup> The Institute of Public Administration has published a book on *Problems of Irish Local Finance* (de Buitléir, 1974). Three *Reports* have been issued by the Inter-department Committee on Local Finance and Taxation (1966, 1967, 1968), and a Government White Paper (Local Finance and Taxation) was issued in 1972. In addition to these publications of an economic nature, there has been a steady flow of publications on the administrative and political aspects of local government, including a Government White Paper, *Local Government Reorganisation* (1971), an Institute of Public Administration "Programme for Development" (*More Local Government*, 1971), and a *Discussion Document on Local Government Reorganisation* (1973), issued by the Minister for Local Government.

A similar degree of activity could be documented in the United Kingdom, where the Allen Report (of "An Inquiry into the Impact of Rates on Households") was published in 1965, and where the Layfield Committee is currently investigating the whole area of local authority finances and Rates.<sup>2</sup> The Kilbrandon Report on the future constitutional arrangements within the United Kingdom also contained a considerable amount of material about financing local government.

In the United States, in addition to the normal volume of scholarly research on problems of local government taxation and expenditure, there has recently been an upsurge of interest in "fiscal federalism" and a resultant outpouring of studies on this topic.<sup>3</sup>

In view of this wealth of material on the subject of local government finance, it would seem hard to justify yet another study. But many issues remain unresolved. The incidence of the Rates remains a controversial issue and there are frequent calls for reform, especially for relating the Rates to "ability to pay".

1. All references are to the Bibliography at the end of the study.

2. Throughout this study we capitalise the word Rates when referring to the tax on rateable property.

3. The classical treatment of the topic is in Musgrave (1959), Chapter 8. An excellent modern discussion is provided by Oates (1972).

Furthermore, the rôle of local government in Ireland is being affected by such developments as the establishment of regional health boards and the phased removal of health and certain housing charges from the Rates. Moreover, the Irish local government statistics have not yet attracted much attention from academic economists. There is still a need for a systematic economic analysis of the data.

The present study was undertaken at the initiative of the Minister for Local Government. The main objective of the study is a review of the rôle of the Rates in the Irish fiscal system, with particular emphasis on possible schemes of reform designed to take greater account of individuals' "ability to pay".

In this Section we propose to survey the background to the issues with which the study is concerned. A brief description of the Irish system of local government is given in Section 2. We proceed to review the economic rôle of local authorities and local taxes in the EEC (Section 3). Section 4 reviews the Irish experience since 1953. In Sections 5 to 7 specific features of the Rates in Ireland are discussed. Section 8 deals with regional patterns of local authority expenditure in Ireland, emphasising the rôle of Rates—financed expenditure. In Section 9 we evaluate the options open for local government finance in the light of the problems and issues discussed in the course of the study.

#### *Why Local Government?*

Musgrave has suggested dividing the economic rôle of government into three branches: ensuring an efficient use of resources (the allocation branch), ensuring an equitable distribution of income (the distribution branch), and maintaining a high and stable level of economic activity (the stabilisation branch).<sup>4</sup>

Even in a country as large as the United States it is generally felt that the central government should bear primary responsibility for the distributive and stabilisation branches of government. In fact, if these branches were the only governmental functions, there would be a strong case for a unitary form of government without local authorities. This conclusion follows from the following reasoning: any serious attempts by a small local authority (not matched by similar actions in other jurisdictions) to alter the distribution of income would provoke a massive reaction from households and businesses, and would probably be frustrated. Similarly, attempts at using local budgetary policy to isolate a locality from the effects of a national cycle in economic activity are not likely to succeed due to the very large leakages (and the resultant small multipliers) out of local expenditure and the problems of debt financing at the local level. No local authority can undertake an independent monetary policy. We are left, then, with the allocation branch as the area where local government finds its main justification.

4. Cf. Musgrave (1959), Ch. 1.

The rôle of local authorities in the allocation branch of government is generally supported by arguments along the following lines. Some public services must of their nature be consumed collectively by all the residents of an entire nation—defence is the obvious example. But the consumption of almost all other public services can to some extent be localised and confined to the residents of certain areas within the country. A natural corollary of this is that these services will be most efficiently provided by local, as distinct from central, government. Countries can be found where public services such as parks, health services, social security administration, schools and police protection are provided by local government. An important reason for assigning the provision of these services to local government is the belief that smaller units of government have a greater ability to respond to varying preferences among the residents of different regions of a country than is the case for the central government. This point is made by Oates :

Consider, for example, a public good whose consumption is limited to the residents of the community in which it is provided. If provided by the central government, the most likely outcome would be similar levels of consumption of the good in all communities. However, such uniform levels of consumption may not be efficient, because they do not take into consideration possible variations in the tastes of residents of differing communities. If, in contrast, each community has its own local government, one might expect variations in the level of provision of this public good across the different localities, variations that would, to some extent at least, reflect the differences in tastes of the constituents of the communities. The point here is that economic efficiency is attained by providing the mix of output that best reflects the preferences of the individuals who make up society, and if all individuals are compelled to consume the same level of output of a good where variations in consumption—or, in this case, variation in consumption among different subsets of the population—are possible, an inefficient allocation of resources is the likely result. (pp. 11–12)

This notion of the economic gain from a decentralised form of government is closely related to the "Tiebout hypothesis", according to which the public is influenced in its choice of residence by the mix of local tax-rates and public services available in different communities (cf. Tiebout, 1956). This type of behaviour whereby, for example, a person anxious to obtain a good publicly-financed school for his children chooses to reside in a locality that levies high taxes to finance such a school system, or a person with no dependent children avoids this type of locality, enhances the efficiency with which public services are allocated. It may, however, lead to certain undesirable social effects, due to the incentive it provides for socially segregated residential areas.

The relevance of the Tiebout hypothesis in an American context, where many central city areas are surrounded by a multitude of suburban local authorities, is obviously far greater than in Ireland, where the costs of moving from one jurisdiction to another might far outweigh any possible gain. Moreover, the two public services most frequently mentioned in connection with the hypothesis—education and police—are provided by the central government in this country.

There are, of course, arguments in favour of having the central government provide many public services. These are obvious enough, and need only be listed here :

- (1) There are economies of scale in the provision of some public services, which can therefore be provided at a lower cost by larger units of government.
- (2) Some public services entail considerable "spill-over" effects, with the result that individual, small units of government are unlikely to spend as much on these services as would be optimal from a national viewpoint.
- (3) There is a demand for a relatively uniform standard of public services within most countries, and exclusive reliance on local resources is likely to result in significant regional disparities.

Most national administrations try to combine the advantages of centralised and decentralised forms of government through a process that has been labelled "fiscal federalism". There is some argument as to what is meant by "federalism" in a political and legal sense, although countries like the USA, Canada, Australia and Germany (Federal Republic) are clearly "federal" systems. Oates has suggested a far wider view of federalism, arguing that in the economic sense "most, if not all, systems are federal". His working definition is

a public sector with both centralised and decentralised levels of decision-making in which choices made at each level concerning the provision of public services are determined largely by the demands for these services of the residents . . . of the respective jurisdiction.

(Oates, p. 17).

An important feature of most systems that are "federal" in this economic sense is a large volume of grants from the central government to lower levels of government. The grants system is a means whereby the benefits of local government may be achieved without all of the drawbacks inherent in too close a dependence on local revenue sources. As we shall see below, however, there are



new dangers attendant on an excessive reliance on the grants system by local authorities.

The relevance of the above considerations in the Irish context is illustrated by the following quotation from the White Paper *Local Government Reorganisation* :

The real argument, therefore, for the provision of local services by local authorities . . . is that a system of local self-government is one of the essential elements of democracy. Under such a system, local affairs can be settled by local citizens themselves or their representatives, local services can be locally controlled and local communities can participate in the process and responsibilities of government (para. 2.1.1.)

The emphasis in this passage is placed on the political benefits of a local government rôle in providing public services. The economic criteria according to which some services should be provided locally and others centrally are not discussed, and indeed the division of these functions is described as "haphazard" because

local authorities are not responsible for all the public services which need to be organised on a geographical basis and in which there is scope for local variety and discretion. On the other hand, it is argued that local authorities are responsible for some services which should be the responsibility of a central authority (para. 3.1.1).

We shall examine the local-central division of government functions in Ireland and internationally in Sections 3 and 4 of this study. At this stage all we can conclude is that, while there are arguments for providing some government services through local rather than central authorities, it is not possible to lay down hard and fast criteria about which services should be provided by each level of government.

#### *How Should Local Government be Paid for?*

An assertion that is frequently made in discussions of local government is that there is a need for a system of local taxation if the sort of fiscal federalism we have been discussing is to function efficiently. The following quotation illustrates this argument in an Irish context :

The Government consider it essential that local authorities should have power to levy local taxes. Moreover, they believe that these taxes should be capable of financing a significant proportion of local expenditure, if local democracy and a sound local government system is (*sic.*) to survive.

Unless there is a direct financial relationship between a local authority and its electorate, local government will not have real meaning: the local authority will not be truly responsible and accountable to its electorate and its freedom to determine its total expenditure and the allocation of expenditure among services will be curtailed (*Local Finance and Taxation*, 4.1.2).

The same philosophy is expressed, although less emphatically, by Maxwell (1969):

Strong local government has been the bulwark of democracy: strength and vitality in local government have been nourished by local decisions concerning the levying of taxes . . . (p. 156).

Related to this view is the belief that dependence on grants from higher levels of government can easily become excessive and a threat to the proper functioning of local democracy:

An increasing dependence on grants could erode the sense of responsibility and accountability of local authorities, for, to the extent that local expenditure is met by grants, local authorities are relieved of their fundamental democratic duty of balancing the demands for additional expenditure against the consequences of increased local taxation (*Local Finance and Taxation*, 10.2.2).

It is evident from these quotations that the advantages believed to follow from a system of local taxation are largely political in nature. It may be readily conceded that, in a system where the ability of the public to shop around between local authorities (as they are assumed to do in the Tiebout model) is severely limited, the monopolistic powers of local authorities are increased and the need for a vigorous political system of checks and balances is correspondingly greater. Nonetheless, the question whether a local system of taxation is a prerequisite for an effective fiscal federalism is one that must be left open and to which we shall return in the course of this study. Our analysis will, however, be confined to the quantifiable economic aspects of the issue: it is outside the scope of our investigation to explore in detail the factors that are conducive to genuine local autonomy and democracy.

A major difficulty in implementing a philosophy towards local government which stresses the need for local taxes lies in finding taxes that are suitable for small local jurisdictions and that will yield the revenue required to finance a "significant proportion" of the volume of locally provided public services. Maxwell states

. . . the property tax is the only major tax that is suitable for local administration. But the admission should be made that even perfect rehabilitation of this tax would not provide many local governments with financial means adequate to their needs . . . (p. 156)

Similarly, the Irish government White Paper (1972) stated that

. . . only the local rates satisfies the criteria referred to above and . . . the real issue is not the abolition of the rating system . . . but the reform of the system so as to eliminate its undoubted defects (*Local Finance and Taxation*, 4.2.1).

Despite, however, a widespread belief in the need to rely heavily on local taxes to finance local expenditure, the trend has been towards a growing dependence on central government grants. This trend will be examined in some detail in subsequent Sections of this study. At this stage we simply stress the dissatisfaction frequently voiced over the growth of the grants system. For example, it has been claimed that "local financial and administrative freedom" could be threatened by "the extent of the controls over day-to-day operations of local authorities" that would be necessary if the grant system continued to expand in Ireland (*Local Finance and Taxation*, 10.2.2.). Moreover, the grants system may be used by the central government to pursue objectives that are not strictly in accordance with the rationale of fiscal federalism (namely, a genuine devolution of economic functions to local authorities). This point has been summarised as follows :

Many of these grants are a means by which the federal government uses state and local government . . . as agents or subcontractors to produce centrally determined amounts and kinds of collective goods, since, for a number of reasons, principally historical and political, the federal government itself virtually never delivers collective goods or services at the local level (Schultze, 1974, p. 183).

It is obviously important in evaluating the grants system to distinguish between matched and unmatched, general and specific grants, and to explore whether any of the presumed adverse effects are the result of the particular types of grants being used, rather than an inevitable consequence of the grants system.

#### *Regional Disparities in Local Services*

The grants system has evolved as a major feature of local government finance in virtually every country, partly because exclusive reliance on local revenue

sources inevitably gives rise to major regional disparities in the provision of public services. Obviously, the Tiebout hypothesis that such disparities are a reflection of the preferences of those who choose to live in the various regions is highly unrealistic in many countries where effective freedom to choose between local authorities for residential purposes is low. Moreover, it is increasingly difficult for politicians to acquiesce in the regional disparities in public services that result from dependence on local tax bases. One study of local services in the United Kingdom took as its point of departure the notion of "territorial justice", claiming that the "most appropriate distribution between areas must be 'to each area according to the needs of that area'", and further claimed that "territorial justice is a necessary condition, but not of course a sufficient condition, for achieving social justice", (cf. Davies, 1968, p. 16).

An illustration of adverse reaction in Ireland to local disparities in public services (arising mainly from the exercise of local autonomy and dependence on local revenue sources) are the criticisms that have been levelled at the (old) system of home assistance which led to "significant inequalities and discrepancies (in the programme) as it affects recipients from one county to another" (Ó Cinnéide, 1970, p. 115). Similar views are voiced in a different context in Chapter 3 of the *Report of the Commission of Inquiry on Mental Illness* (1966). Furthermore, although the local Rates were originally designed to meet the need for local relief under the 1838 Poor Relief Act, the vast expansion of welfare and social security services in modern times has been almost entirely financed and administered by the central government with uniform rates of benefit throughout the country.<sup>5</sup> Thus any contemporary discussion of local autonomy in the provision of public services must recognise that there is relatively little public tolerance of regional disparities in the standards of most major services. This has implications for the range of services that is assigned to local authorities as well as for the manner in which local services are financed.

### *Reforming the Rates*

In Ireland and some other countries local authorities rely heavily on local property taxes (the Rates) as a source of tax revenue. This form of taxation has always been controversial and the difficulty of satisfactorily reforming it has aggravated the problems facing local authorities. A trenchant summary of the merits and defects of the Rates and similar forms of taxation has been provided by Singer (1972):

5. There are some instances where the central government introduces regional variations in rates of benefits: the means test for Unemployment Assistance, for example, is less stringent for small-holders living in certain western counties. The intention in this case is obviously to produce regional variations that are the opposite of those that would follow from reliance on local tax revenue. In the case of urban areas with a population of over 7,000, however, a higher rate of unemployment assistance is financed by a contribution from the Rates.

The drawbacks [of the tax on real property] include too low a growth rate of revenue yield, the likelihood of a regressive incidence pattern, substantial horizontal inequity due to uneven assessments, unequal impact on different commodities, taxpayers' inadequate cash flow, and long-run distortions in resource allocation. The principal advantage of the tax is the stability of its revenue yield. Taxpayers' familiarity with the tax and the low cost of administering it are also favourable (pp. 181-182).

We shall investigate these issues in an Irish context in the course of this study, and attempt to suggest ways in which the Rates could be reformed so as to reduce the cogency of these criticisms.

#### *Alternative Revenue Sources*

Because of their dependence on property taxes, local authorities in many countries have cast about for new revenue sources. They have been confronted in general with two stark facts: in the first place, the central government tends to have pre-empted most of the taxes noted for revenue buoyancy, such as income and sales taxes; secondly, any alternative form of local taxation usually entails the risk of much greater "excess burden" than is the case with the Rates. In several countries local taxes other than property taxes have been introduced or maintained, but their yield has generally not been very great. The search for a suitable local tax to replace property taxes has up to now proved unsuccessful in the United Kingdom and Ireland, and the result has been an increase in the importance of the grants system. We shall present some international evidence on this point in Section 3 and return to the options open in Ireland in Section 9.

#### *Conclusion*

In this Section we have summarised the arguments for the provision of some public services by local, as distinct from central, authorities. We have seen that there are many conflicting pressures in providing such services efficiently and equitably: the desire to encourage local autonomy, but to avoid anarchy; to reduce regional disparities in local standards, but to avoid excessive local dependence on grants from the central government; an attachment to the local property tax as a major revenue source, but an awareness of the defects of this form of taxation. These are the issues around which the present study centres.

## Section 2

### *The System of Local Government in Ireland*

WE set out in this Section a brief description of the main authorities, committees, boards etc. which make up the local government system in Ireland.

#### *Elected Local Authorities*

The most important component of the Irish local government system is the network of the elected local authorities consisting of :

- County Councils (27);
- County Borough Councils (4);
- Borough Councils (7);
- Urban District Councils (49);
- Boards of Town Commissioners (28);

These authorities, with the exception of the town commissioners, all levy local taxation in the form of Rates. The striking of the Rate is a "reserved function", that is, it must be performed by the elected members of the rating authority, as distinct from the county or city manager, who is responsible for "executive functions".

The services of local authorities were classified under six headings in 1969-70 :

- Roads
- Public Assistance
- Health
- Sanitary Services (e.g., water supply, sewerage schemes, public lighting, burial grounds).
- Housing
- General Purposes (administration, libraries, fire brigades, contribution to vocational education committees, and county committees of agriculture, etc.).

County and county borough councils had responsibility for services under all six headings listed, while borough and urban district councils had a rôle in providing services under each of the headings except for health and public assistance. The functions of town commissioners are, nowadays, relatively minor.

The accounts of these elected local authorities are compiled annually by the Department of Local Government in the *Returns of Local Taxation (RLT)*.<sup>1</sup> Receipts and expenditure are shown on Revenue Account and on Loan Account. This distinction does not correspond to a current/capital division, since the Revenue Accounts include data for some capital projects related to road-building. Revenue and loan accounts are presented for each service (e.g., roads, sanitary services etc.), and for each type of local authority (where relevant).

The main sources of revenue on Revenue Account are Rates, State Grants, and Other Receipts. Expenditure is shown (in some detail) on each service account (e.g., the general purposes account shows expenditure on such items as fire brigades, town planning, etc.). The Loan Accounts record almost exclusively transactions with the Local Loans Fund, which is under the control of the Minister for Finance. Expenditure on Loan Account shows the services where outlays of a capital nature were incurred (except those road projects included in the revenue account). The link between the two accounts is the "loan charges" that appear in each of the Revenue Accounts.

The RLT contains tables of special importance for the present study showing the Rates Account of each rating authority. This account shows how the receipts from the Rates are allocated to the revenue account of the various services. Alternatively, this account may be taken as showing how the charges for the various services add up to the total Rates bill. Under the policy introduced in 1973-74, all health charges and the charges arising from local authority housing for letting will be phased out by 1977.

#### *The Classification of Expenditure on Health*

Until 1971 health services were operated within the local authority system either by county councils or (in Cork, Dublin, Limerick and Waterford) by joint bodies known as Unified Health Authorities. (In certain counties, joint mental health boards also existed prior to 1971.) The accounts of these bodies were published in RLT. The Health Act of 1970 transferred responsibility for the administration of the services to eight Regional Health Boards. The Boards are not part of the network of elected local authorities and their accounts are not published in RLT. Until 1977, however, the Boards will be supported in part by a contribution from the Rates Account of local authorities. The impact of the 1970 Health Act on RLT was therefore to remove the state grants for health services and the other income of the health services from the accounts included in RLT. This caused a very substantial fall in the receipts and expenditure of elected local authorities.

1. When this study was being prepared (during the nine months prior to April 1975) the latest published RLT referred to 1969/70. More up-to-date figures for many of the entries were, however, made available to us by the Department of Local Government.

*Minor Local Authorities Included in RLT*

RLT also deals with the accounts of joint burial boards, joint drainage committees, joint library committees, An Chomhairle Leabharlanna, and the Lough Corrib Navigation Trustees. These joint boards are financed mostly by money supplied by contributing local authorities.

*Local Bodies Not Included in RLT**(a) County Committees of Agriculture*

A committee is appointed by each of the 27 county councils to deal with the provision of agricultural advisory and other services. The county committees of agriculture receive somewhat less than 40 per cent of their revenue from the local Rates with the bulk of the remainder being in the form of grants from the central government.

*(b) Vocational Education Committees*

These are statutory committees of certain local authorities with responsibility for the provision of vocational education in their areas. In 1973-74, vocational education committees received more than four-fifths of their revenue in the form of state grants, about one-tenth from fees, etc., and only one-tenth from the contributing rating authorities.

The contributions from the Rates made to both vocational education committees and to county committees of agriculture are shown on Revenue Account (under the Rates and General Purpose Accounts) of the relevant local authorities in RLT.

*(c) Harbour Authorities*

There is a harbour authority for each of the 24 commercial harbours scheduled in the 1946 Harbours Act. These authorities do not obtain any current revenue from the Rates.

*Which Definition of Local Government ?*

We shall devote most of our attention to those local authorities whose returns are included in RLT. However, the transfer of the health services to Regional Health Boards in 1971 implies that even this source does not cover the same activities over the years. Moreover, for international comparisons of the rôle and scope of local government in different countries, the coverage of RLT is inappropriate. Furthermore, the classification of expenditure in RLT does not allow us to relate local to national expenditure using certain important concepts such as current and capital expenditure, final consumption expenditure and transfer payments, etc.



For these reasons we shall also use the data on "local authority" receipts and expenditure compiled by the Central Statistics Office and published annually in *National Income and Expenditure (NIE)*.<sup>2</sup> These data form the basis of the Irish entries in the United Nations, OECD, and EEC national accounts statistics. Before 1971 the main difference between the two concepts of "local authorities" was the NIE treatment of harbour authorities, vocational education committees, and county committees of agriculture as local authorities, whereas the accounts of these bodies were not included in RLT. The Regional Health Boards established in 1971 are not included in RLT, but they are included in the NIE concept of local authorities.

We discuss the reconciliation of NIE and RLT data in detail as an appendix to this Section.

#### *The Taxing Powers of Local Authorities*

In Ireland the Rates poundage must be decided by the elected members of the rating authority and the only control exercised by the Minister for Local Government relates to situations where the Rates levied are too low to finance local services. (The central government does, however, legislate for Rates remissions and exemptions and this affects the scope of the local Rates.) Moreover, "Rates are not now made for a particular service but to meet the deficiency arising in the fund out of which all the expenses of the local authority are met" (Collins, 1963, p. 125). The key power in the hands of local authorities is therefore the ability to decide on the level of local expenditure within the constraint that an adequate rate must be struck to finance essential local services.

2. When this study was being prepared, the latest published NIE related to 1972.

## Appendix to Section 2

### *Reconciliation of NIE and RLT Data on Local Authority Expenditure*

THE figures for local authority expenditure published in NIE include, in addition to the expenditure of the local authorities whose accounts are published in RLT, all expenditure by county committees of agriculture, vocational education committees, harbour authorities, and regional health boards. RLT includes only the charges on the Rates (if any) for those bodies.

NIE distinguishes between current and capital expenditure. In RLT the distinction is between expenditure on "revenue" and "loan" account. These distinctions are not identical for two reasons. First, a good deal of the capital expenditure on roads is included in the revenue account in RLT. Secondly, the treatment of local authority expenditure on housing in NIE differs significantly from that in RLT.

In this Appendix we illustrate how the NIE figures for the current expenditure of RLT local authorities are derived, using the data for 1969-70. Table 2A.1 sets out the steps involved.

The adjustments to the data for roads are relatively straightforward. The Central Statistics Office figure for total capital expenditure on roads is deducted from the RLT revenue account figure for expenditure on roads. Then that part of capital expenditure on roads that is not included in the revenue account figure is added back in (this figure is taken from the RLT loan account). This yields the NIE measure of current expenditure on roads.

The adjustments to the RLT revenue account data on housing expenditure are based on the following reasoning. Local authority housing is treated in NIE as a trading activity in which the price of the product (house rents) is deliberately subsidised. Housing subsidies are measured as the deficit on the current housing account of the local authorities. That is, the subsidy is the difference between the sum of loan charges, maintenance and repair, and other expenditure, on the one hand, and rent and other income, on the other. This subsidy is treated as an expenditure by local authorities in the national income accounts.

On the income side of the housing accounts, NIE includes an item called Gross Rental Income. This amounts to the subsidy (as calculated above) plus net rent (*viz.*, rental income less maintenance and other housing expenditure). This gross rental income is an imputed gross rental income from the occupancy of the houses.

TABLE 2. A.1: Reconciliation of NIE and RLT expenditure data, 1969/70

<i>RLT Revenue A/C Exp.</i>	£'000 = 133,329 (RLT Table B)
<i>Deduct:</i> Loan charges on "other housing"	— 11,577 (RLT Housing a/c)
Maintenance and repair of housing	— 2,969 (Housing Returns)
Other housing expenditure	— 2,287 (Housing Returns)
	<u>116,497</u>
<i>Add:</i> Subsidy on housing	10,808 (NIE Item 168)
	<u>127,304</u>
<i>Deduct:</i> Capital expenditure on roads	— 8,338 (NIE Table A21)
	<u>118,966</u>
<i>Add:</i> Expenditure on roads on loan A/C	<u>1,308 (RLT Table D)</u>
<i>Equals:</i>	
<i>RLT Local Authority Current Expenditure in NIE:</i>	120,274
<i>Deduct:</i> Subsidy on housing	— 10,808 (NIE Item 168)
Current transfer payments*	— 6,928
Transfer payments to central government	— 949 (NIE Item 171)
Estimated Interest Payments	— 16,138 (estimated)
	<u>34,823</u>
<i>Equals:</i>	
<i>RLT Local Authority Current Expenditure on Goods and Services</i>	85,451
<i>Plus:</i> Current expenditure on goods and services by other non-central bodies	<u>11,347</u>
<i>Equals:</i> NIE figure for local authority expenditure on current goods and services	96,798 = NIE Table A.16 Item 172

(\*)Equals NIE item 170 minus £126,000 paid by subsidiary bodies. All references to NIE are to the 1972 edition.

The following data (for 1969-70) illustrate these inter-relations :

*RLT Revenue Account*

		<i>Housing</i> £'000		
Rent & Other Income	6,025		Loan Charges	11,577
			Maintenance & Repair	2,969
			Other	2,287
<hr/>			<hr/>	
<i>Total</i>	6,025	<i>Total</i>		16,833
<hr/>				
<i>Housing subsidy</i>	$= 16,833 - 6,025 = 10,808$			
<i>Net Rental Income</i>	$= \text{Rent \& Other Income less (Maintenance \& Repair and other expenditure)} = 6,025 - (2,969 + 2,287) = 769$			
<i>Gross Rental Income</i>	$= \text{Net Rental Income} + \text{Housing Subsidy}$			
	$= 769 + 10,808 = 11,577$			
	$= \text{Loan Charges}$			

*NIE Treatment of Local Authority Current  
Housing Account*

Item 156	Item 168:
<i>Gross Rental Income</i> : 11,577	<i>Subsidies: Housing</i> : 10,808

We may see why "Gross Rental Income" equals "Loan Charges" from the following :

$$\begin{aligned}
 \text{Gross Rental Income} &= \text{Net Rental Income} + \text{Subsidy} \\
 &= \text{Rent and Other Income} - \text{Maintenance and Repair} \\
 &\quad - \text{Other Expenditure} + \text{Subsidy} \\
 &= \text{Rent and Other Income} - \text{Maintenance and Repairs} \\
 &\quad - \text{Other Expenditure} + \text{Loan Charges} + \text{Maintenance} \\
 &\quad \text{and Repairs} + \text{Other Expenditure} - \text{Rent and Other} \\
 &\quad \text{Income} = \text{Loan Charges.}
 \end{aligned}$$

In Table 2.A.1 we have deducted the total cost of maintaining the housing stock and added back in that part paid by the local authorities, namely, the deficit or subsidy of £10.808 million.

Deriving current expenditure on goods and services from current expenditure involves subtracting the interest payments, subsidies, and transfer payments of the RLT local authorities. The difference between the figure of £133.030 million in NIE Table A.16 for local authority current expenditure and the figure of £120.274 million in Table 2.A.1 is accounted for by the subsidiary bodies (VEC's etc.). Similarly, the difference of £11.347 million between item 172 of NIE and the Table 2.A.1 figure for current expenditure on goods and services is made up by the subsidiary bodies.

### Section 3

#### *The Economic Rôle of Local Authorities : International Comparisons*

THERE are serious difficulties in making valid international comparisons of the scope and importance of local government and of the way in which local expenditure is financed. It is, moreover, virtually impossible to evaluate the degree of local autonomy or democracy in different countries. We limit this Section to a presentation of the available internationally comparable evidence on the economic rôle of local authorities. Most of our data relate to the early 1970s, and we draw attention to the implications of important changes in the Irish situation since that year.

#### *Oates' Study of Fiscal Centralisation*

Oates (1972) presents an empirical study of the "differences in the overall extent of fiscal centralisation in the public budgets of a substantial number of federal and non-federal countries" (p. 195). As a measure of centralisation he employed central government expenditure as a proportion of general government expenditure.<sup>1</sup> His data were based on the *UN National Accounts Yearbook*, and classified both local authorities and social security administrations as "non-central". This study is of diminished relevance to our present concerns because it did not explicitly deal with local authorities on their own. However, Oates presents data for 58 countries and his study is the most comprehensive available.

On the basis of his empirical analysis Oates concluded that the degree of centralisation tends to be greater in small countries than in large. Furthermore, the wealthier a country, the less centralised it tends to be.<sup>2</sup> He quotes in this context the view that "federalism is expensive, and it is always a question whether the independence it gives is worth the price that must be paid for it" (Wheare, 1963, p. 51). Among other factors that Oates found which tended to increase the degree of decentralisation were measures of the distinctiveness of the country's geographical regions and whether the *political* system is federal (as distinct from unitary).

On the basis of Oates' findings we would expect Ireland to be a relatively centralised country: our political system is unitary, our population is very small, our income per person is low by European standards, and there are no very

1. "General" government is the phrase used by national income accountants to refer to all levels of government combined.

2. This association is due in part to the fact that less developed countries tend to be highly centralised due to a scarcity of qualified government administrators.

marked regional diversities within the country. We shall see, however, that the available evidence on the degree of economic centralisation in Ireland compared with other EEC countries does not confirm this expectation.

### *Local Government in the Economies of the EEC Countries*

The EEC national accounts are compiled from data supplied by the statistical offices of member states in accordance with a modified version of the UN System of National Accounts (cf. United Nations, 1964). These data provide the only reliable international basis for a comparison of the rôle of local authorities in national economies. Nonetheless, even when our comparison is restricted to this relatively homogeneous group of countries, care must be taken to avoid basing conclusions on findings that are merely a reflection of technical features of the way the data are compiled.

We want to focus attention on Section 62 ("Local Government") in the EEC accounts, which corresponds to the concept of local government used in our NIE. Unfortunately, local government data are not given in the latest EEC accounts for Luxembourg, and, since the reorganisation of local government in Denmark in 1971, the local government figures for that country have not been compiled on the basis used in the EEC accounts. Thus we are left with only seven countries for which data are available, obviously not enough for statistical hypothesis-testing. However, in view of our economic and institutional links with these seven countries, even this limited comparison should be of value.

In measuring the economic rôle of local government, we concentrate on the proportion of general government expenditure accounted for by local authorities. We shall not try to evaluate the extent to which these measures reflect the degree of genuine "autonomy" or "local democracy" prevalent in the countries studied: we present rather the economic background against which an evaluation of these essentially political questions must be placed.

In Table 3.1 we set out the share of local government in general government uses of funds under the following headings from the government accounts (analysing the main items only);

Current Expenditure	}	Transfer Payments:
		Subsidies
		Social benefits
		Final consumption:
		Compensation of employees
		Total final consumption
		Total current expenditure
Capital Expenditure	}	Gross fixed capital formation
		Investment grants

For each of these headings we relate local government expenditure to the corresponding general government magnitude and to an appropriate national magnitude.

The data in Table 3.1 suggests two generalisations. First, certain types of expenditure are more typically "local" than others. In general, local authorities play a minor rôle with respect to subsidies and social benefits. (There are significant subsidy programmes under local control—as, for example, the housing programme in Ireland—but these tend to be small in comparison with total state subsidy and transfer expenditure.) On the other hand, local authorities generally account for a major proportion of general government final consumption expenditure and of gross fixed capital formation. (Investment grants occupy an intermediate position, and also display considerable variation between countries.) This division of expenditure between central and local government is in keeping with our suggestion (in Section 1) that the distribution of income is normally the concern of the central government, whereas local authorities play a more important rôle in the provision of public services.

The second generalisation suggested by our data for 1972 is that there is a tendency for all our measures of economic centralisation to be correlated between countries. The Netherlands, the United Kingdom and Ireland generally rank high on our expenditure measures of the importance of local government, France, Germany and Italy tend to rank low.<sup>3</sup> However, there are many qualifications to this generalisation, perhaps the most significant being the important rôle of local authorities in Germany (FR) in relation to gross fixed capital formation. The data for final consumption expenditure might be accepted as the single most important measure of the rôle of local authorities in the allocation of national income, and according to this measure The Netherlands is clearly the most "decentralised" EEC country, with Ireland in second or third place. (Denmark may in fact rank higher than The Netherlands; see previous footnote.)

The high degree of economic decentralisation shown for Ireland in most of these measures is surprising, since Ireland has the smallest population and lowest income per person of the countries, and Oates concluded that both these factors tend to increase the degree of centralisation. Moreover, in Ireland police and education are virtually entirely central government functions, whereas in all other EEC member states local governments have considerable responsibilities in these areas. On the other hand, health expenditure is an important

3. In Denmark, local government appears to have a very important economic rôle. Local taxes yielded 22 per cent of total tax revenue in 1970/71. Local government expenditure (including that financed from central government grants) amounted to 52 per cent of general government expenditure. However, this expenditure is administered by local authorities "to a large extent under rules laid down by the central government" (Hansen, p. 300) and it is difficult to distinguish genuinely local areas of control. Social security, for example, is mainly administered by local authorities, as are the hospital service and primary education, but with major involvement by the central government. Parks, fire services etc., are generally more local in nature.

TABLE 3.1: Measures of the economic importance of local authorities in EEC countries, 1972

Country	Subsidies as percentage of:		Social Benefits as percentage of:		Compensation of Employees as percentage of:		Final National Consumption as percentage of:	
	General government subsidies	GNP	General government social benefits	Private national consumption	General govern- ment compensation of employees	Total Wages and salaries	General govern- ment final national consump- tion	Total final national consumption
	per cent	per cent	per cent	per cent	per cent	per cent	per cent	per cent
Germany (FR)	1.7	0.0	6.2	2.0	24.5	4.4	20.6	3.9
France	14.8	0.2	4.9	1.4	14.5	2.8	14.5	2.5
Italy	17.5	0.4	4.2	1.1	22.7	4.8	25.7	4.8
Netherlands	19.4	0.2	11.1	3.9	54.7	12.0	51.4	11.6
Belgium	1.4	0.0	2.9	0.8	26.7	5.5	24.0	4.6
United Kingdom	8.4	0.2	2.4	0.3	51.6	11.2	39.9	9.0
Ireland	15.3	0.7	6.7	0.7	41.1	8.9	47.4 <sup>a</sup>	9.5
Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

(a) In the Irish accounts, the central government current grants to post-primary education are classified as "current transfers to non-profit institutions". If these were reclassified as final consumption, the local share of government final consumption would fall to about 40 per cent (or 8 per cent of total final consumption).

Country	Current Expenditure as percentage of:		Gross Fixed Capital Formation as percentage of:		Investment Grants as percentage of:	
	General government current expenditure	GNP	General government gross fixed capital formation	Total gross fixed capital formation	General government grants	Total gross fixed capital formation
	per cent	per cent	per cent	per cent	per cent	per cent
Germany (FR)	14.3	5.5	73.2	10.2	5.8	0.2
France	12.7	4.7	59.8	7.7	18.2	0.7
Italy	19.2	6.6	41.1	7.2	34.9	1.7
Netherlands	29.8	14.1	66.6	12.0	33.9	1.1
Belgium	14.1	5.4	26.8	5.6	3.3	0.1
United Kingdom	29.1	11.3	77.5	19.8	11.6	0.8
Ireland	27.0	9.0	69.6 <sup>b</sup>	10.9	5.0 <sup>c</sup>	0.5
Denmark	(51.9)	(14.3)	n.a.	n.a.	n.a.	n.a.

(b) Includes "changes in stocks". (c) Local government "investment grants" refer, in the case of Ireland, mainly to supplementary grants to persons under the Housing Acts.

Basic Source: EEC National Accounts 1970-72, (1975), Table 11, (Data supplied prior to publication by the Statistical Office of the European Communities.) Danish data, if given, based on Statistisk Årbog (1973).



component of general government outlay in Ireland and is assigned to local government in the national accounts,<sup>4</sup> whereas in many European countries the central government directly controls most government health expenditure. Another factor that contributes to the importance of local authorities in Ireland is our relatively low expenditure on defence, which is everywhere almost exclusively a central government function. Finally, the treatment of certain central government expenditures in the Irish national income accounts tends to increase the importance of local government in total government final consumption: if central government current outlays on post-primary education were classified as final consumption expenditure rather than as current transfers, the Irish figure in Table 3.1 would fall from 47 to about 40 per cent.

In addition to looking at the degree of decentralisation in government expenditure, it is relevant to examine the method by which local authorities finance their current outlays. In Table 3.2 we present data for the sources of funds on income account in EEC member states. The most striking aspect of this Table is that only in Germany (FR) do local taxes finance as much as half of local expenditure. The case of The Netherlands, where only 3 per cent of local expenditure is financed from local taxes, is particularly notable. In all countries, including Germany (FR), grants from the central government account for a sizeable proportion of local government income. Once again the case of The Netherlands, where over three-quarters of local expenditure is financed by such grants, is striking. The relatively high proportion of local income derived from "gross operating surplus" in the United Kingdom, Germany (FR), and Ireland reflects the importance of gross rental income (i.e., rent and the government housing subsidy) on local authority housing as a source of current income to local authorities in these countries.

In Tables 3.3 and 3.4 we summarise the importance of local taxes in total tax receipts, including (Table 3.3) and excluding (Table 3.4) social security funds among total taxes. There is a difference between the taxes included as part of local government current income (Table 3.2) and those allocated to local government as the sector finally receiving them (Tables 3.3 and 3.4). In some countries certain local taxes are collected by the central government on behalf of local authorities.<sup>5</sup>

The position of Denmark and The Netherlands at opposite extremes in terms of this measure is clear. Ireland occupies an intermediate position, very close to that of the United Kingdom. When social security funds are included in total

4. According to NIE data, local government accounted for 90 per cent of general government expenditure on health, but only 17 per cent on education in 1970 (cf. NIE, 1972, Tables A23, A24).

5. The text of the EEC document refers to "the particular sub-sector in which the final recipient is classed; this is not necessarily the same as the classification of the institution that collects the tax". *Tax Statistics, op. cit.*, p. 24. Local revenues from the Municipal Fund in The Netherlands (or the Agricultural Grant in Ireland) are not treated as part of local tax receipts: (cf. *ibid.*, p. 30).

TABLE 3.2: Sources of local government funds on income account; EEC countries 1972 (percentage distribution)

Country	Source of Funds Gross operating surplus	Taxes:			Current transfers within general government	Other <sup>a</sup>	Total
		Taxes linked to production and imports	Current taxes on income and wealth	Total taxes			
Germany (FR)	8.7	30.8	21.7	52.5	28.4	10.4	100.0
France	2.3	34.8	9.3	44.1	47.2 <sup>b</sup>	6.5	100.0
Italy	1.4	20.3	20.2	40.5	44.5	13.6	100.0
Netherlands	2.9	3.2	0.0	3.2	78.6	15.3	100.0
Belgium	2.1	7.2	25.2	32.4	53.7	11.6	100.0
United Kingdom	16.0	33.9	—	33.9	47.0	3.1	100.0
Ireland	7.7 <sup>c</sup>	35.7	—	35.7	56.6	—	100.0
Denmark (1970/71)	—	(8.6)	(32.5)	(41.1)	(56.9)	(1.9)	100.0

<sup>a</sup> Includes actual interest; income from land and intangible assets; dividends and other income distributed by corporate enterprises; withdrawals from the entrepreneurial income of quasi-corporate enterprises; accident insurance claims; actual social contributions; imputed social contributions; miscellaneous current transfers.

<sup>b</sup> Includes the compensatory payments made by central government to compensate for the abolition of the payroll tax. These payments amounted to 26 per cent of local revenue in 1972.

<sup>c</sup> Equal to "Gross Rental Income" (Items 156 in table A.16 of NIE). For derivation of this item see Appendix to Section 2.

Basic Source: As for Table 3.1 For Denmark, see note to Table 3.1.

TABLE 3.3: Allocation of tax receipts and social welfare contributions by level of government receiving them, EEC Countries, 1968 and 1972 (Percentage Distribution)

Country		General Government				Total
		Central government	Local government	Social security funds	Institutions of the EEC	
Germany (FR)	1968	62.3 <sup>a</sup>	7.7	30.0	0.0	100.0
	1972	58.2 <sup>a</sup>	8.2	32.8	0.8	100.0
France	1968	55.9	9.5	34.6	0.0	100.0
	1972	57.1	5.7	36.6	0.6	100.0
Italy	1968	54.4	9.5	36.2	0.0	100.0
	1972	50.5	8.9	39.4	1.1	100.0
Netherlands	1968	63.3	1.9	34.9	0.0	100.0
	1972	61.0	1.4	36.3	1.2	100.0
Belgium	1968	66.9	5.2	27.9	0.1	100.0
	1972	63.3	5.1	30.2	1.4	100.0
Luxembourg	1968	56.0	12.8	30.7	0.5	100.0
	1972	58.4	11.8	28.8	1.0	100.0
United Kingdom	1968	76.9	10.3	12.8	—	100.0
	1972	74.7	11.1	14.2	—	100.0
Ireland	1968	81.2	10.8	8.0	—	100.0
	1972	80.8	10.1	9.1	—	100.0
Denmark	1968	73.3	21.5	5.1	—	100.0
	1972	69.2	26.2	4.4	0.2	100.0

(\*)Federal and State Governments (Bund and Länder).

Source: Statistical Office of the European Communities, *Tax Statistics 1968-72*, (1973), Table 2.

tax receipts (Table 3.3), the importance of local taxes in France, Germany (FR), Italy, The Netherlands, and Belgium falls appreciably by comparison with the picture that emerges when social security funds are excluded (Table 3.4).

The extreme case of The Netherlands ensures that there is not a very close correlation between the expenditure and revenue measures of the economic importance of local authorities in EEC countries. The Netherlands is at, or close to, the top of all our comparisons of the share of local in general government expenditure, but it relies less on local taxes to finance this expenditure than any other EEC country.

TABLE 3.4: Allocation of tax receipts and social welfare contributions by level of government receiving them, EEC countries, 1968 and 1972

Percentage distribution				
Excluding social security contributions and EEC institutions				
Country		Central government	Local government	Total
Germany (FR)	1968	89.1*	10.9	100.0
	1972	87.7*	12.3	100.0
France	1968	85.5	14.5	100.0
	1972	90.8	9.2	100.0
Italy	1968	85.2	14.8	100.0
	1972	85.0	15.0	100.0
Netherlands	1968	97.2	2.8	100.0
	1972	97.7	2.3	100.0
Belgium	1968	92.8	7.2	100.0
	1972	92.5	7.5	100.0
Luxembourg	1968	81.4	18.6	100.0
	1972	83.2	16.8	100.0
United Kingdom	1968	88.2	11.8	100.0
	1972	87.1	12.9	100.0
Ireland	1968	88.3	11.7	100.0
	1972	88.9	11.1	100.0
Denmark	1968	77.3	22.7	100.0
	1972	72.5	27.5	100.0

(\*)Federal and State governments (Bund and Länder).

Source: as for Table 3.3.

A more comprehensive comparison, although based on less suitable data, is set out in Table 3.5. Using Oates' data we show for the OECD countries (except Denmark, Spain and Turkey) (i) the proportion of general government revenue that accrues to the central government, and (ii) the proportion of general government consumption expenditure undertaken by the central government. In this Table both local authorities and social security administrations are excluded from central government. The very high rank of Ireland on the first variable is due in part to the greater importance of social security funds in many other countries at this time. The degree of association between these two measures of centralisation is not very high as shown by the correlation coefficient of 0.40: although statistically significant, this correlation shows that only 16 per cent of the variance in either of the two measures could be "explained" by the

TABLE 3.5: *Share of central government in general government tax revenue and in general government consumption expenditure, OECD countries, 1968*

Country	Share of tax revenue	Share of government consumption expenditure
	Per cent	Per cent
Australia	78.6	49.0
Austria	52.5	47.1
Belgium	64.2	78.2
Canada	51.3	38.7
Finland	65.3	44.2
France	58.6	75.5
Germany (FR)	37.9	32.9
Greece	60.9	78.3
Ireland	80.4	58.3
Italy	56.7	68.8
Japan	71.3	41.5
Luxembourg	56.1	69.1
Netherlands	62.8	41.5
Norway	72.8	49.2
Portugal	70.4	89.4
Sweden	59.1	49.0
Switzerland	32.7	27.7
United Kingdom	72.3	63.7
United States	59.3	53.6

*Note:* "central government" excludes social security funds in this table. In federal political systems (Germany, Switzerland, US etc.) only the federal government is classified as central.

*Source:* Oates (1972), Table A1.

other.<sup>6</sup> In other words there is not a close link between the degree of decentralisation as measured in terms of the proportion of government expenditure handled by local authorities and the importance of local taxes as a source of local revenue. Thus both our EEC and OECD data show that grants from the central government to local authorities vary greatly in importance, but in all countries amount to a significant proportion of local authority income. One implication of this finding is that the revenue yield of local taxes is not a reliable index of the importance of local expenditure in the economy.

#### *Central-Local Financial Relationships*

The Netherlands, where local expenditure is very high in relation to the GNP but where local taxes are negligible, is a striking example of the importance of grants from central to local authorities. Despite the very limited powers of taxa-

6. If Oates' full sample of 38 countries is used, the correlation is much higher,  $r=0.76$ . This larger group of countries includes many Latin American, African and Asian countries where grants are apparently relatively unimportant and hence there is a much closer association between tax revenues and expenditure at the local level.

tion in the hands of the municipalities, the municipal councils have wide powers: they have responsibilities for the provision of housing, education, roads, sewerage and in the cultural, educational and social welfare areas. Their activities are financed mainly through the central government's Municipal Fund, which receives a proportion (14 per cent in 1971) of all taxes levied by the state. This fund is shared between the municipalities on the basis of a formula that takes account of population, urbanisation, and the costs of social services in the municipality.

Block grants of the type used in The Netherlands are increasingly important in a number of countries. We may illustrate the general type of administration involved by considering the new system operative in Denmark since 1971 (our description is based on Harder, 1973). The restructuring of local authority finance introduced in 1971 involved a reduction in central government grants for specific projects and the substitution of two new types of general grants with the objectives of (i) levelling inequalities in local resources and (ii) compensating for differences in needs between areas.

The first new system of grants in Denmark is called equalisation grants. These grants are paid to local authorities where the *per capita* tax base is below the national average, the amount paid being calculated on the basis of the gap between actual local tax revenue and what revenue would have been if the local tax base had equalled the national average.<sup>7</sup> These grants are not earmarked to finance any specific type of expenditure. The second new system of grants is to achieve equalisation of expenditure for specific services on the basis of needs. Needs are calculated mainly on the basis of demographic information: total population is used to measure needs for general administration, libraries, etc.; population aged under seven years to measure needs for children's welfare expenditure; educational expenditure requirements are related to the population aged 7-16 years, etc.

The Federal German system of inter-state financial equalisation involves a similar redistribution to assist states whose tax income *per capita* is below the national average. Moreover, the states' share in the national value-added tax is based on population (as opposed to local tax receipts). A study of the operation of this system concluded that "there seems to have been no difficulty in reconciling the use of horizontal fiscal equalisation transfers to assist low income states with the need to have regard to the incidence of especially high costs associated with the growth of cities" (Hunter, 1973, p. 53). In contrast, the Australian system has been criticised as lacking an objective formula or appeal to quantitative analysis, with a resultant dependence on "short-term political bargaining" (*loc. cit.*).

7. The tax base is made up of the income tax base plus the base of the property tax converted to its income tax base equivalent.

In the United Kingdom, the Rate Support Grant has since 1966 been the dominant type of grant from the central government to local authorities. In recent years over 90 per cent of local authority grant income has been from this Grant, and less than 10 per cent from specific grants. The Grant is calculated with reference to projections of "relevant" expenditure, defined as net expenditure less all grants and non-Rates income and hence equivalent to Rates-borne expenditure. In the last few years these projections have been adjusted to allow for some of the effects of inflation. The percentage of relevant expenditure supported by the Grant depends on a "needs element" and a "resources element". The resources element is designed to give special support to local authorities whose tax base is below national average (calculated on the basis of rateable valuation per person). This resembles the equalisation formula used in Denmark. The needs element is calculated on the basis of a statistical analysis relating local expenditure to various social and demographic characteristics. (For further details of this Grant, see Hepworth, 1971, Chapter V.)

The Rate Support Grant reduced the importance of specific grants, and might appear to have increased the financial independence of the local authorities. However, because the Grant requires local authorities to prepare and submit expenditure estimates two years ahead as the basis for determining the size of the total Exchequer assistance, it has been described as "a powerful instrument for influencing the general attitude of local authorities to expenditure" (Treasury statement, quoted in Hepworth p. 111).

In the United States, proposals for automatically returning to the state and local governments some of the growth in the revenue yield of the federal income tax emerged during the 1960s. These were suggested by the pressures on state and local governments to increase expenditure on education, welfare, and other services and their limited revenue resources compared with the buoyancy of the main federal taxes. The arguments for and against the idea have been summarised by Eckstein (1967) commenting on the original (Heller-Pechman) revenue sharing plan :

The Heller-Pechman Plan has many advantages. It is a massive attempt to strengthen state governments. By leaving states free to spend the money on those programs for which they feel the most acute need, it strengthens local initiative and slows down the centralisation of government. By adding to the total resources available to the states, the plan promotes the quality of public services . . . By reducing the pressure on states and localities to raise property, gasoline, cigarette, and other nuisance taxes while relying more heavily on the more equitable federal income tax instead, the nation's tax system as a whole is maintained in better condition.

. . . The main obstacles are these: despite our desire to strengthen the state and local governments, our confidence in them is not high. If state governments were given billions of dollars to spend as they saw fit, without strings, would they really spend them well? (p. 42).

A system of revenue sharing was adopted in 1972. The programme involves disbursing \$30.2 thousand million from Federal tax revenue to state and local governments over a five-year period. The allocation is made on the basis of a formula that reflects each state's population, urbanised population, income per person, state income tax collections, and tax effort (measured by the proportion of state income paid in non-Federal taxes). Each state allocates the revenue it receives to lower levels of government on the basis of a similar formula. The shared funds may be used for most of the normal local government services with the exception of educational operating expenses, general administration expenses, and local welfare payments (cf. US Department of the Treasury, 1973). A preliminary investigation by the Advisory Committee on Intergovernmental Relations has reported in favour of renewing this programme on a long-term basis. It concluded that "revenue sharing has served to help equalise rich and poor states, has given more to needy central cities than to well-to-do suburbs and has allowed states and local communities to enjoy a healthy and wide discretion in use of the money."<sup>8</sup> A criticism of the system as it operates is that the uncertainty as to whether the experiment will be continued has prevented state and local government from using the funds to finance long-term programmes, resulting in a bias towards using the funds for short-term, and perhaps less essential, services. A detailed study of a state-local block grant system in Wisconsin found that such a system worked "fairly well" in achieving various goals of fiscal equalisation between localities (Strauss, 1974, p. 282).

In France, although a formal revenue-sharing system has not been introduced, the history of the local pay-roll tax ("taxe sur les salaires") is instructive. This tax replaced a local sales tax that had to be abolished in 1966 when VAT was introduced. It consisted of a five per cent national pay-roll tax, 85 per cent of whose yield was allotted to local authorities. The pay-roll tax was in turn abolished in 1968 and local authorities now receive a grant from the central government to compensate them for the loss of revenue from the pay-roll tax. As mentioned in the note to Table 3.2 this grant now amounts to over a quarter of local authority current income. Thus, a major block grant has been introduced in France to replace a local tax that was no longer administratively convenient.

The contrast between the British Rate Support Grant, on the one hand, and genuine revenue sharing schemes as operated in the US and The Netherlands,

8. According to reports in the *International Herald Tribune*, Nov. 5, 1974. A scholarly study by Richard Nathan of the Brookings Institution is to be completed soon.



on the other, lies in the basis on which the block grant to local authorities is calculated. A scheme of the type operated in Britain allows the amount of the grant to become an object of negotiation each year. Revenue sharing in its purest form guarantees by statute to local authorities a certain share in the revenue yield of some or all of the central government's taxes. The choice between alternative systems of block grants is ultimately a decision about how much financial independence is to be granted to local authorities.

In Section 4 we shall document the increasing dependence of Irish local authorities on state grants. Most of this growth has been due to the expansion of specific grants (for roads, housing, health, etc.). The only significant block grants are the agricultural grant and the contribution in lieu of Rates, which together amounted to 16 per cent of Revenue Account receipts in 1971-72. Although an important component of local authority income, these grants were not explicitly designed to equalise resources between local authorities nor do they reflect local needs according to the type of formulae used in Denmark, Britain and other countries.

In Section 8 of this study we present a detailed analysis of the regional pattern of state grants to local authorities, and in Section 9 we compare this pattern with what would emerge from a revenue sharing formula. Our objective in making these comparisons is to provide material for those interested in comparing the operation of our present grants system with an alternative based on revenue sharing.

#### *What Type of Local Taxes?*

The suitability of certain taxes (such as income and sales taxes) for local authorities depends greatly on the size of the jurisdiction which would administer them. When making comparisons between Ireland and other European countries or local authorities in America we should bear in mind that Irish GNP is considerably lower than the income arising in many major European or American cities.

We may see from Table 3.2 that, with the exception of Denmark and Belgium, local governments in the EEC rely more heavily on "taxes linked to production and imports" than on "current taxes on income and wealth".<sup>9</sup> In fact, in The Netherlands, Ireland, and the United Kingdom local authorities levy no taxes on income.

In Table 3.6 the main types of taxes levied by local authorities in EEC countries are listed. There is a contrast between countries such as Denmark, the United Kingdom and Ireland, which rely on one or two sources of local

9. The SNA classifies Rates as a "tax linked to production and imports". The Irish NIE treats Rates as a "tax on expenditure". The OECD, however, classifies Rates as a tax on immovable property, part of the wider category of "taxes on net wealth and immovable property". The theoretical issues behind this divergence are discussed in Section 7, below.

TABLE 3.6: Sources of local government tax revenue, EEC countries, 1972

<i>Country</i>	<i>Main types of tax and percentage share in total local government tax receipts</i>
Germany (FR)	Personal Income Tax (41%), Real Estate Tax (11%), Profits tax (34%)
France	Wealth Tax (18.5%) Real Estate Taxes (21%) "Contribution des Patentes" (29%)
Italy	Wealth Tax (5%) Real Estate Tax (6%) Family Tax (13%) Industry Tax (11%) General Turnover Tax (6%) Community Consumption Taxes (31%) Agricultural Profits Tax (4%) Taxes on Automobiles (4%)
Netherlands	Personal tax (18%), Tax on Roads, Streets, Canals, etc. (39%), Contributions to the "Waterschappen" (29%)
Luxembourg	Personal Income Tax (39%), VAT (10%), Real Estate Taxes (8%), Profits Tax (33%), Pay-rolI Tax (7%).
United Kingdom	Rates (100%)
Ireland	Rates (100%)
Denmark	Personal Income Tax (84%) Real Estate Tax (14%)

*Source:* Statistical Office of the European Communities, *Tax Statistics 1968-72*, Table 3.

*Note:* The labels of the various taxes are in several cases translations of the original French or German titles. The source should be consulted for an indication of how these are classified.

revenue, and Italy, at the other extreme, where a vast variety of local revenue sources are used. (Thirty-three separate types of taxes are used by local government in Italy!)

There is no close connection between the number of taxes used by local authorities and the proportion of tax receipts accruing to local authorities. In Denmark a single tax (the income tax) is heavily relied on to give the local authorities their very high share of total revenue; in Italy, on the other hand, many of the numerous local taxes have very small revenue yields. In The Netherlands there is a greater variety of local taxes than in Ireland or the United Kingdom, but the yield of these local taxes is trivial in comparison to the expenditure of local authorities. Ireland and the United Kingdom follow the same general pattern, both in relying on a single tax source at the local level and in the proportion of total tax revenue accruing to local authorities.

*The Importance of Taxes on Property: International Comparisons*

We have already noted that there is a tendency, especially in American and British commentaries, to identify the local property tax (or Rates) as *the* local tax. Certainly in the past this tax dwarfed all other local taxes in the "Anglo-Saxon" countries: as recently as 1902 the local property tax provided over half of *all* government revenue in the United States (Maxwell, 1969, p. 125). In Ireland in the pre-War years Rates amounted to almost one-fifth of all tax revenue. We have, however, noted that other local taxes are more important in continental European countries, where the revenue yield of property taxes is generally low.

In making an international comparison of the importance of property taxes, we may leave aside any consideration of which level of government levies them. In fact, where they exist, wealth and property taxes are usually levied by local authorities, as in Denmark, France, Italy, Sweden and the United States. In Table 3.7 we show for OECD countries the proportion of (i) total tax revenue and (ii) GNP obtained from "taxes on net wealth and immovable property". This Table is of interest not only in connection with our study of local government finance, but also in the context of proposals to extend "capital taxation" in Ireland. For this reason it is worth quoting in some detail the definition of taxes on net wealth and immovable property given in OECD (1973, pp. 196-8):

*Taxes on net wealth and immovable property*

Taxes on use or ownership of wealth and immovable property, levied at regular intervals (usually on an annual basis) fall into this category. Included also are special levies on capital and betterment levies. Taxes on or in respect of, the use of property present a number of borderline cases, and are classified here or elsewhere as follows:

*Included:*

- (a) Taxes on property levied on the basis of a presumed rental value . . .
- (b) Taxes on net wealth including property . . .
- (c) Taxes levied on the occasion of an improvement in the value of property because permission to develop has been granted or local facilities have been improved.
- (d) Taxes on the enlargement, construction or alteration of certain buildings beyond a permitted value (as recently enacted in Ireland) . . .

TABLE 3.7: *OECD member countries, 1965 and 1971*  
*Taxes on net wealth and immovable property as a percentage of total tax revenue and GNP*

Country	Total tax revenue		GNP	
	1965	1971	1965	1971
Australia	6.8	5.9	1.6	1.6
Austria	2.4	2.0	0.8	0.8
Belgium(*)	—	—	—	—
Canada	11.7	11.3	3.1	3.6
Denmark	6.2	5.2	1.9	2.3
Finland	2.1	0.5	0.6	0.2
France	1.7	1.5	0.6	0.5
Germany (FR)	3.8	2.8	1.2	1.0
Ireland { Actual	12.2	10.4	3.0	3.3
{ (b)		5.9		1.9
Italy	1.7	1.0	0.5	0.3
Japan	5.3	5.0	1.0	1.0
Luxembourg	4.0	4.2	1.3	1.4
Netherlands	2.4	1.8	0.8	0.8
Norway	2.6	1.7	0.9	0.7
Portugal	—	0.3	—	0.1
Spain	0.4	0.4	0.1	0.1
Sweden	0.9	0.6	0.3	0.3
Switzerland	6.1	6.0	1.3	1.4
Turkey	3.0	2.4	0.5	0.6
United Kingdom	11.2	10.5	3.4	3.7
United States	13.6	13.3	3.4	3.7

(a) There are no taxes classified as on "net wealth and immovable property" in Belgium, but there is a tax on the imputed income from property. This yielded 2.6 per cent of total tax revenue in 1971 and it is classified as an income tax in the OECD study.

(b) Figures indicate the situation as it would have been if all health and housing subsidy charges had been removed from the Rates.

Basic source: OECD, 1973, Tables 2.1 and 14.

*Excluded:*

- (e) Taxes on property levied on the basis of a presumed net income (e.g., Belgium, Italy, Portugal).
- (f) Taxes on change of ownership or sale of property . . .
- (g) Taxes on use of property for residence, payable by either proprietor or tenant, which take account of the user's personal situation (pay, dependents, etc.) (as in France and The Netherlands). These are classified as taxes on income.

The exclusion at (g) covers cases where property taxes are integrated into the income tax code (as in the old Irish Schedules A and B). This type of tax does not seem important in any OECD country at present.

The Rates clearly differ in two important ways from a general wealth tax: first, they are levied only on certain forms of wealth (namely, real property), and secondly, the basis of the levy is gross as distinct from net worth. Many authorities exclude from the category of wealth taxes "property taxes of a kind levied on gross value and/or on one kind of property only" (Sandford, 1971, p. 19).<sup>10</sup> Nonetheless, in view of the theoretical basis for treating property taxes as taxes on profits (a point we shall discuss in Section 7) there is a case for classifying the Rates as a form of capital taxation. In this connection it is relevant to recall that in Britain the local rate was originally a general property tax. It gradually became a tax solely on real property "because of the difficulties in securing payments on other types of property" (Sandford, p. 73). Similarly, in many states of the US general property taxes are in fact confined to real estate and other easily assessable forms of wealth, such as cars. One of the motivations for introducing succession duties in the United Kingdom was the desire "to achieve some rough sort of justice between owners of real and personal property" (Sandford, p. 75).

The impression conveyed in the White Paper *Capital Taxation* that Ireland is exceptional by European standards in the low proportion of tax revenue derived from taxes on capital is not confirmed by the data of Table 3.7, where Rates are included among "taxes on net worth and immovable property". While it is true that many European countries (such as Sweden or The Netherlands) have an impressive array of "wealth taxes", these taxes yield relatively minor proportions of total tax revenue. In contrast with this situation is the high proportion of total revenue raised from Rates in Ireland in 1971. In that year the proportion of tax revenue collected through the Rates in Ireland was higher than that yielded by similar taxes in any other OECD country except the United Kingdom, the United States and Canada. In these three countries local authorities also rely heavily (if not exclusively) on local property taxes, whereas in many of the other OECD countries general taxes on net worth are the only taxes included among "taxes on net wealth and immovable property".

There are obvious reasons why taxes such as our Rates would have a proportionately greater yield than a general tax on net worth. As already stressed, Rates are levied on the gross ownership of rateable property. Furthermore, there are no general exemptions or thresholds (apart from the Rates relief on agricultural holdings and remissions for new dwellings, see Section 6). Finally, the

10. In fact all wealth taxes exclude some forms of capital (for example, "human capital" in the form of education and labour force skills). The remission of Rates allowed on new dwellings in Ireland has some tendency to move the basis of the tax closer to net worth.

effective rate of taxation by the Rates is probably higher than the one or two per cent of net worth common under most wealth taxes.

The high rank of Ireland in Table 3.7 reflects the situation as it was before the present policy of phasing out health and certain housing charges from the Rates was introduced.<sup>11</sup> For this reason we have also included in the table an estimate of the situation that would have prevailed in Ireland if this policy had been fully effective in 1971. It may be seen that the effect of this calculation is to reduce significantly the importance of the Rates as a revenue source in Ireland. This removes Ireland from the company of the United States, the United Kingdom and Canada as far as dependence on this tax is concerned, and places it in an intermediate position, close to Australia, Switzerland, Denmark and Japan. However, this calculation ignores the possibility of important changes in the tax structure of other OECD countries. For example, dependence on Rates in the United Kingdom and on property taxes in the United States seems likely to fall during the 1970s.

### *Conclusions*

The material presented in this Section supports the following conclusions (based mostly on comparisons with EEC countries about 1972):

- (i) Local authorities tend to account for a high proportion of general government final consumption expenditure and capital formation, but a low proportion of social benefits and subsidies.
- (ii) Measured in terms of the amount of general government expenditure accounted for locally, the importance of local authorities in the Irish economy is close to the average for EEC countries.
- (iii) Local taxes rarely account for as much as one-half, and grants from central government generally account for one-third, of the current income of local authorities. Once again, the Irish situation is fairly typical of EEC countries in this regard.
- (iv) Measured in terms of the share of local taxes in total tax revenue, local authorities are relatively important in the Irish economy, but present policies imply a significant decline in this share before the end of the decade.

11. That part of the cost of health services and local authority housing provided for letting, which up to and including 1972/73 was met by the Rates, is being transferred to central government over a period of four years—in 1973/74 the rates in the pound for these services were 75 per cent of the 1972/73 poundage, for the nine month financial year of 1974, they were 37½ per cent and for 1975 and 1976 the percentages are 25 and 12½ respectively. The increased cost of these services, arising since 1972/73, has of course been borne in full by the central government.

- (v) There is not a close correlation between dependence on local taxes and the proportion of expenditure accounted for by local authorities.
- (vi) By comparison with other OECD countries, Ireland in 1971 depended heavily on property taxes (the Rates) as a source of revenue. In this we resembled the pattern found in the United States, the United Kingdom and Canada. In other countries a wider variety of local taxes is levied.

## Section 4 :

### *Trends in Irish Local Authority Revenue and Expenditure, 1953-75*

OUR emphasis in this Section is on the revenue accounts of the local authorities included in the *Returns of Local Taxation*. Expenditure and receipts on these accounts are most relevant from the viewpoint of a study of the rating system. By way of introduction, however, we show the importance of these accounts in relation to other definitions of local authority revenue and expenditure.

In Table 4.1 we set out the total expenditure (capital or loan and revenue) of local authorities as defined in NIE and of the authorities included in RLT. In order to provide a consistent basis for comparison, the RLT data are presented including and excluding expenditure on health: as we have seen, the RLT health figures were affected by the creation of the regional health boards in 1970.

The main point that emerges from Table 4.1 is that the expenditure of the local authorities included in RLT has declined as a proportion of the wider NIE concept of local expenditure particularly when health expenditure is excluded from consideration. This reflects the fact that the grant and other income of bodies such as vocational education committees, county committees of agriculture, and harbour authorities, has been growing more rapidly than the expenditure covered in RLT.

In line with the material presented in the previous Section on the rôle of local authorities under various classifications of expenditure, we have reviewed the share of NIE local authorities in general government expenditure by category since 1953. The main points to emerge from this survey may be summarised briefly:<sup>1</sup> local authorities increased their share of general government expenditure on current goods and services over the period 1953-73, but their share of general government transfer payments and subsidies, and of gross domestic physical capital formation, declined significantly. All of the fall in local authorities' share of capital formation occurred in the mid-1950s, and reflected the sharp decrease in local authority capital expenditure that took place at that time. The net result of these trends has been a marked stability in the share of local authorities in general government's *total* expenditure: this share reached a

1. The figures on which this review is based are not included here, but are available on request from ESRI.



TABLE 4.1: Comparison of RLT local authority expenditure and NIE local authority expenditure, 1953-1975

Year starting April 1	NIE local authority expenditure	RLT local authority expenditure		RLT local authority expenditure as percentage of NIE local authority expenditure	
		Total	Excluding health	Total (2) ÷ (1) × 100	Excluding health (3) ÷ (1) × 100
	1	2	3	4	5
	(£ million)	(£ million)	(£ million)	per cent	per cent
1953	61.8	57.9	50.1	93.7	81.1
1954	64.5	60.0	49.6	93.0	76.9
1955	68.4	63.5	46.7	92.8	68.3
1956	70.7	65.5	45.4	92.6	64.2
1957	69.5	59.9	40.2	86.2	57.8
1958	65.6	60.2	40.3	91.8	61.4
1959	67.6	61.9	41.7	91.6	61.7
1960	70.7	65.1	43.9	92.1	62.1
1961	77.4	71.7	49.0	92.6	63.3
1962	83.7	77.1	52.4	92.1	62.6
1963	90.6	83.2	56.9	91.8	62.8
1964	106.3	97.5	65.1	91.7	61.2
1965	119.7	109.7	73.9	91.6	61.7
1966	128.1	118.4	77.9	92.4	60.8
1967	143.0	131.3	87.0	91.8	60.8
1968	161.6	147.3	98.1	91.2	60.7
1969	193.4	175.8	117.1	90.9	60.5
1970	217.1	198.7	126.1	91.5	58.1
1971	259.5	181.8*	150.9*	70.1	58.2
1972	312.4	215.9*	180.1*	69.1	57.7
1973	n.a.	250.1*	222.1*	—	—
1974	n.a.	242.9*	228.8*	—	—
1975	n.a.	349.9*	340.3*	—	—

\*Estimates supplied by the Department of Local Government.  
n.a. = not available.

Basic sources: (1) NIE: Table A 16, item 179.

(2) and (3) RLT: Table B, Table D.

Note: The 1974 financial "year" extended from April 1 to December 31, only nine calendar months; 1975 and subsequent financial years will be coterminous with the calendar year.

peak of 39 per cent in 1955, and a low point of 30.7 per cent in 1970, but has tended to remain relatively constant at about one-third. However, given that general government expenditure as a percentage of GNP has grown significantly, especially since the early 1960s, local authority expenditure as a percentage of GNP has also grown, from 10.5 per cent in 1960 to 14.0 per cent in 1972.

In examining the expenditure covered in RLT, we focus attention on the revenue account, since the loan account mainly reflects transactions between local authorities and the Local Loans Fund and does not result directly in charges on the Rates. In Table 4.2 we have drawn together the data in RLT for the revenue accounts of the local authorities by type of service as distinguished in these returns. Once again, the effect of the 1971 transfer of the health services dominates the table: whereas the combined health and public assistance headings had risen from 36 per cent of the total revenue account in 1953 to 46 per cent in 1970, the 1971 reorganisation resulted in a sharp fall (to 25 per cent) and the implementation of the transfer of health charges from the Rates in 1973 has led to a continuing reduction. By 1977 there will be no health expenditure in RLT. These changes have caused roads to regain the prominence they enjoyed on the revenue account in the early 1950s, with the share of housing, sanitary services and general purposes increasing to new levels.

Expenditure on revenue account is financed from three main sources: local taxes (the Rates), state grants, and "other income" of local authorities. In studying these sources of revenue, we distinguish between Gross Rates (including Rates on agricultural holdings paid by the central government through the agricultural grant)<sup>2</sup> and "Rates payable locally", that is Gross Rates less the agricultural grant. We shall concentrate on "Rates payable locally" as the relevant concept of local taxation.

Grants from the central government, with the exception of the agricultural grant,<sup>3</sup> are specific grants, earmarked for a particular local project. They are generally on a matching basis, which requires the local authority to obtain from local sources a certain proportion of the total amount to be spent.

The "other income" of local authorities is mostly derived from the sale of services (either at full cost or at a subsidised price) to the general public. This is particularly important in the case of housing services.

2. At present, agricultural holdings not exceeding £20 land valuation qualify for an allowance of 100 per cent of the general rate in the pound. Holdings with valuations over £20 but not exceeding £33 qualify for an allowance of 100 per cent of the general rate in the pound on the first £20 land valuation. In these cases the occupier is liable for full Rates on the portion of the land valuation exceeding £20. Holdings with valuations over £33 qualify for a primary allowance of 80 per cent of the general rate in the pound on the first £20 valuation and a supplementary allowance of 33 per cent on the balance. There is also an offset against Rates for each agricultural labourer employed. The Rates levied on relieved holdings are paid to the rating authority by the central government through the agricultural grant.

3. The central government contribution in lieu of Rates could also be regarded as a non-specific grant.

In Table 4.3 we set out the percentage distribution of RLT revenue account receipts by source of income. (Note that the total of receipts in this table differs slightly from the expenditure total in Table 4.2) Over the period 1956-70 there was a steady decline in the proportion of revenue account receipts obtained from the Rates. The transfer of the health services in 1971 and the payment direct to the Regional Health Boards of the state grants for health services resulted in a sudden rise in the share of revenue account receipts derived from the Rates, but this has been followed immediately by a decline as the health and housing charges are removed from the Rates. In the last line of the table we estimate that this policy would in 1972 have resulted in a situation where over a third of revenue account receipts came from local taxation.

The other side of these trends is the increased importance of state grants in total receipts. The transfer out of RLT of the health expenditure financed by state grants temporarily checked the growing importance of this source of revenue for the local authorities covered in RLT. However, the removal of the health charges and the housing subsidy from the Rates suggests that state grants will again rise to over 50 per cent of local authority income. Moreover, the importance of specific grants (that is, all grants less the agricultural grant and the contribution in lieu of Rates) will grow even more rapidly. The share of other income in total receipts has varied relatively little over the years, but has tended to rise and should stabilise at about one-fifth on the basis of present policies.

Projections of the future composition of local revenue would require projections of the rate of growth of expenditure on the various services, and these in turn depend on political and social trends which it is extremely difficult to predict. For this reason we limit ourselves in Table 4.3 to showing how the structure of local revenue would have looked in 1972-73 if the health and relevant housing charges had been transferred to the central government.

It is of interest to explore in detail the way in which revenue account receipts for each service have been divided between local taxation, state grants and other income. In Table 4.4 we set out the calculations for 1953, 1969 and 1975. This table shows first of all the tendency of all services to become more dependent on state grants between 1953 and 1969. The trend is most notable in the case of sanitary services. By 1969, all services were financed to the extent of at least one-quarter from state grants, and roads and health were financed roughly two-thirds from this source. The importance of "other income" in the case of housing is striking, and reflects the activities of local authorities as lessors of housing to the public. It should, however, be stressed that this income from housing is a gross concept; local authority income from housing net of maintenance and other expenses is a relatively small amount. This point has been illustrated in the Appendix to Section 2.

TABLE 4.2: Returns of local taxation expenditure on revenue account and its percentage distribution by services, 1953-1975

Year starting April 1	Expenditure on revenue a/c (1) (=100%)	Roads (2)	Public assistance (3)	Health <sup>a</sup> (4)	Sanitary services (5)	Housing (6)	General purposes (7)
	(£'000)	per cent	per cent	per cent	per cent	per cent	per cent
1953	40,274	26.7	16.7	19.4	7.1	14.7	15.4
1954	42,973	26.0	16.9	19.5	7.3	15.4	14.9
1955	46,433	25.0	2.4	34.8	7.3	15.3	15.2
1956	49,618	23.3	2.3	36.3	7.5	16.2	14.4
1957	49,561	21.6	2.4	37.3	7.8	17.6	13.2
1958	51,407	21.4	2.3	37.5	8.1	17.7	13.1
1959	53,302	21.7	2.1	36.7	8.2	18.1	13.2
1960	55,890	21.6	2.0	36.9	8.4	18.0	13.1
1961	60,918	22.8	1.8	36.3	8.2	17.6	13.2
1962	64,856	22.4	1.7	37.4	8.3	17.2	12.9
1963	68,694	22.0	1.7	37.5	8.4	17.2	13.2
1964	79,330	20.8	1.7	39.7	8.3	16.1	13.4
1965	86,429	20.1	1.6	40.4	8.2	16.1	13.6
1966	94,458	19.3	1.7	41.0	8.2	16.0	13.8
1967	102,385	17.9	1.7	41.2	8.2	16.7	14.3
1968	112,956	17.1	1.6	42.0	8.6	17.0	13.7
1969	133,329	16.3	1.6	43.3	8.4	17.1	13.3
1970	158,088	16.5	1.6	44.4	8.6	15.6	13.4
1971	134,253	22.2	1.7	23.5	12.2	20.8	19.6
1972 <sup>a</sup>	154,800	22.0	2.0	23.0	12.0	21.0	20.0
1973 <sup>a</sup>	169,270	23.0	2.0	16.0	14.0	23.0	22.0
1974 <sup>a</sup>	161,730	25.0	2.0	9.0	16.0	26.0	22.0
1975 <sup>a</sup>	224,863	26.0	2.0	4.0	18.0	27.0	23.0

<sup>a</sup>Estimates. <sup>b</sup>Includes Mental Health Boards up to and including 1960, while the figures for 1971 to 1975 refer to money supplied to Regional Health Boards.

Note: The 1974 financial "year" extended only from April 1 to December 31. See note to Table 4.1.

Basic source: RLT Table B.

TABLE 4.3: Local authorities' receipts on revenue account, by source of finance (percentage distribution), 1953-75

Year starting April 1	Rates payable locally <sup>a</sup>  per cent	Grants			Other income  per cent	Total receipts=(100%)  (£'million)
		Agricultural per cent	Other <sup>b</sup> per cent	Total per cent		
1953	39.4	11.9	33.7	45.5	15.1	40.6
1954	39.2	12.1	34.1	46.1	14.8	43.5
1955	39.7	11.7	33.7	45.5	15.5	45.4
1956	40.5	11.3	32.1	43.4	16.1	48.6
1957	38.6	10.6	34.4	45.0	16.4	52.0
1958	39.9	10.8	32.4	43.1	17.0	51.5
1959	39.8	10.3	32.3	42.6	17.6	53.8
1960	38.7	10.0	33.7	43.7	17.5	56.8
1961	38.3	9.6	34.8	44.5	17.2	60.6
1962	35.5	13.3	34.2	47.5	17.0	64.2
1963	35.6	13.1	34.3	47.4	17.0	68.7
1964	33.7	14.5	35.3	49.7	16.6	77.3
1965	34.8	14.6	35.0	49.6	15.6	85.4
1966	33.8	14.3	35.8	50.1	16.1	93.2
1967	33.4	14.9	35.7	50.6	16.0	103.9
1968	33.2	14.9	35.9	50.8	16.1	115.4
1969	32.9	14.4	36.1	50.5	16.6	130.7
1970	32.2	13.3	38.0	51.3	16.5	155.4
1971	45.2	18.5	19.8	38.3	16.5	132.1
1972	45.0	18.0	19.0	37.0	19.0	156.4
1973	42.0	16.0	22.0	38.0	20.0	169.9
1974 <sup>c</sup>	38.0	14.0	29.0	43.0	19.0	161.4
1975 <sup>c</sup>	38.0	13.0	28.0	41.0	21.0	225.9
1972-73 <sup>d</sup>	36.7	14.9	23.9	38.8	24.5	120.6

Basic source: RLT: Table A, and estimates supplied by the Department of Local Government.

<sup>a</sup>Rates exclusive of the Agricultural Grant and the contribution in lieu of Rates.

<sup>b</sup>Including state contribution in lieu of Rates (which is treated as Rates in NIE).

<sup>c</sup>Estimates.

<sup>d</sup>Situation that would have existed if health and housing subsidies had been fully paid by state grants.

Note: The 1974 financial "year" extended only from April 1 to December 31. See note to Table 4.1.

TABLE 4.4: Receipts of local authorities on revenue account: sources of finance for each service 1953-54, 1969-70 and 1975

Service	Year	Rates payable locally per cent	State grants			Other receipts per cent	Total <sup>a</sup> per cent	£ million
			Agricultural grants per cent	Other per cent	Total per cent			
Roads	1953-54	30.4	14.7	53.5	68.1	1.4	100.0	10.4
	1969-70	27.2	21.1	48.4	69.5	3.3	100.0	21.8
	1975	33.2	17.8	45.0	62.8	4.0	100.0	58.3
Health and P.A. <sup>b</sup>	1953-54	36.5	13.5	42.6	56.0	7.5	100.0	13.6
	1969-70	26.3	14.5	50.8	65.4	8.4	100.0	56.1
	1975	69.6	27.8	0.2	28.0	2.4	100.0	13.7
Sanitary Services	1953-54	70.2	10.4	1.5	11.9	17.9	100.0	3.0
	1969-70	57.2	15.6	12.2	27.8	15.0	100.0	11.1
	1975	58.7	14.6	12.2	26.8	14.5	100.0	41.2
Housing	1953-54	23.8	6.5	19.2	25.6	50.5	100.0	5.8
	1969-70	20.7	8.4	17.8	26.2	53.2	100.0	21.9
	1975	7.5	2.8	41.3	44.1	48.4	100.0	60.5
General purposes	1953-54	62.4	15.0	11.0	26.0	11.6	100.0	6.9
	1969-70	60.3	18.0	9.0	27.0	12.7	100.0	20.0
	1975	52.7	16.0	13.1	29.1	18.2	100.0	52.2
Total expenditure	1953-54	40.2	12.8	33.4	46.2	13.7	100.0	39.7
	1969-70	33.3	15.2	35.2	50.4	16.2	100.0	130.9
	1975	38.0	13.0	28.0	41.0	21.0	100.0	225.9

Basic sources: RLT (1953-54 and 1969-70) and Statutory Estimates of Local Authorities (1975).

<sup>a</sup>. Total refers to the receipts side of the Revenue Accounts of the various local authorities except in the case of the Unified Health Authorities, where both sides of the various Revenue Accounts had to be used. This gives rise to a slight discrepancy between the totals in this Table and Table 4.3.

<sup>b</sup>. The Health figures for 1975 do not include state Grants, which are paid to Regional Health Boards from 1 April 1971.

Since 1969, the health charges remaining in RLT must, of course, be financed fully from the Rates. For housing, the importance of state grants has increased sharply as the policy of transferring most housing charges to the central government has been implemented. Less change is apparent between 1969-75 in the sources of finance for the other services (roads, sanitary services, and general purposes), the most notable feature being the increased importance of "other income" for general purposes.

For some purposes, the most significant way of looking at the receipts of local authorities is to concentrate on the Rates account. In Table 4.5 we set out the charges on the Rates over the years 1953-75. The transfer of health services to the regional health boards in 1971 has no direct effect on this table, which continues to reflect the amounts contributed to the regional health boards by local authorities. However, the effects of the policy introduced in 1973 of removing health and housing charges from the Rates are seen clearly in this table. Health and public assistance services combined grew from 32 per cent of the Rates charges in 1953 to 37 per cent in 1966. Between 1966 and 1973, following a number of government decisions regarding the growth in health charges on the Rates, this proportion stabilised. After 1973, the implementation of the policy of transferring all health charges to the central government led to a decline. By 1977 there will be no health charges on the Rates.

Thus at present, general purposes are the largest charge on the Rates, followed by roads and then sanitary services. It is likely that any major expansion of public expenditure on roads (due for example to motorway construction) will not result in any major increase in charges on the Rates but will be primarily financed by state grants. Thus sanitary services and general purposes are likely to predominate in the Rates account in the years ahead. These headings include many items where the demand for more and better services is likely to grow with greater affluence and urbanisation. Examples of these types of services are street lighting, refuse collection, parks, libraries, recreation facilities, conservation expenditures and, of course, the overhead costs of administering the whole system of local government.<sup>4</sup>

In Table 4.6 we present Rates-financed expenditure on various services per head of population in 1968 prices. The most striking feature of this table is the virtual stability of real expenditure per person from the Rates on roads, contrasted with a growth of at least 50 per cent in expenditure on all other services.

The figure for the Total Rates shown in Table 4.7 is inclusive of the Rates (*a*) on agricultural holdings benefiting from Rates relief and (*b*) on government buildings. The Rates on these properties are paid by the central government to the rating authority through (*a*) the agricultural grant and (*b*) the contribution

4. It is unsatisfactory that the largest item under "general purposes" should be "other expenditure," which amounts to over a third of the heading.

TABLE 4.5: *The charges on the Rates, 1953-1975*

Year starting April 1	Services charged against the Rates (% distribution)						Total rates <sup>c</sup> =(100%) £ million
	Roads per cent	Public assistance per cent	Health <sup>a</sup> per cent	Sanitary services per cent	Housing per cent	General <sup>b</sup> purposes per cent	
1953	22.3	16.0	16.3	11.6	8.3	25.6	21.1
1954	22.0	16.4	16.4	11.5	8.0	25.7	22.6
1955	22.1	3.6	29.6	11.2	8.5	25.1	23.4
1956	22.0	3.4	31.4	11.3	7.9	24.1	25.6
1957	20.9	3.1	31.3	11.6	8.3	24.8	25.9
1958	20.9	3.3	30.5	11.5	9.1	24.6	26.5
1959	20.6	3.0	31.0	12.0	8.9	24.6	27.4
1960	20.2	3.1	31.1	12.5	9.1	24.0	28.2
1961	20.0	3.0	30.7	12.5	9.0	24.8	29.6
1962	19.4	2.8	31.6	13.0	9.0	24.1	31.8
1963	18.8	2.7	32.0	12.7	8.8	24.9	34.1
1964	18.6	2.7	33.2	12.5	8.3	24.6	37.9
1965	17.4	2.7	34.8	12.1	8.4	24.6	43.0
1966	16.8	3.0	34.2	12.3	9.5	24.2	45.6
1967	16.7	3.8	30.1	12.5	9.5	27.6	51.1
1968	16.6	2.9	32.2	12.3	9.6	26.4	56.4
1969	16.7	2.7	33.7	12.9	10.1	23.8	62.9
1970	16.6	2.6	31.4	13.3	10.4	25.7	71.8
1971	17.0	2.0	34.0	14.0	9.0	24.0	85.8
1972	16.0	2.0	33.0	15.0	10.0	24.0	100.0
1973	20.0	2.0	26.0	18.0	8.0	26.0	100.8
1974	23.0	2.0	16.0	21.0	8.0	30.0	86.7
1975	27.0	3.0	8.0	25.0	5.0	32.0	118.2

<sup>a</sup>. Includes Mental Hospitals up to 1960-61. <sup>b</sup>. Includes Town Charges. <sup>c</sup>. Includes agricultural grant and contribution in lieu of Rates.

*Basic sources:* RLT and figures supplied by the Department of Local Government.

*Note:* The 1974 financial "year" extended only from April 1 to December 31. See note to Table 4.1.



TABLE 4.6: *Expenditure from the Rates on the various services in 1968 prices\* per head of population, 1953-72.*

<i>Year starting April 1</i>	<i>Roads</i>	<i>Public Assistance + health</i>	<i>Sanitary services</i>	<i>Housing</i>	<i>General purposes</i>	<i>Total</i>
	(1)	(2)	(3)	(4)	(5)	(6)
	£	£	£	£	£	£
1953	3.1	4.5	1.6	1.2	3.6	14.0
1954	3.3	5.0	1.7	1.2	3.9	15.2
1955	3.4	5.1	1.8	1.3	3.8	15.3
1956	3.6	5.6	1.8	1.3	3.9	16.2
1957	3.3	5.5	1.9	1.3	4.0	16.0
1958	3.3	5.3	1.8	1.4	3.9	15.7
1959	3.3	5.4	1.9	1.4	3.9	15.8
1960	3.2	5.4	2.0	1.4	3.8	15.8
1961	3.2	5.3	2.0	1.4	3.9	15.9
1962	3.1	5.5	2.1	1.4	3.9	16.0
1963	3.2	5.7	2.1	1.4	4.1	16.4
1964	2.9	5.6	1.9	1.3	3.8	15.5
1965	3.0	6.4	2.1	1.4	4.2	17.1
1966	2.9	6.5	2.1	1.7	4.2	17.4
1967	3.2	6.4	2.4	1.8	5.2	19.0
1968	3.2	6.8	2.4	1.9	5.1	19.4
1969	3.3	7.2	2.6	2.0	4.7	19.8
1970	3.3	6.7	2.6	2.1	5.1	19.8
1971	3.6	7.7	3.0	1.9	5.1	21.3
1972	3.5	7.6	3.2	2.2	5.2	21.6

\* The deflator used is the implied deflator for "Net expenditure by public authorities on current goods and services" in NIE.

*Basic sources:* RLT and NIE Tables A.5 and A.6.

in lieu of Rates. The agricultural grant is almost entirely paid to county councils, especially to those in regions where much of the land is held in small holdings of low valuation. The contribution in lieu of Rates, on the other hand, is made almost entirely to urban authorities: in 1969, 34 per cent of it was received by Dublin County Borough Corporation.

When the agricultural grant and the contribution in lieu of Rates are subtracted from Total Rates the residual may be called "Rates payable locally". This concept represents the most relevant measure of local taxation. In Table 4.7 we set out the figures for Total Rates and Rates payable locally, for the years 1953-75. It may be seen that the ratio of Total to local Rates rose from 1.28 in 1961 to 1.47 in 1968. If no changes in the relief of agricultural holdings occur,

TABLE 4.7: Total Rates and Rates payable locally, 1953-75

<i>Year starting April 1</i>	<i>Total Rates</i>	<i>Agricultural grant</i>	<i>Contribution in lieu of Rates</i>	<i>Rates payable locally = (1) less (the agricultural grant and the contribution in lieu of Rates)</i>	<i>Ratio of total to local Rates = (1)/(4)</i>
	(1)	(2)	(3)	(4)	(5)
	£million	£million	£million	£million	
1953	21.1	4.8	0.3	16.0	1.32
1954	22.6	5.2	0.3	17.0	1.33
1955	23.4	5.3	0.3	17.7	1.32
1956	25.6	5.5	0.4	19.7	1.30
1957	25.9	5.5	0.3	20.1	1.29
1958	26.5	5.5	0.4	20.6	1.29
1959	27.4	5.6	0.5	21.4	1.28
1960	28.2	5.7	0.5	22.1	1.28
1961	29.6	5.8	0.5	23.2	1.28
1962	31.8	8.5	0.5	22.8	1.39
1963	34.1	9.0	0.6	24.5	1.39
1964	37.9	11.1	0.8	26.1	1.45
1965	43.0	12.5	0.8	29.8	1.44
1966	45.6	13.3	0.8	31.5	1.45
1967	51.1	15.6	0.8	34.7	1.47
1968	56.2	17.0	0.9	38.3	1.47
1969	62.9	18.9	1.0	43.0	1.46
1970	71.8	20.6	1.1	50.1	1.43
1971	85.8	24.4	1.7	59.8	1.43
1972	100.0	27.9	2.0	70.1	1.43
1973	100.8	27.5	2.1	71.3	1.41
1974	86.7	23.3	1.9	61.5	1.41
1975 <sup>a</sup>	118.2	30.3	3.0	84.9	1.39

*Basic sources:* RLT.

*Note:* The 1974 financial "year" extended only from April 1 to December 31. See note to Table 4.1.

<sup>a</sup>Estimates.

the ratio would tend to fall as non-agricultural valuations grow while the number of small holdings remains stable or declines. This tendency may be seen over the years 1953-61, and again after 1968. Offsetting this trend, however, has been the repeated extension of relief to the point where, in 1971, 68 per cent of Rates levied on agricultural land were met by the agricultural grant, and almost 77 per cent of agricultural holdings in the country were completely relieved of Rates (de Buitleir, 1974, p. 19). We shall present some evidence on the effects

of the agricultural grant in our discussion of the incidence of the Rates and in connection with patterns of local expenditure by county.

The proportion of the total tax yield and of GNP collected through the Rates is set out in Table 4.8. The share of local Rates in total tax revenue declined by almost 50 per cent (from 15.6 to 8.4 per cent) between 1956 and 1973. We have already noted that even in 1971 the share of Rates in total tax revenue was very high in Ireland by international standards. This share will undergo a further significant reduction before the end of the present decade, as health and housing charges are transferred to non-Rates taxation. It is interesting to note, however, that the share of Rates in GNP has not declined as steadily

TABLE 4.8: Rates as proportion of total tax receipts and of GNP, 1953-74

Year starting April 1	Rates payable locally as percentage of:		Total Rates (incl. ag. grant and con- tribution in lieu of Rates) as percentage of:	
	Total tax receipts	GNP <sup>a</sup>	Total tax receipts	GNP <sup>a</sup>
	(1)	(2)	(3)	(4)
1953	14.4	3.0	19.0	4.0
1954	14.9	3.2	19.8	4.3
1955	14.8	3.2	19.6	4.2
1956	15.6	3.5	20.2	4.6
1957	15.2	3.5	19.7	4.5
1958	15.3	3.4	19.7	4.4
1959	15.3	3.4	19.6	4.3
1960	15.1	3.3	19.3	4.2
1961	14.2	3.2	18.1	4.1
1962	13.1	2.9	18.4	4.1
1963	12.6	2.9	17.6	4.1
1964	11.3	2.8	16.5	4.0
1965	11.7	2.9	17.0	4.3
1966	11.0	2.9	16.2	4.4
1967	10.8	3.0	15.6	4.3
1968	10.4	2.9	15.4	4.2
1969	9.9	2.8	14.5	4.1
1970	9.8	2.9	14.1	4.2
1971	9.9	3.1	14.2	4.5
1972	10.0	3.1	14.3	4.4
1973	8.4	2.7	11.7	3.8
1974	n.a.	2.1	n.a.	3.0

<sup>a</sup> Relates to calendar year.

n.a.=not available.

Basic sources: NIE Tables A.2 and A.18, Review of 1974 and Outlook for 1975, and RLT.

over the years as has its share in total taxation: this is due to the very significant rise in the share of GNP collected in taxes other than the Rates which increased from 19 per cent in 1956 to 30 per cent in 1970.

The big expansion of revenue obtained from taxes other than Rates reflects both the introduction of new levies (such as turnover tax and VAT) and the buoyancy of other taxes, especially the income tax, during an inflationary period. We may see from Table 4.9 how the yield from the Rates has declined in relation to that from other taxes. In 1953, Rates were fourth in importance among

TABLE 4.9: *Details of taxation, 1953-54 and 1973-74*

	<i>Net receipts</i> £ million		<i>Percentage distribution</i> per cent	
	1953	1973	1953	1973
Income Tax and surtax	22.2	221.6	22.3	30.1
Corporation profits tax	2.6	22.8	2.6	3.1
Estate etc. duties	2.8	14.0	2.8	1.9
Customs duties	36.9	138.9	37.1	18.9
Excise duties	17.2	115.7	17.3	15.7
Turnover, wholesale and VAT	—	137.1	—	18.6
Stamp duties	1.7	14.0	1.7	1.9
Rates (payable locally)	16.0	71.3	16.1	9.7
<i>Total*</i>	99.4	735.4	100.0	100.0

\* Excluding social insurance contributions and certain minor duties.

*Basic source:* Revenue Commissioners (1953-54 and 1973-74) and Table 4.7.

all taxes, with only income tax and customs levies yielding significantly larger revenues. At that time income tax (including surtax and corporate profits tax) yielded less than twice as much as Rates. In 1973, on the other hand, Rates had fallen to fifth in importance among taxes, yielding significantly less than income tax, customs levies, VAT, and excise duties, and the yield from income tax was more than three times that of the Rates.

### *Conclusion*

The NIE definition of local expenditure maintained its share of general government expenditure over the years 1953-73, although its share of general government subsidies and capital formation declined. The share of the local authorities covered in RLT in NIE local authority expenditure declined significantly over the years since 1953 even when health expenditure is left out of consideration.

Rates payable locally as a percentage of total government tax revenue declined from 15·6 per cent in 1956 to 8·4 per cent in 1973, and present policies imply a further reduction in this proportion. Rates have also declined in relative importance as a source of local revenue: in 1956 just over 40 per cent of revenue account receipts were from Rates, compared with 32 per cent in 1970. After 1970, the transfer of health from the local authorities checked this downward trend in the relative importance of Rates as a source of revenue, but the phased transfer to the central government of health and certain housing charges has caused Rates to decline again in relative importance as a source of local revenue since 1973.

The most striking transformation of the Rates in the post-war years has been the reversal of the rapid increase in the proportion of the charges on the Rates attributable to health. By the mid-1960s over one-third of the charges on the Rates were for health, but by 1977 health will no longer result in any charges on the Rates. By that year the main charges on the Rates will be for general purposes, roads, and sanitary services in that order of importance.

The extension of Rates relief on agricultural land has increased the importance of the agricultural grant relative to Total Rates liability. Between 1961 and 1968, the proportion of the Total Rates bill met by the agricultural grant grew from about 20 per cent to just over 30 per cent. Since 1968, this proportion has declined somewhat.

## Section 5

### *Reducing the Rates: Implications for Government Finance and for the Economy*

THE charges on the Rates for health and for local authority housing for letting are being phased out. As and from 1 January 1977 these charges will be borne in full by the central government.<sup>1</sup> This change has important implications both for local taxation and the fiscal system as a whole.

The financial year 1972-73 was the last year in which the relevant charges appeared in full on the Rates accounts of local authorities. For that reason we base our estimates of the implications for government finances on that year. In the subsequent years the Exchequer had already begun to adjust to the cost of the transfer of these charges from the Rates. In looking at the relationship between the loss of Rates revenue and the growth of other tax revenue we present all our estimates in 1972 prices (deflating by the implicit price index of public net current expenditure on goods and services). This procedure avoids confusing the effects of the increasing money cost of the services transferred from the Rates with the real resource cost at a point in time. In fact the level of services provided (in real terms) may change over time, and the Exchequer is obliged to meet the higher cost of this improved level of services; our estimates, however, are based on the real volume of expenditure in 1972-73. In addition to exploring the implications of the policy at present being implemented, we present estimates of the impact of further reducing or totally abolishing the Rates.

Estimates supplied to us by the Departments of Finance and Local Government for 1968-69 show that Rates were collected from the three main types of rateable property in the following proportions :

	per cent
Domestic (i.e. private residences)	53.6
Agricultural holdings	18.9
Industrial, commercial, and other	27.5
	—
	100.0

1. This policy is described in detail in the footnote on page 54.

More up-to-date estimates are not available and, even though we would expect the share of agricultural Rates in the total to decline over time, we use the above proportions as the only available basis for the estimates presented in this Section.

### *Removing Health and Certain Housing Charges from the Rates*

In 1972-73 the health and housing charges that are now being phased out amounted to £43·2 million. Thirty per cent of this amount, or £13·0 million, was met by the agricultural grant and the state contribution in lieu of Rates, the remaining £30·2 million was Rates payable locally.

The fall in tax revenue as a result of implementing this policy, would, of course, have been less than that in Rates payable locally. This is because (a) Rates payable by industrial and commercial concerns are deductible in assessing liability for Schedule D income tax, surtax, and corporation profits tax, and (b) a reduced Rates liability would allow private households to increase their expenditure on goods and services, thereby increasing the revenue yield of taxes on expenditure.

We estimate the increased yield of other taxes as follows: Rates payable on industrial/commercial property would fall by  $£30·2 \times 0·275 = £8·3$  million. We assume that Schedule D income tax and profits tax liability would rise by this amount. Taking a marginal tax rate of 0·35 on this increased income and profit, we obtain additional income tax revenue of  $£8·3 \times 0·35 = £2·9$  million. After-tax income and profits would have risen by  $£8·3 - £2·9 = £5·4$  million. If we accept a figure of £2·0 million as a reasonable estimate of the increased consumption expenditure from the distributed proportion of this £5·4 million,<sup>2</sup> and assume that the marginal rate of indirect taxation on consumption expenditure is 0·20, we obtain an estimated increase in the yield of indirect taxes of  $£2·0 \times 0·20 = £0·4$  million. Thus the £8·3 million reduction in Rates liability on commercial/industrial property results in a net loss of tax revenue of  $£8·3 - £2·9 - £0·4 = £5·0$  million.

The reduction in Rates liability on agricultural land and private residences equal £21·9 million. We assume that this would result in £19 million additional expenditure on goods and services, raising the yield of indirect taxes by  $£19 \times 0·20 = £3·8$  million. Thus the net loss of tax revenue from this source would be  $£21·9 - £3·8 = £18·1$  million.

Taking the total situation, the net loss of tax revenue as a result of a fall in

2. We assume that 45 per cent of the rise in after-tax profits is distributed and just over 80 per cent of distributed profits are spent on additional consumption. Both these assumptions are conservative.

Rates payable locally equal to £30.2 million is estimated as £23.1 million. This represents 4.3 per cent of total tax revenue (excluding Rates and social insurance contribution), in 1972-73 (as shown by the Revenue Commissioners data).

#### *Derating Domestic Dwellings*

The removal of health and the relevant housing charges from the Rates would have lowered Rates payable locally by £30.2 million to £39.9 million in 1972-73. The remaining Rates liability on domestic dwellings would have been £21.4 million ( $=0.536 \times £39.9$ ). Assuming that such a fall in Rates liability would cause a rise of £20.0 million in consumption expenditure, the yield of indirect taxes would rise by  $£20.0 \times 0.20 = £4.0$  million. Thus the net additional loss of tax revenue from this policy would be  $£21.4 - £4.0 = £17.4$  million. Adding this to the cost of removing the health and relevant housing charges from the Rates yields an estimate of  $£23.1 + £17.4 = £40.5$  million as the total cost of the combined policies. This represents 7.5 per cent of total tax revenue (excluding Rates and social insurance contributions) in 1972-73.

#### *Complete Abolition of Rates*

The further step of completely abolishing the Rates would have meant that the remaining £18.5 million payable in 1972-73 on agricultural land and on commercial/industrial premises would be removed. Of this, 59.3 per cent or £11.0 million, was payable on industrial/commercial premises, and £7.5 million on agricultural holdings. Using our earlier assumptions we estimate that the rise in income and profits tax liability due to the removal of £11.0 million Rates liability from businesses would have been £3.9 million and indirect tax yields from the increase in distributed profits would amount to £0.5 million. Ignoring any possible income tax liability of farmers, the reduction of their Rates liability by £7.5 million would result in a rise of indirect tax yields of £1.3 million. Hence the offsets to this gross loss of Rates revenue would be: income and profit taxes +£3.9, indirect taxes +£1.8 million, and the net loss of tax revenue would be  $£18.5 - 3.9 - 1.8 = £12.8$  million. Thus the total cost of complete abolition of the Rates in 1972-73 would have been £53.3 million or 9.9 per cent of total tax revenue (excluding Rates and social insurance contributions) in 1972-73.

#### *Summary of Loss of Revenue from these Policies*

On the basis of the 1972-73 data (the last year before the phased reduction of the health and certain housing charges from the Rates) we obtain the following estimates of the cost of the three policies:



<i>Policy</i>	<i>Loss of Rates revenue</i>	<i>Net loss of tax revenue</i>	<i>Net loss of tax revenue as per cent of 1972/1973 non-Rates tax revenue*</i>
	<i>£ million</i>	<i>£ million</i>	
A. Removal of health and certain housing charges from Rates	30.2	23.1	4.3
B. Removal of health and certain housing charges and complete derating of private residences	51.5	40.5	7.5
C. Complete abolition of Rates	70.1	53.3	9.9

\*Excluding social insurance contributions.

#### *Alternative Ways of Adjusting to the Loss in Revenue*

There are three approaches which might be taken, separately or in combination, to the problem of adjusting to the losses in tax revenue estimated above :

- (a) raise other tax rates
- (b) depend on the buoyancy of tax revenue
- (c) reduce government expenditure

(We ignore the possibility of introducing new taxes.)

#### *(a) Raise other tax rates:*

The loss of revenue could be recouped by increasing the rates of all taxes other than Rates. It is in fact highly unlikely that some taxes would be raised. Custom duties are subject to international (EEC or GATT) treaties. The corporation profits tax was raised by about five per cent in the recent past, but quickly reduced to its original level. It is unlikely that levies such as the social insurance contribution, stamp duties, TV licences, etc., would be adjusted to compensate for the revenue lost from the Rates. In view of these constraints, we confine our attention to two options: (i) relying solely on income and surtax to recoup the net loss of revenue, and (ii) raising the following taxes (by equal percentages) to recoup the loss: income and surtax, VAT, and excise duties.

The second option might be considered more acceptable because it spreads the increase in taxation more widely. In Table 5.1 we set out the increases in taxation required for each of the three policies towards the Rates under each of these two options. Clearly, each of the alternatives presented implies very sharp increases in rates of taxation.

TABLE 5.1: *Increase in revenue yield of taxes other than Rates required to offset net loss of revenue resulting from certain policies towards the Rates.*  
(based on data for 1972-73 excluding social insurance contributions)

Policy:	A (Removing health and certain housing charges)	B (A + derating private residences)	C (Abolish Rates)
Required increase in revenue yield of other taxes:			
(1) Relying on income tax and surtax alone	Standard rate of tax* 13.3% + 5.4p	23.2% + 9.5p	30.7% + 12.5p
(2) Relying on income tax, surtax, VAT etc., Excise duties	6.1%	10.7%	14.1%

\* Based on Revenue Commissioners (1972-73) data for "net produce for each penny of the standard rate of tax". (Table 76).

(b) *Depend on the buoyancy of tax revenue:*

A different picture emerges when account is taken of the buoyancy of tax revenue from sources other than the Rates. Normally all of this buoyancy is absorbed by the rise in government expenditure, attributable to rising costs and to the real growth that has occurred year by year. We now explore the possibility that the loss of revenue from the Rates would be financed, not by an increase in the rate of other taxes, but by a diversion of revenue buoyancy to offset the loss of Rates revenue. This method of meeting the revenue shortfall implies either that government expenditure is reduced from what it otherwise would have been<sup>3</sup> or that potential cuts in taxes other than the Rates do not materialise due to the policy of reducing the revenue contributed by Rates. In other words, this method of replacing the loss of revenue from the Rates also involves *implicit* increases in the rates of other taxes and/or reductions in the level of government expenditure: the difference lies in the manner in which these changes are accomplished.

3. We assume that the public sector's real borrowing requirements remain unaltered.

The Revenue Commissioners data on net yield of the tax system (excluding Rates and Social Insurance contributions) are

Tax Year	1971-72	1972-73
	(£ million)	
Net yield of tax revenue in current prices :	469.5	540.2

Now, using the price index of net public expenditure as a deflator, we may convert the 1971-72 data to 1972-73 prices by multiplying by 1.11 (the price index rose by 11 per cent in 1972). Health services may, however, have risen more rapidly in cost than public expenditure as a whole. This provides the following estimates of tax yields at constant (1972) prices :

521.1	540.2
-------	-------

All our estimates in this Section were based on the cost of various policies in 1972 prices, and if we wish to relate this cost to revenue buoyancy, the figure of £540.2 - 521.1 = £19.1 million is the appropriate estimate of buoyancy. (We use the term buoyancy rather loosely here to cover the rise in tax revenue, without attempting to separate the effects of changes in tax rates from the built-in fiscal drag of the tax structure: there were no changes in the main excise taxes in April 1972, and no major changes in the income tax code.) Using the estimated net tax revenue loss already presented, we see that the cost of the three policies represents the following percentages of the growth in real tax receipts between the 1972 and 1973 tax years.

Policy :	A	B	C
Net loss of tax Revenue as percentage of real revenue growth, 1971-72 to 1972-73 :	121	212	279

According to these calculations, the total abolition of Rates would be offset by just under three years' real revenue buoyancy. Of course most of this buoyancy is normally anticipated each year and used to finance an expansion in the volume of public expenditure. (Improvements in the health services have been an important element in this in recent years.) To believe that it could be set aside for three years and devoted exclusively to the replacement of the revenue lost through abolishing the Rates, is tantamount to assuming that government expenditure growth (in real terms) is curbed by the amount needed to finance the reduction in the Rates. Alternatively, it may be pointed out that the revenue

buoyancy which we are discussing is in part attributable to an increase in the effective rate of taxation (the effective rate of income tax levied on each pound of actual income increased in every year between 1967 and 1973 with the exception of 1972).<sup>4</sup> The rate at which revenue buoyancy will continue in the future depends on factors such as the growth in real income, the rate of inflation, and changes in the tax structure, none of which can be predicted with any confidence in the present economic climate. However, the acceleration in inflation since 1973-74, combined with the present income tax structure (which is progressive with respect to *money* incomes), implies a continued rise in the effective rate of taxation despite the adjustment in personal allowances. Hence, non-Rates tax revenue will most probably continue to exhibit the sort of buoyancy experienced between 1971 and 1972.

*(c) Reduction in Government Expenditure:*

Finally, we may express the estimated net loss of tax revenue resulting from the three policies towards the Rates as a percentage of current expenditure by public authorities. The 1972 figure for this item (given in NIE) was £770.7 million. Relating our estimates of the three policies towards the Rates to this total we see that the net loss of revenue as a result of policies A, B, and C represented 3.0, 5.3, and 6.9 per cent respectively of public authority expenditure. Thus, the reduction or abolition of the Rates could be made good by a reduction in the volume of current public expenditure of these proportions. (These figures are lower than the proportion of tax revenue lost by these policies partly because we include transfer payments in our definition of public expenditure but exclude social insurance contributions from our definition of tax revenue.)

*Phasing*

All our calculations have been based on the single year 1972-73 for reasons stated at the beginning of the Section. Measuring the cost of implementing changes in the Rates over a four- or five-year period would involve additional assumptions about the growth of revenue from all forms of taxation, the rise in the cost of providing the 1972-73 standard of health and housing services, and any improvement in the standard of these services over time.

Policy A is, however, already partially implemented (removal of health and most housing charges from the Rates). Looking to the future, the cost of the relevant options is measured by the *additional* cost of policies B and C, given that A has been implemented. This can be calculated readily enough from our estimates in this Section. Thus, if we assume that policy A had been fully implemented in 1972-73, the additional net loss of revenue from fully derating private residences would have amounted to 3.1 per cent, and of abolishing Rates com-

4. Cf. Revenue Commissioners (1973-74) Table 74.

pletely to 5.4 per cent, of total tax revenue. If both policies A and B had been implemented (health and most housing charges gone, and private residences de-rated) then the additional cost of abolishing the Rates would have amounted to 2.2 per cent of tax revenue.<sup>5</sup>

### *Economic Implications of these Policies*

If total tax revenue remains constant but the sources from which it is obtained are altered, there are implications (a) for the distribution of income and (b) for the allocation of goods and services. Precise estimates of the repercussions under either of the headings require specific assumptions about the incidence of the tax system. This is a topic we take up in Section 7, where the theoretical issues and the available empirical material on the incidence of the Rates are presented.

We may anticipate some of our conclusions from Section 7 here and assert that a shift of tax liability from the Rates to other forms of taxation is unlikely to have a major impact on the after-tax distribution of income. We argue in Section 7 that the Rates are probably roughly proportional to income in the non-agricultural sector. Taxes such as VAT and excise duties are generally regarded by economists as slightly regressive in their incidence (even when certain items are zero-rated). The income tax structure is inherently progressive, but its actual operation is probably less progressive than an examination of the rate structure suggests. Social insurance contributions may be regarded as a severely regressive pay-roll tax. Thus if these taxes singly or in combination are used to replace the Rates, the net effect on income distribution would hardly be significant.

There would, of course, be significant repercussions for specific groups in society. In Section 7, we emphasise that the Rates are a relatively heavy burden for some older people living in owner-occupied houses. They would be affected by any increase in indirect taxation, and possibly also by increased income taxation, but on balance their tax liability would probably decline if the Rates were abolished. Farmers whose land holdings do not benefit from full Rates relief would probably also experience a net reduction in tax liability if Rates were abolished, to a degree that depends on the implementation of income taxation in the farming community. We emphasise in Section 7 that despite anomalies in the valuation of agricultural land for rating purposes the Rates as administered in Ireland are a progressive form of taxation in agriculture, so that abolition of Rates in agriculture would benefit the wealthier farmers on average more than the less well-off.

The effects of abolishing Rates on the allocation of national income are more

5. These are not simply the differences between the earlier percentages. If policy A had been implemented through an increase of other tax revenue of 4.3 per cent, the additional cost policy B would be  $(7.5 - 4.3) \div 1.043 = 3.1$  per cent.

difficult to assess than are the distributional implications of this policy. Following the lines of our theoretical discussion in Section 7 we would expect some increase in property values and some additional inflow of resources into the construction industry. As we emphasise later in this study, the Rates are a tax on *structures* and lower the rate of return to building activity and to capital generally. For a house of £30 rateable valuation, with the Rates poundage £7, the abolition of Rates would imply a reduction of £210 annually in the outgoings on the house. Even if all of this annual outlay is not capitalised, the effect on the rate of return to house construction and to capital generally cannot be trivial.<sup>6</sup> Most economists subscribe to the view that the substitution of additional income (including profits) taxation for a tax such as the Rates would represent an improvement from an efficiency or resources allocation viewpoint (the arguments on this topic are summarised by Harberger, 1973, p. 28) although against this must be set the possible adverse repercussions of raising the marginal rate of income taxation. On balance, then, it seems that the economic case for retaining the Rates must be based mainly on the effect this tax has on income distribution rather than on any presumed superiority of the tax from an efficiency viewpoint.

#### *Administrative Considerations*

It may be argued that the Rates enjoy considerable advantages from an administration point of view: ease of collection,<sup>7</sup> certainty and stability of the base, and a low level of evasion. Some of these advantages may be shared by other taxes, such as VAT and excise taxation, but the income tax is obviously more open to avoidance by those with resources to devote to finding loopholes in the tax code, or partial evasion by those whose income is not subject to PAYE. The balance of these administrative considerations may serve as a further argument for the retention of the Rates. However, the valuation system is part of the administration of the Rates, and we shall see in Section 6 that establishing a fair and efficient valuation system is a complex task from both the economic and administrative viewpoints. However, some of the reforms in the rating system discussed in Section 6 would, it is argued, introduce desirable effects on the allocation of resources.

#### *Wider Implications of Abolishing Local Taxation*

If Rates were abolished, and no alternative local tax put in their place, there would obviously be serious implications for the whole system of local govern-

6. We take this point up at greater length in Section 6.

7. The cost of administering the Office of the Revenue Commissioners in 1973/74 amounted to 2.2 per cent of the revenue yield of the taxes collected, compared to 2.3 per cent of the 1972/73 Rates yield devoted to collection, so that on this score the Rates are similar to other taxes in Ireland.

ment. We have noted (in Section 2) the argument that local democracy can only survive if a significant proportion of local expenditure is financed from local tax revenue. We have provided some international comparisons of the importance of local tax revenue in financing local expenditure, but it is beyond the scope of this study to evaluate the rôle of a local tax system in promoting local democracy. We wish, however, to draw attention to this issue in the context of our discussion of the economic implications of an abolition or reduction of the Rates.

### *Conclusion*

We have presented estimates of the loss of Rates revenue that would arise from reducing or abolishing the Rates. The net loss of tax revenue as a result of these policies would amount to about three-quarters of the lost Rates revenue, due to offsetting rises in income and corporation profits taxes and indirect taxes.

The net loss of revenue could be financed either by increasing other tax rates, reducing government expenditure, or reliance on revenue buoyancy. This last alternative implies that either other tax cuts do not materialise or government expenditure is held below what it otherwise would have been. On the basis of the 1972-73 situation we showed that phasing out health and most housing charges from the Rates would have cost 4.3 per cent of the yield of all taxes other than Rates and social welfare contributions in that year. Completely abolishing Rates would have cost 9.9 per cent of non-Rates tax revenue. On the other hand, the cost of these two policies would have amounted to 121 and 279 per cent, respectively, of the growth in non-Rates tax revenue (after allowing for the effects of inflation) between 1971 and 1972.

Decisions about whether to redistribute the tax burden from Ratepayers to others must be made on the basis of an assessment of the effect of this tax compared with the alternatives on income distribution and resource allocation. A case can certainly be made that an income tax or general sales tax (or VAT) is more economically efficient than the Rates, in the sense that they result in fewer distortions in the allocation of economic resources. The effect of the Rates on income distribution will be discussed in Section 7, where it will be pointed out that it is probably no less progressive than the taxes whose yield would replace the revenue from the Rates, and that some relatively minor changes in the administration of the Rates could make them quite a progressive tax.

Finally, decisions concerning the abolition or reduction of the Rates must take account of the possible implications for the whole system of local government and local democracy of reducing the importance of what is at present the only source of tax revenue controlled by local authorities.

## Section 6

### *The Base of the Property Tax : Rateable Valuations*

#### *Introduction*

RATEABLE valuations are used in calculating the Rates payable on property liable for Rates. These valuations are also used in means testing for social assistance payments, entitlement to participate in free hospital services, valuation of some realty for estate duty purposes, and in assessing liability to income tax on agricultural income. It is therefore a matter of wider concern than merely the equity of the rating system that rateable valuations should be fairly assessed throughout the country. Moreover, with the introduction of several new capital taxes, the whole issue of valuing assets for tax purposes has gained importance.

Valuations, when first assessed in the mid-nineteenth century, were based on "net annual values" or, in contemporary terminology, the annual net rent of the property. Net rent equals gross rent less depreciation, interest, Rates, insurance, and maintenance expenses. This net rent, in the case of a house, would be the net income the house-owner could obtain by renting the house on the open market.

Rents do not remain constant : some areas become more or less desirable with the passage of time due to shifts in the supply and demand for property. A general increase in rentals, in an inflationary period, does not imply that relativities are disturbed, but changes in the rents of some properties compared with others give rise to inequities if the property tax is based on obsolete valuations. Clearly, the only way to avoid inequities in the administration of the Rates is to provide for periodical general revaluations of all taxable property. This is the case, for example, in Britain, the United States, Canada and Germany (FR), where there is an obligation to undertake periodic revaluations for taxation purposes.

A general revision of rateable valuations has never been undertaken in Ireland.<sup>1</sup> The original (Griffith) valuation was carried out over the period 1852-65, and the assessments arrived at are still in force on all agricultural land and on most buildings still surviving from that period. Ireland, alone among the countries singled out in Section 3 as heavily dependent on property taxation, has no

1. The old city of Dublin was revalued in 1908-15 and Waterford in 1924-26. General Revisions have also been carried out in Galway City and Buncrana.



requirements regarding periodic revaluations, although the 1852 Valuation (Ireland) Act contained provisions for revaluations.<sup>2</sup>

The practice regarding new property was in theory to set valuations at about one-third of the net rental value (in the case of rented property) or one per cent of the capital value (in the case of residential property). This formula has become increasingly irrelevant with the acceleration of inflation: if it were now applied to new property, and no revaluation of older property were undertaken, the result would be a massive undervaluation of older property. Actual practice is based on an attempt to keep valuations of new property in line with those of similar property in the area.

We do not intend to provide a detailed discussion of the vagaries of the Irish valuation system, which have been the subject of much discussion elsewhere. It is relevant to note that a former Commissioner of Valuation may be quoted in favour of a general revaluation as the only solution to the problem.<sup>3</sup> We present a short review of the statistical evidence of the relation of valuations system to income by county. Evidence is also quoted on the reliability of agricultural land valuations, both within a county and between counties, as indicators of actual or potential productivity. Finally, we examine the relationship of sale price and rateable valuation for a sample of private dwellings in Dublin.

#### *The Relationship of Rateable Valuation and Income*

In Table 6.1, we set out the rateable valuations of the 26 counties for 1969–70 (column 1). It is necessary to amalgamate the data for all the local authorities in a county in order to present data on a basis comparable with county incomes.<sup>4</sup> In column 2 we show county rateable valuation as a percentage of personal income. Column 3 shows income arising in agriculture per £1 of agricultural land valuation. The Rates poundages are set out in columns 4 and 5.

##### *(a) Agricultural Valuations*

The variations between counties in income arising in agriculture per £1 valuation have already been documented, notably in Attwood and Geary (1963), Table 12. Walker (1964) drew attention to the extreme positions of Kerry and Westmeath on the basis of the 1960 data, and we may confirm from Table 6.1 that the same pattern held in 1969. Hence, the results shown do not reflect short-term influences prevailing in only one year.

In valuing agricultural land “the valuation represented the net annual value thereof with reference to the . . . average prices for the years 1849–57 for the main crops and produce at the time . . .” (quoted in Interdepartmental Com-

2. For a history of the Irish valuation system, cf. Interdepartmental Committee on Local Finance and Taxation, (1966).

3. Cf. Interdepartmental Committee, 1966, p. 13.

4. We also amalgamate Tipperary NR and SR since county income figures are available only on this basis.

TABLE 6.1: *Rateable valuation, income and Rates poundage by county, 1969-70*

County	Total rateable valuation	Rateable valuation as per cent of personal income	Income arising in agriculture per £1 of agricultural land valuation	Rates poundage in	
				County health district	Total county*
	(1)	(2)	(3)	(4)	(5)
	£'000	per cent	£	£	£
Dublin	5,500.8	1.20	35.97	3.20	3.98
Cork	1,905.0	1.28	38.24	4.17	4.43
Limerick	760.5	1.36	31.15	3.83	4.21
Waterford	436.6	1.37	27.87	4.00	4.39
Carlow	204.4	1.60	24.24	3.93	3.91
Kildare	393.7	1.37	31.02	3.29	3.31
Kilkenny	403.3	1.78	26.28	3.38	3.51
Laois	273.5	1.89	23.31	3.75	3.75
Longford	169.7	1.88	19.49	4.70	4.69
Louth	382.8	1.19	23.69	3.60	3.88
Meath	615.5	2.63	16.31	2.73	2.74
Offaly	287.6	1.67	20.88	3.61	3.62
Westmeath	370.4	2.02	12.97	3.55	3.63
Wexford	452.4	1.52	31.73	3.78	3.80
Wicklow	379.7	1.59	21.39	2.87	3.88
Clare	411.1	1.50	27.11	3.95	3.90
Kerry	430.5	1.09	55.60	5.13	5.10
Tipperary	789.5	1.67	27.00	3.81	3.82
Galway	686.5	1.39	32.88	5.07	5.06
Leitrim	151.7	1.80	23.12	4.45	4.45
Mayo	425.1	1.21	34.79	5.35	5.29
Roscommon	333.6	2.00	22.47	4.35	4.35
Sligo	260.6	1.55	24.93	4.29	4.27
Cavan	308.7	1.77	27.74	4.00	4.00
Donegal	399.2	1.21	27.74	5.18	5.09
Monaghan	300.1	1.90	25.55	3.65	3.63
<i>Total</i>	17,032.5	1.38	28.45	—	—

*Basic sources:* RLT 1969-70; Ross (1972).

\* Averages of the poundages of the rating authorities in each county, weighted by the R.V. of each authority.

mittee, 1966, p. 8). Thus, apart from the possibility that the original valuations may never have been equitable, they could have become inappropriate over the last 125 years due to a variety of factors, such as, changes in transportation (which opened up areas of the country that were relatively isolated in 1850), the reduction in population pressure, especially in the western regions, improvements in technology which benefited some soil-types more than others, changes in the relative prices of crops, and so on. Moreover, the Griffith survey was begun in the south-west in the immediate aftermath of the famine of the 1840s, and progressed northwards over a thirteen-year period during which the rural economy recovered. The net outcome of all these forces is a very definite regional pattern in the degree of under and over-valuation; valuations are notably high in a group of midland counties (Westmeath, Longford, Meath and Offaly) and notably low in some western and southern counties (Kerry, Galway, Mayo).

Studies have been made of the relationship of individual agricultural land valuations to soil type, both within a county and between counties. Lee and Houghton (1968) examined the relationship between soil type (indicating production potential) and land valuations in county Wexford. They concluded that the rateable valuations in Wexford were unsatisfactory and that "with the exception of Broadway soils, it may be concluded that no relationship exists between land valuation and productivity" (p. 163). Frawley (1972-73) carried out a study of valuation on a sample of farms in counties Wexford, Limerick, Carlow and Clare (based on the Farm Management Surveys of 1966-69). He found no significant relationship between soil type or stocking capacity and rateable valuation, but a significant relationship between stocking capacity and soil type. This evidence suggests that rateable valuations are unsatisfactory as measures of both the actual and potential income of agricultural holdings at the individual farm level as well as between different regions of the country.

The Interdepartmental Committee (1966) was not in favour of a revaluation of agricultural land due to the expense and difficulty involved, and the importance of derating in relieving many farmers of Rates liability. We have drawn attention to the wider implications of agricultural valuations and, in particular, their use in means testing. Furthermore, the extent to which a farmer benefits from derating also depends on rateable valuations. Thus we feel a general revaluation should cover agricultural land. The basis for a revaluation would be a detailed soil map, now available for the whole country. Such a map forms the basis of the Federal German Land Valuation Law, which assesses land values for both income and wealth tax purposes. This system has been taken as a model for similar schemes in some Eastern European countries, and has recently been held up as a model for the United Kingdom in connection with valuations for the proposed gift and wealth taxes (cf. Weiers and Reid, 1974, who provide a very detailed description of how such a scheme operates).

(b) *Rateable valuation of buildings: Results of a sample of private dwelling sales in Dublin*

The basis for valuing (for rating purposes) realty other than land was "the average letting value of each piece of property, over and above Rates, repairs, insurance and maintenance". In view of the more active market that probably exists for private residences in the main urban areas, compared with that for agricultural land, the need for periodic revaluations is likely to be more acute in the case of the former. In addition to the possibility of individual anomalies having become very important since the mid-nineteenth century, there may also be certain systematic biases: for example, local authority houses have traditionally been valued lower than similar owner-occupied houses, and there are grounds for believing that larger residences are somewhat under-valued compared with smaller properties.

Rateable valuation, being the assessment for tax purposes of the net annual rent of the property, should be closely associated with sale price or market value, since this is the capitalisation of the net rents anticipated by the purchaser. (In many US jurisdictions, the assessment for property taxation must by law be kept in line with the market price of comparable properties.) Since in Ireland the rateable valuations of many properties have not been adjusted to reflect changes in the property market, we would not expect too close a correlation between rateable valuation and market price—this is a measure of the inadequacy of the valuation system. Our interest lies, however, in discovering whether any *systematic* association exists between the ratio rateable valuation/sale price and sale price. If the valuation system worked flawlessly, and without delay, then the ratio RV/P should be constant between different properties, and no such systematic association would exist. We obtained data on the sale price and the rateable valuation of 71 private dwellings in the Dublin area which were sold during the first nine months of 1974. These data were published in *Hibernia Review*. In Figure 6.1 we graph rateable valuation as a percentage of sale price, on one axis, and sale price, on the other. There is a distinct impression of an inverse relationship between these variables.

This impression is confirmed by the following regression (double-log specification):

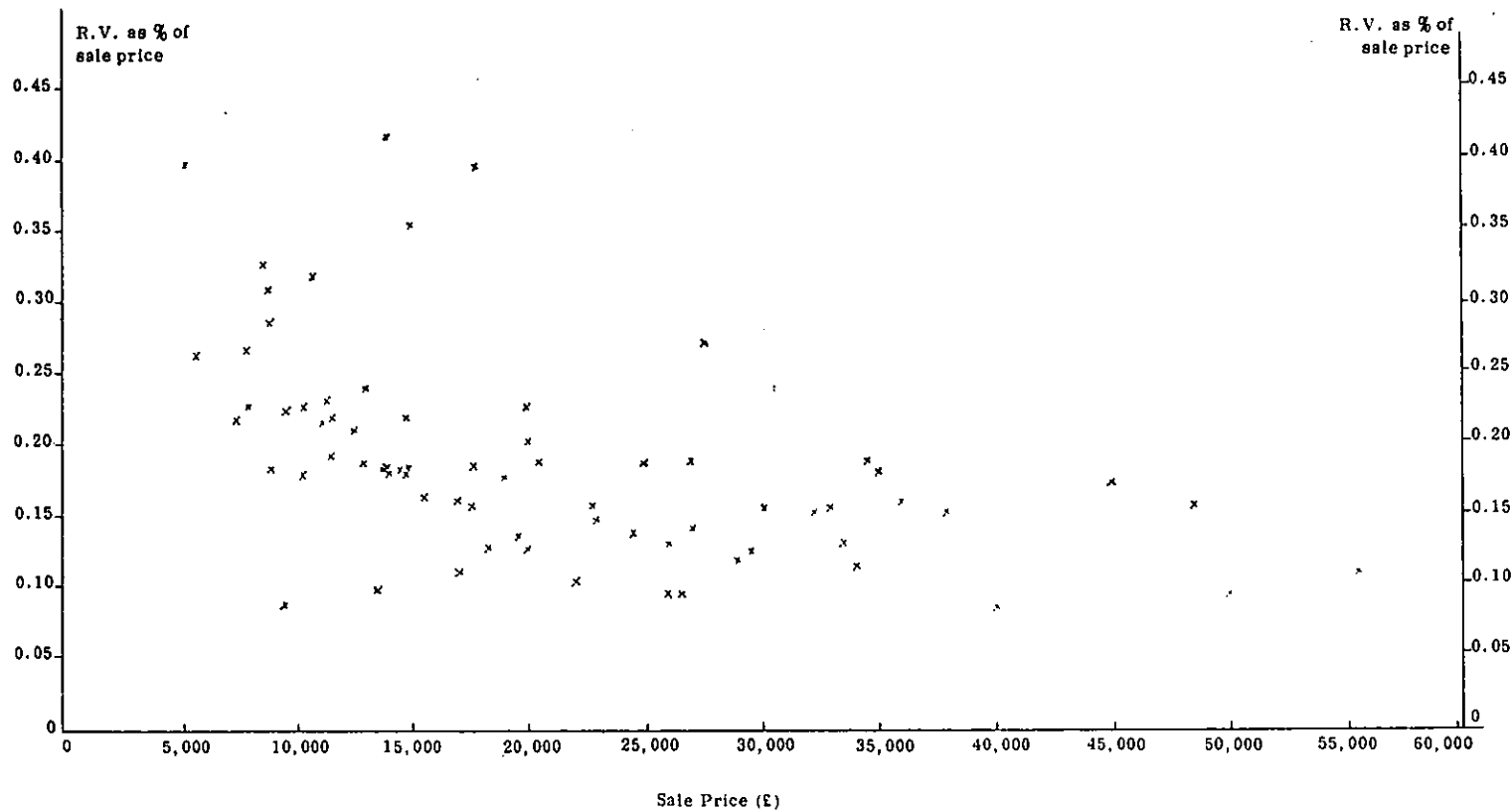
$$\text{Rateable valuation/Sale Price} = .03999 - 0.393 \text{ Sale Price}$$

$$(20.468) (5.893)$$

$$(t\text{-ratios in parentheses}) \bar{R}^2 = 0.33$$

(The specification we used was  $RV/P = aP^b$ . One could alternatively test the following specification:  $RV = aP^{b+1}$ . The same estimate of  $b$  is obtained from both specifications, although the  $\bar{R}^2$  is much lower in the specification we used.)

Figure 6.1: Rateable valuation as per cent of sale price plotted against the sale price of 71 houses in Dublin city and county in 1974



The interpretation of this result is that, as sale price increases by one per cent, the ratio of valuation to sale price falls by almost 0.4 per cent. Alternatively, as sale price increases by 1 per cent, rateable valuation rises by only 0.6 per cent. Thus, although it would obviously be important to retest our finding on larger samples, our evidence points to a systematic, and quite substantial, under-valuation of relatively expensive residences. This tendency would obviously tend to reduce the progressivity of the rating system, and should be eliminated if the system is to be more closely related to "ability to pay".

### *The Effective Rate of Taxation*

As property is not valued equally throughout the country, variations in Rates poundages do not necessarily reflect variations in effective rates of taxation. For example, two houses yielding the same net rent may be valued differently: if one were valued at £40 and the other at £30, the effective rate of taxation would be the same on both of them if the Rates poundage on the first were £5.00 and on the second £6.67. If we assume that the net rental of the house is £1,000 a year, the effective rate of taxation in this example would be 20 per cent of the net rental.

We know of no data which would allow us to calculate effective rates of property taxation in Ireland. Our hypothetical example above may not be unrealistic for some houses in some areas. We can, however, gain insight into variation in tax rates between counties from the data of Table 6.1 column 4, which displays the Rates poundages by county. It seems not unreasonable to assume that the capital value of property in a county should be a fairly constant multiple of income in the county. Thus, in the absence of any tendency for the valuation system to vary systematically between counties, the ratio rateable valuation/income should be fairly constant across the country. We may note, on the basis of column 2 in Table 6.1, that this is not in fact the case. This ratio may be taken as a measure of the degree of over- or under-valuation in a county: when it is above average, it may be argued that property in the county tends to be overvalued, and vice versa. (The main source of the variation is in the ratio of valuations to income in the agricultural sector, as already noted.)

In the context of measuring effective rates of property taxation, it is interesting to note that the ratio of valuations to income is negatively correlated with the Rates poundages: the correlation coefficient between columns 2 and 5 of Table 6.1 is  $-0.56$  (or  $-0.58$  if Dublin is omitted), which is highly significant statistically. This suggests that Rates poundages tend to offset somewhat the over- and under-valuation that occurs between counties. It also suggests that effective rates of taxation vary less between counties than is suggested by the Rates poundages.

A full evaluation of the differences between counties in the burden of the Rates would have to look not only at the amount levied in Rates on similar properties in different parts of the country, but also at the Rates-financed expenditure in different areas. High rates of taxation can be compensated for by correspondingly high rates of local expenditure. A ratepayer may be happy to pay high Rates if the result is a high standard of locally financed public services. Marshall (1922) referred to *onerous* Rates as "those which yield no compensating benefit to the persons who pay them" (p. 794). As an extreme example he mentions the case of a municipality levying Rates to pay interest on a loan incurred for an enterprise that failed. Instances of onerous Rates would, he felt, tend to be reflected in depressed property values: we return to this point below. Thus, anomalies in rateable valuations between rating authorities could be offset by (i) variations in the Rates poundages, and (ii) variations in local expenditure. Strictly from a rating point of view, then, variation in valuations between rating authorities may not be very significant, but, as we have stressed, the use of rateable valuations for *national* means tests, and for calculating the Rates relief on agricultural land, lends significance to such variation. Moreover, anomalies in valuations between individual properties in the same jurisdiction cannot be offset by variations in poundages or expenditure.

#### *The Effect of Rateable Valuation on House Prices*

Consider two houses identical in every respect except that one has a rateable valuation twice the other's. If these houses are located in the same rating authority, the effective property tax on one is twice that on the other. What effect will this have on the sale price of the two properties? Or, to what extent will the difference in tax rates be capitalised?

First let us consider the theoretical side to the question. (We draw heavily on Oates' exposition, in his Appendix to Chapter 4.)

Let  $P_1$  = the market value or sale price of the first house.

$Y$  = the annual rental income (equal for both houses) net of everything except Rates, assumed constant in all years.

$RV_1$  = rateable valuation of the first house.

$R$  = Rates poundage, constant in all years.  $r$  = market interest rate  
 $n$  = life of houses (years)

According to the standard theory of asset valuation, with full capitalisation of property taxes,

$$P_1 = \sum_{i=1}^n \frac{(Y - R.RV_1)}{(1+r)^i}$$

Now the price of the second house, with  $RV_2 = 2RV_1$

$$P_2 = \sum_{i=1}^n \frac{(Y - 2R.RV_1)}{(1+r)^i}$$

Hence if the assumption that differences in property tax rates are fully capitalised is correct the difference between the prices of the two houses will be

$$P_1 - P_2 = \sum_{i=1}^n \frac{R.RV}{(1+r)^i}$$

In order to calculate the effect a difference in rateable valuation has on house prices, we need to make assumptions about  $n$ , the life of the house, and  $r$ , the relevant interest rate.

If we assume<sup>5</sup> that  $n=40$ , and  $r=3\%$ , then  $\sum_{i=1}^n \frac{1}{(1+r)^i} = 23.1$ . If  $R = \pounds 7$ ,

and  $RV = \pounds 20$ , then the difference between the  $P_1$  and  $P_2$  in the above example would be  $\pounds 3,234$ . If  $Y$ , the rental of the two houses gross of Rates, were  $\pounds 1,000$  then the two house prices would be  $\pounds 19,866$  and  $\pounds 16,632$  respectively. Thus the fact that the rateable valuation of the first house is only half that of the second results in a price differential equal to 18 per cent of the average of the prices of the two houses.

The numerical results depend upon the values of  $Y$ ,  $n$ ,  $r$ , and  $i$  we have assumed, but the basic point is unaffected by these considerations: if the housing market operates so that there is complete capitalisation of differentials in effective tax rates, then sale prices will fully discount these differentials, and the rational house purchaser will not feel any sense of injustice at the valuation of a house. In our example, he is indifferent between paying  $\pounds 19,866$  for a house on which he has to pay annual Rates equalling  $\pounds 140$ , or  $\pounds 16,632$  for a house with a

5. Note that all our calculations are in constant prices: the interest rate we use is a "real" rate.



Rates bill of £280. However, having bought, for example, the undervalued house for £19,866, he would suffer a substantial capital loss if a general revaluation occurred and his rateable valuation doubled with the result that his house would sell for only £16,632.

Does this imply that anomalies in rateable valuations are not a source of inequity in taxation and, even more surprisingly, that a general revaluation would be a source of injustice because of the arbitrary capital gains and losses it would occasion? Only an extreme interpretation of the theory would warrant these conclusions: first, we do not know to what extent the housing market actually capitalises differentials in rateable valuations in Ireland. There has been no empirical research on this point here. The available evidence from the US suggests that housing markets there do capitalise *some* of the tax rate differentials: Oates concluded that "approximately two-thirds is being capitalised in the form of depressed property values" (p. 173). A more recent study concluded, however, that these differentials tend to be fully capitalised (Church, 1974).

There are reasons to expect that the Irish housing market would capitalise less of the tax differential than is the case in the US: the lower rate of internal migration characteristic of this country probably results in a narrower housing market in many areas, with less information on which to base capitalisation. The Irish housing market is probably also fairly highly segmented: building societies' policies towards the purchaser of older housing must reduce the degree of capitalisation of valuation differentials between old and new houses. Valuation differentials between new houses would have a much smaller effect on house prices than our model predicts due to the effect of Rates remission over the first nine years. Moreover, the model presented above assumes full information about future prices and interest rates, which obviously is not the case in the real world.

In any event, capitalisation of tax differentials can of itself cause, as well as rectify, injustices. Consider the case of a house-purchaser whose property declines in relative value over the years. The fact that his rateable valuation is not adjusted to reflect this decline in market value will eventually result in an additional capital loss when the house is sold. Capitalisation only offsets inequities in the rating system that arise from tax differentials that are *fully anticipated at the time of purchase*.

This discussion of capitalisation underlines the need for frequent revaluations, so that rateable valuations are not allowed to become too far out of line with the result that serious capital gains or losses occur at the time of revaluation. The existing Irish situation, where discrepancies have built up over more than a century, is therefore a very difficult case. Our evidence from the sample of Dublin house sales suggested that if a general revaluation were undertaken, the capital losses would be concentrated at the upper end of the housing market. This

mitigates somewhat the hardship that would be caused by the revaluation. In extreme cases, where valuations had to be substantially increased relative to the average, special concessions might have to be devised. Nonetheless, the dilemma exists: failure to revalue implies perpetuating some unfair aspects of the Rates; while a revaluation will result in falsifying the expectations of some house purchasers about the flow of net rentals from their property. One possible solution would be to make revaluation in excess of, say, 25 per cent effective only on the transfer of ownership of the property.

### *The Basis for a Revaluation*

In view of the anomalies that exist in the valuations for rating purposes, both within and between local authorities, we believe that an equitable rating system cannot be constructed in the absence of a general revaluation of land and buildings. The cost of such a revaluation must be regarded as part of cost of administering the rating system which, as we have mentioned in Section 5, at present compares favourably with that of the rest of the fiscal system.

In general we believe that the recommendations of the Interdepartmental Committee (1966) on procedures should be followed in executing a revaluation. However, we differ with their recommendations on two major points. First, for reasons advanced earlier in this Section, we believe that a revaluation of agricultural land should be part of a general revaluation. The basis for the revaluation, as we have already outlined, should be potential output as gauged by soil type and produce prices, modified perhaps by such factors as farm location and fragmentation. The model for such a system exists in Germany (Federal Republic) and elsewhere. Secondly, we feel that the principle of site valuing should not be dismissed but should be incorporated in a general revaluation of land and buildings in urban areas.

The basic principle of site valuing is that land be valued according to its most remunerative potential use as defined by the planning authorities. The site or unimproved land value would then form the basis of the property tax. This system operates in a number of countries including New Zealand, Denmark, and parts of Canada, South Africa, and the United States. The main benefit of site valuing is the penalty it imposes on a failure to put land to its most efficient use.

Support has emerged in recent years for this idea:

- This tax proposal would increase the tax rate on land values and decrease the tax rate on improvement values. The basic rationale is that by reducing the tax on improvements, we make them cheaper to build and maintain, and by raising the tax rate on land we force its owner to use it more efficiently. (Cord, 1973, p. 104.)

Another commentator has summarised the case against taxing buildings as follows :

When buildings are taxed, the tax on a parcel of real estate depends on the use to which the owner puts it. If the tax is high enough to matter, it biases the owners against the heavier-taxed use. It biases them against supplying new floor space and shelter, and in favour of billboards, gas stations, junkyards, open storage, parking lots, baronial estates, obsolescence, speculation, and dilapidation. In general it favours old over new and ranks high among factors that retard urban renewal. It tends to restrict supply and maintain rents paid by the poor . . . (Gaffney, 1972, p. 143).

It is true that we lack empirical estimates of the magnitude of these effects in the Irish economy. We judge, however, that on balance the effect of site value rating would be a more efficient use of scarce urban land. In any general revaluation we therefore recommended that the value of sites (as defined by the planning authorities) be raised relative to that of the structures on the sites. Alternatively, consideration should be given to a differential tax system, with much higher Rates levied on urban land than on the improvements built on such land. The latter procedure has been adopted in Pittsburg, for example, where "the value of the site and the structure are distinguished in the assessment procedure, and the tax rate on the site value is twice the rate on the value of the structures". (Oates, 1972, p. 144). A scheme of this type was advocated for Ireland over 60 years ago by a minority of the Royal Commission on Local Taxation (1902) who felt that "the site when separated from the structure ought to be capable of bearing somewhat heavier taxation" (Collins, p. 130). The Interdepartmental Committee (1968) rejected the economic arguments in favour of site valuing primarily on philosophical grounds: "ownership of land in our society does not carry with it the ability or the obligation to realise the full potential profit from that land" (p. 43). Further objections were raised as to the practicality of such a scheme in Ireland. It was, however, suggested that a "very full investigation" of the idea of site rating be conducted (p. 44).

A pilot survey<sup>6</sup> carried out in Britain in the early 1960s concluded that "the field work involved in valuing site only is very much less than valuing site plus improvements" and "that the difficulties are likely to be no more complex nor intractable than those met and solved under the present orthodox system" (p. 13). This conclusion from a realistic pilot scheme, involving the total revaluing of a town of 20,000 population combined with the fact that this method is in use in Denmark and elsewhere, suggests to us that it would not be impracticable in the Irish context.

6. Cf. Rating of Site Values, *Report on a pilot survey at Whitstable*, (1964).

It is to be stressed that the economic case in favour of site valuing rests not merely on the penalty it imposes on leaving a site vacant or derelict, but on the fact that all suboptimal land use is penalised, e.g., the use of a site zoned for residential purposes as a single-level car park or the retention of old and dilapidated structures on important urban sites. This type of taxation would, it should be acknowledged, place an additional cost on developers who acquire lots piecemeal for eventual consolidation into a single large development and allow the existing structures to deteriorate while waiting to consolidate the entire site. At the moment, the costs of such development are shifted to tenants by, in effect, gradually withdrawing the sites in question from the property market. In any move towards site valuing, however, safeguards should be built up to avoid penalising developers for delays at the planning stage due to the planning authority rather than to the developer.

We feel that the economic arguments in favour of switching *some* of the tax on urban land and buildings from the buildings and onto the site have grown enormously in importance since the 1968 Report cited above was published. Serious consideration of a reform along these lines should be given in connection with the urgently required general revaluation. The proposal would remove one of the criticisms currently made of the Rates, namely, the disincentive they create for improvements and construction generally. However, exclusive reliance on site value rating to raise the revenue currently obtained from the Rates could lead to a serious decline in land values in what are at present highly valuable areas, and a flight of businesses and residences to more modestly valued sites.

#### *Exemptions from and Remissions of Rates*

A factor tending to force up the tax rate on real property is the partial or complete exemption of certain categories of real property from Rates. This narrows the effective base of the tax. All the various remissions and exemptions were reviewed in detail by the Interdepartmental Committee (1967). Table 6.2 lists the main headings under which Rates remissions and exemptions are given, together with estimates of the loss in rates revenue in 1973-74. (Table 6.2 does not include the exemption on government property which is made good by a state grant in "lieu of Rates" nor the relief of small holdings, which is made good by the agricultural grant.) Clearly, most of the exemptions of churches, schools, hospitals and similar non-profit institutions (accounting for about 20 per cent of the total) will remain, although there may be room for applying stricter criteria in granting relief under these headings. Certain other exemptions and remissions should be terminated, as already recommended by the Interdepartmental Committee and for the most part accepted in the White Paper (1972) which recommended that "work should commence on the preparation of a Bill" which would modernise and restrict the scope of relief from Rates (p. 2).

TABLE 6.2: *Rate exemptions and remissions and estimates of loss to Rates in 1973-74*

<i>Exemption/remission</i>	<i>Estimated loss to Rates at 1973-74 poundages</i>	<i>Comments</i>
	£'000	
New houses <sup>a</sup>	4,352.7	Remission: $\frac{1}{10}$ Rates payable in 1st year, $\frac{2}{10}$ in 2nd, etc.
New Houses (Gaeltacht) <sup>a</sup>	99.8	Remission: $\frac{1}{10}$ Rates payable in 1st year, $\frac{2}{10}$ in 2nd, etc.
Reconstructed houses	960.3	
Water and sewerage	178.4	
Undeveloped areas <sup>a</sup>	201.6	
Fisheries <sup>a</sup>	42.0	Exempt, but valued for rating
Land in urban areas	242.4	
Temporary reduction of valuation acts	2,000.0	To be phased out completely by 1976
Canals and railways	24.0	See paragraphs 65 and 66 of the Report of the Interdepartmental Committee
ESB (generation and distribution lines) <sup>a</sup>	8,000.0	Exempt and not valued
Public and charitable	4,234.5	See Report of the Interdepartmental Committee
<i>Total</i>	<i>20,335.6</i>	

<sup>a</sup>Abolition recommended by Interdepartmental Committee on Local Finance and Taxation (1967).

*Source:* Personal communication from the Department of Local Government.

There is no case for subsidising electricity consumers by exempting ESB generating and transmission facilities from local Rates. The need to remove the statutory exemption of mines and oil-wells from Rates is more urgent now than in the past, due to the demands these undertakings make on local infrastructure as they grow in importance. The treatment of off-shore production facilities for rating purposes should also be reviewed.

The question of Rates relief on new private houses, which the Interdepartmental Committee felt should be abolished, is more complex. One valuable function which this relief serves is to relate Rates liability somewhat more closely to net, as opposed to gross, ownership than would otherwise be the case. However, this was not the purpose of the scheme and it is obviously not an efficient way of achieving this goal, as it only takes into account the age of the house, and not the mortgage indebtedness of the occupier. A disadvantage with the present

scheme is the burden it places on owners of older houses in localities where there is a very high rate of house construction, notably, in county Dublin. The fact that local authorities have no discretion about granting such remissions suggests that a case exists for compensating them for some of the lost revenue from central government funds. Rather than continuing to place the entire cost of this remission on other local ratepayers, a compromise should be reached, with the central government agreeing to meet part of the cost of the remission of Rates on new private housing. These changes in the exemptions and remissions of Rates would spread the tax more equitably over the population and extend the scope of the tax in a once-for-all-manner. They would not, of course, significantly increase the responsiveness of the base to economic growth in the long-run. As can be seen from Table 6.2, total remissions and exemptions in 1973-74 cost an estimated £20.34 million in loss of Rates which amounts to 28 per cent of Rates actually paid in that year. Implementing the recommendations of the Report (assuming that new house exemptions were paid by the Exchequer) would result in the removal of about three-quarters of the remissions and exemptions listed in Table 6.2 and would allow poundages to be cut by about 20 per cent.

### *Conclusion*

The rateable valuations on which the Irish property tax system rests are obsolete. There is considerable evidence that significant anomalies have arisen in this valuation system over the years. In this Section we summarised the available evidence and added some new data on this issue. We drew attention to the regional variations in rateable valuation of agricultural land, as well as to the existing literature on differences between individual holdings in certain regions. On the basis of a sample of recent sales of private residences in the Dublin area, we showed that there is a systematic tendency for the ratio of valuation to sale price to decline as sale price increases: the evidence suggests that more expensive properties tend to be undervalued compared with less expensive.

The importance of these considerations is not only that they weaken the link between the rating system and "ability to pay", but also that they give rise to inequities wherever rateable valuations are used in means testing and similar contexts. The case in favour of a general revaluation is, however, modified by the possibility that differences in effective tax rates within a local authority are capitalised in house prices, and hence a revaluation could cause significant capital gains and losses among property owners. We pointed out that we lack evidence on the importance of capitalisation in Ireland, and that, while it might offset some of the inequities due to the valuation system, it might give rise to fresh ones.

Our judgement, therefore, is that the Rates can only function as a fair tax if a general revaluation of all rateable property takes place. Where major adjust-

ments in valuations are called for, special concessions should be allowed, such as deferring the coming into operation of the new valuations until the ownership of the property changes. We recommend that in revaluing agricultural land, the German system, starting from soil maps, should be taken as a model. In revaluing urban property, consideration ought to be given to reducing the burden of the Rates on structures and increasing it on sites; while not recommending that complete reliance be placed on site value rating, we believe that the economic case for lessening the tax on structures and increasing that on sites is convincing.

The effective valuation of the country could be increased by removing some of the existing remissions and exemptions from Rates. Most of these have no economic justification. The most important candidates for termination are the exemptions of ESB generating and transmission facilities and of mines. There is also a case for returning to local authorities some of the revenue lost due to the national policy of Rates remission on new private houses. If all of these reforms were implemented, the Rates poundages could be reduced by at least twenty per cent without loss of revenue, and the burden of the tax would be spread more equitably.

## Section 7

### *The Incidence of the Rates*

**I**N this Section we review the theoretical issues involved in assessing the incidence of the Rates and evaluate the available evidence on the way the burden of this tax is distributed in Ireland.

In the course of this discussion the terms “progressive”, “proportional”, and “regressive” will be used frequently. These terms indicate whether a person’s tax liability as a proportion of income increases, remains constant, or falls, as his income increases. The terms are purely descriptive. It is not implied that a “progressive” tax is necessarily superior to a “regressive” one. It is true that many economists subscribe to the view that “progressive taxation is . . . one of the central ideas of modern democratic capitalism” (Blum and Kalven, p. 1), but it is now widely recognised that the optimal tax structure for society depends on assumptions about the “fair” distribution of income, and, in particular, about the degree of inequality that is acceptable (Atkinson, 1973). For these reasons the progressivity or otherwise of the tax structure as a whole, or of any individual tax, must be decided by a political process. An important rôle can, however, be played by economists in clarifying the incidence of alternative tax structures.

By “incidence” we mean the changes caused by a tax in the distribution of real after-tax income or purchasing power available for private use. In the present context we are concerned primarily with differential tax incidence, that is with the changes that would occur if the money now collected from the Rates were collected through some other tax. It is usual to compare the incidence of the Rates or any other tax under study with that of a proportional tax on income.

#### *The Incidence of a Property Tax : Theoretical Issues.<sup>1</sup>*

It would be inappropriate to discuss in detail the recent theoretical literature on the incidence of property taxation, although it is of great importance to an evaluation of the incidence of the Rates. We present instead a brief summary of the main issues.

In discussing the incidence of a tax, economists are not concerned with the *legal* base on which the tax is levied : what matters to them is whose purchasing

1. This discussion draws heavily on Netzer’s 1973 article, “The Incidence of the Property Tax Revisited”.



power is reduced as a consequence of the tax. The excise tax on beer, for example, is legally payable by the brewers, but most of the tax is probably borne by beer drinkers, because the price of beer is raised as a result of the tax and there is no serious fall-off in consumption as a result of the higher prices. This "forward shifting" of the tax is probably quite common in the case of excise taxes, which are generally levied on commodities with a low price elasticity of demand. A tax may also be shifted backwards, resulting in lower wages, etc., being paid to the factors of production employed in producing the taxed commodity. The main effect of a tax on theatres, for example, might be to lower the income of actors. The type of shifting that occurs, and the degree to which a tax can be shifted at all, depends on the elasticities of demand for the commodity and of supply for the factors employed in producing it.

Traditionally, the Rates have been regarded as an excise tax on certain categories of reproducible capital (namely, housing and buildings) and on land. We noted in Section 3 that national income accountants tend to classify the Rates as a "tax on expenditure". This amounts to assuming that the tax is shifted forward to the general price level (including rents). Thus, implicit in this treatment of the Rates is a theory about the incidence of the tax.

There is little difficulty in dealing with the effects of Rates on land, which is non-reproducible and fixed in supply. A tax on a factor of production whose supply is fixed cannot be shifted forward to consumers of the products produced by this factor, and hence it results in a lower net income to the factor of production.<sup>2</sup> The burden of a general tax on land will therefore be borne by landowners in proportion to their holdings. In the Irish case account must, however, be taken of special considerations such as the effect of Rates relief and the manner in which the valuation system operates.

The incidence of Rates on improvements and structures is more difficult to evaluate. The conventional view, dating back to Marshall and Edgeworth writing at the end of the nineteenth century, is that Rates are an excise tax on buildings and tend to be shifted forward to the consumers of the goods and services provided by these buildings. In the case of commercial structures, the result is a higher general price level, in the case of residential structures, the result is higher rents. Marshall, however, emphasised that "onerous" local taxes on property, as he called unusually high taxes that were not offset by corresponding benefits, would, in the long run, drive down the value of property in the locality and be borne by property-owners rather than consumers.

In recent years there has been a growing "revisionist" view of the incidence of

2. We ignore the possibilities that landowners may withdraw some land from cultivation as a result of the tax, or that improvements in land will be lessened by the tax: these actions could, in the case of land that is for letting, result in Rates being shifted forward in form of higher rents. There is also the possibility that Rates are reflected in higher prices in markets subject to price supports etc.: this may be relevant for some agricultural products in Ireland.

property taxes, associated with the writing of Mieszkowski and Harberger. Their analysis starts from the assumption that the property tax is levied uniformly on all types of property, and that the supply of savings is not responsive to the rate of return on savings. Given these assumptions it can be shown that the property tax cannot be shifted forward.

Under these assumptions, a general (*ad valorem*) tax on capital will be equivalent to a tax on profits and the real burden will be on owners of capital in proportion to their holdings (Netzer, p. 517).

While the revisionist viewpoint is theoretically rigorous, the realism of the assumptions on which it is based is questionable. In Ireland the tax on property is *not* a general tax on reproducible capital, but is confined to real property. The same is largely true in the United States, although some local authorities tax private cars and some other easily assessable forms of personal property. Despite the slightly broader coverage of the property tax in the US than in Ireland, Netzer estimates that in 1966 over 40 per cent of national tangible wealth was not subject to property taxation.<sup>3</sup>

If we take the data for estate duties as a guide to the Irish situation, we may see that 36 per cent of the net capital value of estates in 1973-74 was in the form of realty (cf. Revenue Commissioners, 1973-74, Table 50). Thus it could be that only about one-third of the nation's stock of tangible wealth is liable to Rates. Hence, this tax is very different from a uniform tax on all wealth.

Even that portion of the nation's tangible wealth that is liable to tax is not all taxed uniformly. There are remissions and exemptions and variations in rateable valuations (discussed in Section 6) which give rise to different effective rates of taxation.

These considerations suggest that although a general, uniform tax on property will not be shifted forward and is therefore equivalent to a tax on profits, actual systems of property tax such as the Rates in Ireland, are neither general nor uniform, and hence significant excise effects (or shifting) occur. The tax is therefore at least in part a tax on housing services (resulting in higher rents) and on the goods and services produced in rateable commercial property (resulting in higher prices for these items). For an evaluation of the incidence of any actual system of property taxation a mixture of the traditional and the revisionist view is appropriate. The traditional view certainly overstates the degree of forward-shifting, but it is not plausible to assume that such shifting is non-existent: the

3. Although many state and local governments in the US legislate for a tax on all property (personal and real), only \$820 million was raised from personal property, compared with \$25.4 billion from real property taxes in 1966. The main taxed items of personal property were automobiles and household furnishings (See Pechman and Okner, 1974, p. 99).

exact incidence of the tax is, however, unknown and any attempt to allocate its burden must be very tentative.

This issue is not only of theoretical concern: it has major implications for measuring the burden of property taxation, and whether such taxation is progressive or regressive. According to the traditional view of the Rates, the burden should be allocated to households in accordance with their expenditure and is therefore regressive. According to the revisionist view, the burden of the tax should be allocated according to household ownership of tangible wealth or capital, and this tends to make the tax progressive.

### *The Incidence of the Rates in Ireland*

#### *(a) Rates on Agricultural Holdings*

About 19 per cent of Rates paid are in respect of agricultural land. We have seen that a tax on land lowers the rate of return on land. The levying of Rates on Agricultural land means that farming is less profitable than it would otherwise be. But a discussion of the effect of Rates on the distribution of income within the agricultural sector in Ireland must take account of the effect of Rates relief. We outlined the operation of Rates relief on agricultural land in Section 5, and drew attention to the fact that about 77 per cent of holdings are completely relieved of Rates. The following illustrates the effect of relief on holdings of various valuations (assuming a poundage of £6·09).<sup>4</sup>

<i>Valuation of Holding (£)</i>	<i>Gross Rates on Land (£)</i>	<i>Net Rates payable by landholder (£)</i>
20	122	0
50	305	152
100	609	365
150	914	578

If valuations were a reliable indicator of net agricultural income arising from a holding, the Rates would be very progressive with respect to income. We have, however, documented (Section 6) that there is considerable variation between counties in the income arising in agriculture per £1 of valuation. In order to illustrate the effects of this feature of the valuation system on the incidence of agricultural Rates we have calculated the examples set out in Table 7.1. In this example the Rates are sharply progressive within a county: this follows automatically if we assume that the amount of agricultural income arising per £1

4. We ignore the effect of allowances for agricultural labourers.

TABLE 7.1: *Illustration of the incidence of Rates on agricultural holdings, 1969-70*

Valuation of holding	Income arising, 1969-70		Net Rates payable		Net Rates payable as per cent of income arising	
	Mayo average	Meath average	Mayo poundage (£5.35)	Meath poundage (£2.73)	Mayo average	Meath average
(1)	(2)	(3)	(4)	(5)	(6) = (4) / (2)	(7) = (5) / (3)
(£)	(£)	(£)	(£)	(£)	per cent	per cent
20	696	326	0	0	0	0
50	1,730	816	134	68	7.7	8.3
100*	3,479	1,630	321	163	9.2	10.0
150*	5,219*	2,446	508	259	9.7	10.6

\*Less than one per cent of Mayo farmers hold land valued £100 or over compared with 16 per cent of Meath farmers (cf. Census of Population, 1966, Vol. IV. Table 12).

*Note:* Calculation of net Rates payable based on the fact that holdings not exceeding £20 valuation are completely relieved of Rates, holdings not exceeding £33 valuation pay full Rates on the portion of the holding exceeding £20, and holdings over £33 pay 20 per cent Rates on the first £20 valuation and 70% on the remainder. We take no account of the employment allowance.

Income Arising data from Ross (1972), Table 15.

valuation is constant within a county,<sup>5</sup> while the proportion of the holding that is relieved of Rates falls as the total valuation rises.

The situation when farmers in different counties are compared is, however, less clear-cut. In extreme cases, the anomaly could occur that a farmer with a more valuable holding in a relatively under-valued county pays a smaller percentage of his income in Rates than a farmer on a less valuable holding in a relatively over-valued county. To illustrate this problem, we have taken the cases of Meath and Mayo in Table 7.1. A Mayo farmer on each valuation of holding (with average income arising per £1 valuation) would pay a lower percentage of his agricultural income in Rates than a Meath farmer on a holding of similar valuation. This problem is aggravated by the fact that the average size of holding in Meath is much higher than in Mayo. In 1969-70, 94 per cent of agricultural holdings in Mayo were £20 valuation or less (and hence fully relieved of Rates)

5. We realise, of course, that variations do occur even within counties, as documented in Section 6, but we assume these are not systematically related to the valuation of the holdings. In fact, evidence from Farm Management Surveys shows that output per £1 valuation is higher on small than on large farms: this tends to increase the degree of progressivity in the Rates.

compared with only 54 per cent in Meath. (These happen to be the highest and lowest counties with respect to this statistic.)

The above calculations illustrate two features of the Irish rating system as it operates in the agricultural sector :

- (1) The system of Rates relief achieves progressivity of taxation where the valuations are an accurate assessment of income arising.
- (2) Regional variations in the relationship of valuations to income make this progressivity less clear-cut than it would be if all valuations accurately reflected income arising.

*(b) Rates on Commercial/Industrial Property*

Just over a quarter of the Rates payable is in respect of commercial/industrial property. The traditional view is that this tax to the extent that it is not allowable against profits tax is shifted forward to consumers through an increase in the general price level. Thus, as we have seen, Rates on commercial property are often viewed as analogous to an indirect business tax.

It is in respect of the Rates on this type of property that the revisionist arguments have greatest relevance. Netzer in his 1973 review of theoretical and empirical work on the tax concludes that "forward shifting of non-residential property taxes has been overstated" (p. 527) in studies (such as his own) which estimated that up to 80 per cent of such taxes were borne by consumers through higher commodity prices. It is now widely accepted that a significant proportion of Rates of non-residential real property are borne by property owners through a lower rate of return on their investment.

If the Rates on commercial property were fully shifted forward, as in the conventional analysis, their incidence would be mildly regressive, as is typical for an indirect business tax. If, however, we allow that a significant part of the burden of this part of the Rates is borne by profit income, then the incidence of this part of the Rates may well be progressive.

*(c) Rates on Private Residences*

Just over half of Rates payable were on this type of property in 1968-69. We must subdivide this category into (i) Rates on houses rented from local authorities (ii) Rates on other rented housing (iii) Rates on owner-occupier dwellings. We do not have a breakdown of the importance of Rates from each of these sub-categories, but the 1971 Census reveals the following allocation of private dwellings: rented from local authority—16 per cent, other rented—13 per cent, owner-occupied—59 per cent, other (including vested cottages)—12 per cent. Clearly, Rates on owner-occupied dwellings are the dominant consideration in assessing the incidence of Rates on private residences.

The traditional approach in evaluating the burden of Rates on owner-occupied housing is to assume that the owners, as consumers of housing services, bear the burden. The progressivity or otherwise of the Rates is then assessed by seeing what proportion of income is paid in Rates by various income groups. The revisionist critique of this approach raises the point that owner-occupiers bear the burden of the Rates in their capacity as investors in property rather than as consumers of housing services. Moreover, the tax system as a whole subsidises investment in home-ownership to a very significant extent, and the Rates may be viewed as an attempt to levy a tax on some of the benefits granted to home-owners through other parts of the tax system. It could be argued, for example, that if Rates on private residences were abolished, the income-tax deductibility of mortgage interest on these properties should be removed.

The Household Budget Inquiry 1965-66 is the latest data source available for an analysis of the Rates using an expenditure approach. This approach is useful only if the traditional view of the incidence of the Rates is accepted. Moreover, the available data suffer from the following defects for the purposes of our expenditure approach to the analysis of the incidence of the Rates :

- (i) The Inquiry deals with urban households only.
- (ii) Since 1965-66 Rates Waiver Schemes have been introduced by many local authorities to relieve the poorest households of Rates liability.
- (iii) The only income data given in the Inquiry relates to current income: this may not be appropriate in assessing the incidence of the Rates, since expenditure on housing is presumably more influenced by life-time income than by current income.
- (iv) The Inquiry does not distinguish in the relevant expenditure tables between owner-occupiers and tenants. For owner-occupiers there are entries for an item called "Rates, Water Charges, Ground Rent"; for tenants there are entries for an item called "Rent, Rates, Water Charges". This makes it impossible to obtain the Rates liability of the various income groups.
- (v) The range of weekly incomes covered in the relevant tables is fairly narrow—from £10 and under to £30 and over.

Despite these serious defects in the data, we have set out in Table 7.2, an analysis of Rates paid by income group.<sup>6</sup> We express expenditure as a percentage

6. Another defect of the data is the failure to impute a rental income to owner-occupiers, which would tend to raise the income of low-income families proportionately more than that of richer families. This adjustment has been shown to render the US tax on residential property roughly proportional to income (Maxwell, p. 132).

TABLE 7.2: *Weekly expenditure on Rates, water charges and ground rent as percentage of total expenditure by owner-occupiers classified by household composition, 1965-66*

Gross weekly household income (£)	Total household expenditure (£)	Expenditure on Rates, etc.		Average number of rooms per household (of which sublet)	
		£	as percentage of gross weekly expenditure		
<i>Household composition: 1 or 2 adults</i>					
Under £10	6.85	0.19	2.8	3.91	(0.16)
£10-20	14.77	0.42	2.8	4.54	(0.20)
£20-30	23.44	0.71	3.0	5.42	(0.41)
£30 and over	34.28	0.85	2.5	6.25	(0.15)
<i>Household composition: 2 adults with children</i>					
Under £10	11.27	0.13	1.2	3.92	(—)
£10-20	17.40	0.25	1.4	4.39	(0.03)
£20-30	25.49	0.60	2.4	5.38	(0.04)
£30 and over	37.13	1.08	2.9	6.95	(0.15)
<i>Household composition: Other households without children</i>					
Under £10	10.48	0.12	1.1	4.30	(0.05)
£10-20	19.19	0.26	1.4	4.58	(0.04)
£20-30	26.33	0.41	1.6	5.19	(0.08)
£30 and over	38.74	0.55	1.4	5.42	(0.17)
<i>Household composition: Other households with children</i>					
Under £10	10.91	0.10	0.9	3.86	(0.04)
£10-20	19.16	0.19	1.0	4.49	(0.01)
£20-30	26.90	0.25	0.9	4.76	(0.02)
£30 and over	41.48	0.60	1.4	5.59	(0.04)
<i>All households</i>					
Under £10	7.85	0.16	2.1	3.94	(0.13)
£10-20	17.24	0.26	1.5	4.49	(0.08)
£20-30	26.49	0.40	1.5	5.13	(0.06)
£30 and over	39.15	0.59	1.5	5.82	(0.07)

Basic source: HBI, Table 11A.

Note: Expenditure on this item is by definition zero for all other than owner-occupiers. The low proportion of owner-occupiers in the lowest income group therefore biases this figure toward a progressivity that may not exist in reality.

of Gross Weekly Expenditure rather than of income to modify the effects of point (iii) above in recognition of the fact that total expenditure is usually accepted as a more accurate figure than total income in inquiries of this type.

Table 7.2 shows that *within each household classification* (except "one or two adults"), Rates are progressive in the sense that those in higher expenditure groups spend a higher proportion of their total expenditure on Rates than do those in lower groups. Even when all households are aggregated, without allowing for household composition, the Rates are proportional over the three highest groups, although regressive from the lowest to the second group. This conclusion is quite different from that reached in a recent analysis of the same data: due mainly to the use of "gross weekly income" instead of "total household expenditure" in classifying households it was concluded that Rates were sharply regressive (cf. de Buitelir, 1974, Chapter 5).

The data in Table 7.2 must be interpreted in the light of the fact that as income rises it is likely that the proportion of owner-occupiers also increases, and, hence, expenditure on "Rates, etc.", in the Household Budget's definition goes from zero to a positive total. Without being able to allocate the Rates element in the total "rent, Rates, etc.", for rented accommodation, it is impossible to complete this analysis of incidence, but we suggest that the analysis presented in Table 7.2 significantly modifies the view of the Rates as steeply regressive on owner-occupiers. (In fact, Walker in his 1962 paper expressed the view that "Rates are a proportional tax with respect to the non-farming community," p. 18.)

We may alternatively explore progressivity in terms of whether the "expenditure elasticity of demand" for the tax is greater or less than unity. We measure this elasticity net of other influences. Pratschke, in his econometric study of the 1965-66 Household Budget Inquiry, reports the following estimates of expenditure and household size elasticities.<sup>7</sup>

	<i>Expenditure elasticity</i>	<i>Household size elasticity</i>
Rent, rates, water charges (rented dwellings)	0.088	0.095
Rates, water charges, ground rent (owner-occupiers)	1.625	-0.917
<i>Total housing</i>	0.976	-0.315

These results show that expenditure on the items under rented accommodation are not significantly associated with income. This is to be expected in view of the amalgamation of local authority tenants and others in this group. The

7. Table A12. Note that the results in this table differ from those in Table 12, due to typographical errors (as confirmed by Dr Pratschke in a personal communication).



very high expenditure elasticity for "Rates, etc.", (which is recorded only among owner-occupiers) shows either (a) that as income rises, people prefer to be owners of their own houses, or (b) that within the class of owner-occupiers, expenditure on housing rises more rapidly than income, or (c) some combination of (a) and (b). It seems to us that these results support the view that Rates are not regressive with respect to total expenditure. We accept, however, that others may view the available evidence as inconclusive due to absence of details of the Rates element in the rents paid by tenants in the Household Budget Inquiry.

The widely-held view that Rates are regressive seems to derive mainly from the fact that many retired persons, living on reduced incomes, own houses bought when their incomes were much higher. These people must pay relatively high proportions of their current incomes in Rates. This phenomenon undoubtedly accounts for the relatively high proportion of total expenditure devoted to Rates by households consisting of one or two adults, as shown in Table 7.2. Households of this type, with a total outlay of £6.85 a week (in 1965-66) spent a higher proportion of their total expenditure on Rates than households with children living on a total expenditure of over £25 a week. Whether this illustrates regressivity or not is partly a matter of terminology. If it is to be called regressivity, then it should be borne in mind that the average number of rooms per household (exclusive of those sub-let) owned by the former group was 3.75, compared with 5.34 in the latter—almost certainly a much higher number of rooms per person in the first case. This illustrates the point that if one is committed to using income as a measure for "ability to pay" Rates, it is important to take household circumstances into account. The fact that total income is higher in the second instance is not necessarily an indication that the amount to be taxed away by the Rates should be higher. According to a fairly objective criterion (size of household), the "need" for housing is greater in the second instance. A virtue of the Rates in this context is the incentive they create for householders to sub-let part of their accommodation and thereby increase the supply of residential units. As an alternative to this, there exists the possibility for householders with large houses to sell and move to smaller ones.

In the case of privately rented accommodation, it is possible that landlords bear some or all the burden of the Rates. Technically, the extent of the burden on landlords depends on the elasticity of supply of rented accommodation. If this is high, owners will restrict the supply in response to an increase in Rates and force rents up. We know of no evidence on supply elasticities in Ireland, but American evidence suggests that "the burden of an increase in the property tax will fall in good part on rental property owners" due to low short-run elasticities (Netzer, p. 525).

Local authority rents are subsidised both from central and local revenue in accordance with an income-related differential rent scheme. In 1972-73 the

typical tenant of a new local authority house was in the following situation (assuming a valuation of £12 and a Rate of £6):<sup>8</sup>

<i>Charges</i>		<i>Payments</i>	
Economic rent	£9·25	Rent (under differential rent)	£2·20
Rates	£1·38	Rates	£1·38
		From Rates	£4·40
		From central government	£2·65
	£10·63	<i>Total</i>	£10·63

} paid by tenant  
} subsidy

The loan charges and construction etc. costs have increased significantly since 1972, but rents have remained relatively static.

A tenant pays more or less in rent depending on his basic income and his family circumstances. The maximum rent payable is the full economic rent (£9·25), the minimum is zero. But the Rates are payable in full by the tenant, regardless of his income, from the date of occupancy, although in cases of hardship they may be waived or written off as irrecoverable. In 1973-74 about one-and-a-half per cent of Rates payable locally were waived: this would be about three per cent of the Rates on private dwellings. Just under 26,000 Ratepayers benefited from these schemes and about 20 per cent of the Rates waived were in respect of local authority tenants. Seventeen county councils operated waiver schemes, ten did not. All four County Borough Councils operated schemes.

The method of subsidising housing to local authority tenants can give rise to false impressions of the burden of the Rates. As income rises, a tenant's Rates payment remains static and an impression of regressivity is created. It is, however, more instructive to look at the *net* transfers occurring on the Rates account. The typical tenant depicted above is clearly receiving a *net* subsidy of £3·02 weekly from the Rates, and this subsidy falls as his income rises. When viewed in this light, the net burden of the Rates on local authority tenants is progressive, despite the fact that gross Rates payable by tenants are not income-related.

After 1976 the entire rent subsidy will be borne by the central government.

8. This illustration uses data contained in the release by the Department of Local Government, "The Management of Local Authority Housing: Subsidy, Renting and Sales: Policy and Practice", May 1974. By 1977 the entire housing subsidy will be met from Central Government funds. This scheme applies to all new lettings since 1966, and to some older houses. A declining proportion (at present about one-third) of local authority housing is in fixed rents.

In this situation our argument about the net subsidy from the Rates account ceases to be relevant. But it is not irrelevant to look at the net subsidy on the housing account to the tenant, and arguably any evaluation that concentrates on Rates liability but ignores the overall subsidy is misleading.

#### *Summary of the Incidence of Rates*

We may summarise our conclusions regarding the burden of the Rates as follows:

<i>Category of property</i>	<i>Proportion of rates paid (1969) per cent</i>	<i>Incidence assumptions</i>	<i>Conclusion about incidence</i>
1. Agricultural land	18.9	Burden falls on owners of land	Progressive, due to operation of Rates relief
2. Commercial/Industrial real property (a)	27.5	(i) Shifted forward to general price level (ii) Borne by profits	Mildly regressive Progressive
3. Residential real property	53.6		
3a. Owner-occupied	(32)(b)	Borne by owners	Regressive at low income level, otherwise proportional
3b. Privately-rented	(7)	(i) Borne by tenants (ii) Borne by landlords	Regressive Progressive
3c. Rented from local authority	(9)	Progressive due to incidence of net subsidies under differential rents scheme	
3d. Other	(7)	Probably similar to owner-occupied	
<i>Total rateable property</i>	100		

(a) At least a third of this liability may be offset against income/profits tax liability. The incidence of profits taxation is probably similar to that of Rates.

(b) Based on distribution of households by nature of occupancy.

Unfortunately, it is impossible to add these categories to arrive at an overall assessment. Furthermore, in the absence of a comprehensive study of tax incidence in Ireland it is impossible to assess the impact of the Rates on the tax system as a whole. It is, however, clear that the major suspicion of regressivity arises from 3.a.—the incidence of Rates on owner-occupiers whose current income is low. Many of the people in this category are living on pensions. They acquired their houses when their income was higher, and when they had dependent children living with them. Their problems are made more acute in a period of rapid inflation, when the purchasing power of some pensions is being seriously eroded. On the other hand, the existence of Rates provides an incentive to owner-occupiers to sub-let or sell property and thereby increases the supply of housing units.

#### *Rates Relief and Making the Rates More Progressive*

If Rates relief in the non-agricultural sector is to help low-income households for whom the tax is an unreasonably heavy burden, it should be based on an assessment of the household's income and other circumstances, and integrated as far as possible into the existing (national) welfare system. The existing Rates Waiver Scheme is limited in scope, and, being optional at the local level, it automatically introduces local variation in the relief provided. Even if the present scheme were made obligatory on all rating authorities, its availability to low-income families would depend on local decisions, and would tend to reflect local financial resources.

Other countries where taxes similar to the Rates are as important as is the case in Ireland have implemented schemes to make the tax less inflexible and more sensitive to the taxpayer's current circumstances. In the United States, schemes to modify the impact of property taxes on the less well off are in force in several states. Under what is generally referred to as "circuit-breaker" legislation, relief is extended to home-owners and renters :

Eligibility conditions usually specify one or more of the following : an age, income, wealth and residency test, and a maximum credit. The tax relief is in the form of a credit against state income tax and features a cash refund if the property tax concessions exceed income tax liability. The program is designed to be administered by the state tax department and financed from state general fund revenues. (Mitchell, 1973, p. 368).

The schemes are designed to relieve that part of the property tax bill that is considered "excessive" in relation to household income. The actual schemes

operated in the various states differ significantly in details. In Wisconsin, for example, a household with annual income of \$2,500 would be entitled to a \$90 relief on a property tax liability of \$300.

In the United Kingdom, there are two relevant schemes.<sup>9</sup> First, under the Supplementary Benefits Act there is provision for including an amount for rent in the calculation of the claimant's weekly requirements. "Rent" for these purposes includes Rates, and thus a claimant can seek to have his entire Rates liability covered by Supplementary Benefits. The local officers administering the scheme must decide (a) whether the rent is reasonable for the accommodation and (b) whether the accommodation is reasonable for the claimant. A number of criteria are laid down in assessing point (b). Provided both points (a) and (b) are met, the rent (inclusive of Rates) may be met in full from Supplementary Benefits.

The second relevant legislation, introduced in the Rating Act, 1966, is the system of Rate rebates. Ratepayers (other than those in receipt of Supplementary Benefits) are eligible for rebate on a sliding scale, depending on household income and family circumstances.<sup>10</sup> A married couple with two children qualify for a rebate of £1.04 a week if their income is £22.00 weekly and their actual Rates liability £1.50 weekly. The maximum rebate cannot exceed 60 per cent of actual Rates, except where the household's income is less than their "needs allowance" (e.g., £23.75 for a married couple with two children). The central government pays a 90 per cent specific grant towards the cost of rebates granted by local authorities under the scheme. The legislation requires each rating authority to operate the scheme (or to make a local scheme in place of the statutory scheme).

The American schemes and the two British schemes have one feature in common: the cost of granting relief to poor ratepayers is borne, not by the local authorities, but by the central (or state) government. This is in contrast with the Irish Rates Waiver Scheme, whose implementation is not required of all local authorities and whose cost must be borne by other ratepayers in a locality where a scheme operates.

Another feature of the British scheme, shared by some of the American systems, is its complexity and the degree of investigation of personal circumstances it entails. This may give rise to serious inefficiencies: if it is desired to make Rates liability very closely related to "ability to pay" the most logical course would be full integration into the income tax code and social assistance code, rather than setting up a parallel system of means testing specially for the Rates.

9. Our account is based on official summaries of the relevant legislation.

10. The scheme can be summarised in the following formula:  $\text{Rebate} = 0.6 \text{ Actual Rates} - 0.06 (\text{Income} - \text{Needs Allowance})$ , provided actual Rates exceed a certain minimum. Needs allowances are set according to a scale. (If income is less than the needs allowance, 0.08 is substituted for 0.06 in the formula.)

We feel that the reforms of the Rates system in relation to reliefs and waivers required in Ireland should embody the following principles:

1. A significant proportion of the cost of granting Rates relief should be borne by the Exchequer.
2. A system of relief or waivers should be introduced on a national basis, to operate according to uniform criteria nationally.
3. The system should operate with a minimum of administrative complexity.

As an illustration of the type of scheme that would meet these criteria, we suggest a national waiver of all or a significant proportion of the Rates liability of those currently qualifying under the free electricity scheme.<sup>11</sup> All, or a significant portion, of the cost of such a scheme would be made good to local authorities by the central government. The Rates waiver schemes currently in operation cost about three per cent of Rates paid by private households: if our proposal cost three times this (see previous footnote) the cost to the Exchequer would be less than 10 per cent of the Rates liability of private households, or less than five per cent of the total Rates bill: at 1975 levels this amounts to just over £4 million.

Any scheme designed to relieve the neediest class from its Rates liability will tend to increase the progressivity of the whole rating system. It may, however, be felt that much greater progressivity should be introduced into the rating system, while at the same time affording a more substantial degree of relief than is implied in the proposal regarding social assistance payments. There are, after all, many families with children on relatively low incomes who would not qualify under this proposal, but for whom Rates payments are a high proportion of income.

There are a number of possible ways of achieving greater progressivity:

1. A certain amount of all residential valuations could be derated (the first £X).
2. All residential valuations below a certain valuation could be completely derated.
3. A progressive tax structure could be introduced, surtaxing each £ valuation in excess of a certain figure.
4. Some combination of the above three possibilities could be implemented.

11. In general, all those living on social welfare (contributory and non-contributory) pensions qualify, provided they are living on their own or with another pensioner. In September 1974 it was estimated that about 80 thousand households qualified: this is just over three times the number benefiting from a Rates waiver.

The first option is, of course, similar to the scheme now in force with respect to agricultural holdings, and we have already illustrated how it makes the Rates progressive in that sector.

In order to illustrate how some of the options we listed above might operate, we have constructed the examples set out in Table 7.3. In doing this we have associated a scale of rateable valuations with a slightly steeper scale of household income so that the existing rating system is slightly regressive. The thresholds chosen for derating and surtax (£5 and £35 respectively) have no special significance, and are for illustrative purposes only.

The cost of implementing any of these options would depend on the size distribution of rateable valuations within the rating authority. Unfortunately, no data on these distributions are available. It would, however, always be possible to adjust the poundage so that no loss of revenue results: this would result in steeper progressivity than is the case in our illustration.

The question arises whether these changes, if legislation were introduced to permit their implementation, should be imposed uniformly throughout the country (as is the case with agricultural derating) or left to the option of individual local authorities. If left to local option, it is obvious that the poorer authorities would have little motivation to implement them. If one authority failed to implement such a scheme, neighbouring authorities would probably be reluctant to do so. A further disadvantage of local option is the increase in the divergence in effective tax rates between jurisdictions it could cause, which would increase the degree of forward shifting and excess burden. Any move in this direction would therefore be best imposed uniformly on all rating authorities, and instead of relying on increases in local poundages to make good all the lost revenue, some support from the Exchequer should be forthcoming if this type of restructuring of the Rates is considered desirable.

Table 7.3 makes it clear that the Rates can be made as progressive with respect to income as is desired. The combination of derating a proportion of the valuation combined with a surtax on large properties (column v) would ensure significant progressivity. Undoubtedly, however, altering the tax structure in this way, even if carried out uniformly across the country, would increase the excess burden of the tax by increasing the incentive to live in smaller houses in order to reduce one's tax liability. Moreover, all of these options share with the existing scheme for Rates relief on agricultural land a reliance on rateable valuations in determining the effective rate of taxation. Proposals to make the Rates more progressive or to take more account of "ability to pay" which rely on the options we list above can only achieve limited effectiveness if the valuation system in force is defective. For example, we have drawn attention to an apparent tendency to undervalue expensive houses, and it is clear that if the Rates are to be made more progressive, this aspect of the valuation system should be changed. In this

TABLE 7.3: *Illustration of the effects of alternative rating systems on the progressivity of the tax*  
(Poundage = £7)

Household income	Rateable value of residences	(i)	(ii)	(iii)	(iv)	(v)
		<i>Existing regime</i>	<i>Derating residences £5 RV or less</i>	<i>Derating first £5 RV on all residences</i>	<i>Surtax<sup>a</sup> on RV in excess of £35</i>	<i>Derating first £5 RV + surtax(a) in excess of £35 RV</i>
£	£	Rates payable as percentage of Income				
800	5	4.4	0.0	0.0	4.4	0.0
2,000	12	4.2	4.2	2.5	4.2	2.5
4,000	24	4.2	4.2	3.3	4.2	3.3
6,000	35	4.1	4.1	3.5	4.1	3.5
8,000	46	4.0	4.0	3.6	4.5	4.1

<sup>a</sup>Each £ RV over £35 taxed at one and a half times the poundage.

respect a rebate scheme, based on actual Rates liability, has an advantage over a scheme that relies on rateable valuations.

Moreover, although ensuring progressivity with respect to income, the options illustrated in Table 7.3 do not increase the sensitivity of the Rates to household circumstances: the tax burden on the single householder remains the same as that on the large family, if they both occupy accommodation with the same valuation. If this feature of the tax is felt to be unfair, a simple system of rebates based on the number of dependent children could be operated: once again, the derating of agricultural holdings provides a model, namely, the employment allowance of £17 against Rates liability for every male agricultural worker employed.

The cost of a scheme of Rates rebates based on dependent children could be estimated on the basis of the numbers qualifying for children's allowances. Clearly, the rebate would have to be set fairly low, since approximately one million children qualify for allowances: £5 rebate per child would therefore reduce rates payable on private residences by perhaps as much as 20 per cent. (The Rate Rebate scheme in force in the UK raises the Needs Allowance by £2.75 per dependent child, and thus increases the Rebate by a maximum of £11.44 a year for each child.)<sup>12</sup> A disadvantage of flat-rate allowances in respect of dependent children is the lack of selectivity entailed—the rich benefit as much as the poor. Selectivity, however, can only be achieved if a complex scheme similar to the US or UK models is introduced.

12. Cases of the Rebate increasing by this much would be unusual, because households are more likely to qualify for Supplementary Benefits in such circumstances. A maximum figure of £8.58 (= £2.75 × 0.06 × 52) is more relevant.



We do not unequivocally recommend that all the options we have discussed in this part of the study should be implemented. The degree of progressivity that should be incorporated in the rating system, the extent to which it should take family circumstances into account, and the precise manner of achieving these goals are ultimately political issues. We have shown that the rating system can be altered to take these goals into account, and we have given some idea of the cost involved in a possible scheme (although we lack data on the size distribution of rateable valuations, which are a key input in making these calculations). The details of an operational scheme could be worked out after a decision is arrived at on the type of distributional effect it is desired to incorporate in the rating system.

#### *Allocating the Benefits of Rates-financed Expenditure*

In evaluating the burden of a tax which is earmarked for specific expenditure headings, account should be taken of the distribution of the benefits from that expenditure. In Section 4 we presented data on the allocation of the Rates to services. We drew attention to the fact that roads, sanitary services, and general purposes will, possibly in that order of importance, be the charges on the Rates by the late 1970s. Allocation of these categories of expenditure by income class is not an easy task, but it should be attempted if a full evaluation of the burdens and benefits of the Rates is to be undertaken.

The removal of health and housing subsidies from the Rates will significantly alter the distribution of benefits from Rates-financed expenditure. Both of these expenditure headings are means-tested, and the benefits are therefore automatically concentrated among lower income households. With the exception of Supplementary grants for housing, the items that will remain chargeable to the Rates are not means-tested but are available to all income groups. It could in fact be argued that the benefits from these expenditures accrue disproportionately to the higher income groups: roads, for example, benefit those owning cars more than those without cars; the Rates-financed element in sanitary services, such as water and sewers, could be seen as benefiting the public in proportion to their consumption of housing services; "the general purposes" heading is hardest to analyse (the largest single sub-heading is "other"), but many of the items (e.g., libraries, fire brigades, town planning) probably benefit the public roughly in proportion to their income.

A qualification could be entered regarding the benefits of road construction financed from the Rates in rural areas with high seasonal unemployment. In addition to the benefits accruing to road users, it could be argued that benefits are reaped by those employed on the projects who would otherwise be unemployed and probably only eligible for unemployment assistance. These road works constitute the clearest remaining example of redistributive expenditure

financed from the Rates, although not all of the money spent on them can be simply seen as an income transfer to those who would otherwise be unemployed.

Looking to the future, this type of roads expenditure is likely to decline relative to the other items chargeable to the Rates. Thus it seems that the redistributive effect of Rates-financed expenditure is not very great at the moment, and will decline as health and housing subsidies are taken over by the central government.

### *Conclusion*

The traditional view that Rates are regressive relies heavily on the theory that Rates are an expenditure tax whose principal effect is comparable to that of an excise tax on housing. Most recent discussions of property taxation emphasise the fact that to some extent its effects resemble those of a tax on capital or profits and hence may be progressive.

Our review of the available empirical evidence on the incidence of the Rates in Ireland led to the conclusion that the operation of derating agricultural holdings makes Rates progressive in that sector. This progressivity in agricultural Rates imparts a slight progressivity to the rating system as a whole. The evidence for the non-agricultural sector suggests that Rates are a proportional tax in that sector. Our examination of the burden of Rates by county (in the Appendix to this Section) confirmed these conclusions and also shows how the extension of Rates relief on agricultural land made the Rates more progressive between 1959 and 1969.

The evidence presented in this Section suggests that Rates may be a regressive tax on owner-occupiers who are retired. Many of these retired people own property acquired when their incomes (and the number of dependents in their families) were much higher than is presently the case. A recurrent tax on part of their gross worth (such as the Rates) may make heavy demands on their current income. The only offsetting virtue of the tax in this situation is the incentive it creates for such people to sub-let part of their property, thereby increasing the supply of residential accommodation.

The most equitable way of removing this defect of the rating system is to give Rates relief to low income households, by rebating all or a significant part of the Rates liability of householders for whom the Rates are a particularly heavy burden. One group that may be identified as belonging to this category in Ireland are the non-contributory old-age pensioners who already qualify under the free electricity scheme. A Rates rebate scheme for people with low incomes should be administered uniformly throughout the country and a significant part of its cost to local authorities defrayed from central funds.

The relief granted under this scheme might not go far enough, by failing to meet many low income families with children for whom the Rates are a parti-

cular burden. There is no problem in devising schemes which would benefit such families and also make the burden of the Rates more progressive: the example of granting relief on agricultural holdings according to a sliding scale could be used as a model in the non-agricultural sector. Moreover, consideration could be given to a surtax on valuations over a certain ceiling, and to a children's allowance scheme (analogous to the employment allowance in the agricultural sector).

Apart from the introduction of the Rates Waiver Scheme on a local option basis in 1970-71, there have been no attempts to adjust the non-agricultural rates to take "ability to pay" or family circumstances into account (unless some of the remissions and exemptions could be seen as efforts in this direction). But there is no inherent reason why the Rates on private residences must remain a flat-rate tax, proportional to valuations. We have emphasised in this Section that relatively simple adjustments could be made to change the impact of the Rates on income distribution to any desired pattern.

We stress, however, that the schemes we propose in order to make the Rates more progressive would operate equitably only on the basis of a fair valuation system. Any attempt to make the tax progressive by derating part of each valuation (or sur-charging valuations above a certain size) would place an additional burden on the valuation system, and would add to the problems posed by a defective system. Thus, in the absence of a revaluation, the fairest way to make Rates more sensitive to "ability to pay" is a scheme which rebates some or all of actual Rates liability, taking account of the income and family circumstances of the ratepayer.

## Appendix to Section 7

### *Evidence from County Cross-section Data on the Burden of the Rates*

In Table 7A.1 we set out the Rates payable locally (that is, exclusive of the agricultural grant and the contribution in lieu of Rates) by county, together with county income, for the agricultural and non-agricultural sectors in 1969-70. (It has been necessary to amalgamate the county councils and the county borough councils for Cork, Dublin, Limerick and Waterford and also North and South Tipperary in order to be able to relate the data on local taxation to county income data.) Dublin has the highest figure in column (3), but this is not an exceptional value, and the Dublin figure is not the highest in either columns 6, 9 or 11. In fact, it is surprising to see that a relatively poor county such as Westmeath devotes a higher proportion of personal income in Rates payments than is the case in Dublin. (This arises due to the high proportion of agricultural income levied in Rates in Westmeath, as was mentioned in our discussion of valuations.)

Our interest in these data lies in seeing whether they reveal any association between income and the proportion of income devoted to Rates payments. County averages may, of course, hide variations within each county, and cannot be taken as conclusive evidence of the progressivity or otherwise of the Rates. Such data do, however, supplement the household budget data already discussed, and are especially valuable in providing information on the agricultural and non-agricultural sectors separately, and for the two combined.

We regressed Rates payable locally (*per capita*) on income *per capita* for the two sectors separately and for the two combined. (Whenever we refer to agricultural or non-agricultural Rates *per capita*, we mean per person in the respective sectors.) For total Rates we used both total income arising and total personal income as regressors. We performed double-log regressions for 1959-60<sup>1</sup> and 1969-70. Our results are summarised in Table 7A.2 Our interest centres on whether the income coefficient is greater or less than unity (indicating progressivity or regressivity). It may be seen that for total Rates, the personal income coefficient is 1.7 in 1969, significantly greater than unity and indicating that Rates are quite progressive between counties. In 1959 this coefficient was not significantly greater than unity. The reason for the change between 1959

1. The data for this period are not presented here, but are available on request.

TABLE 7A.1: County data on Rates and income in the agricultural and non-agricultural sectors, 1969-70

County	Non-agricultural income and Rates			Agricultural income and Rates			Overall position				
	Rates payable locally per capita	Non-agricultural income arising per capita (a)	Rates paid as percentage of income arising = (1) ÷ (2)	Rates payable locally per capita (b)	Income arising in agriculture per capita	Rates paid as percentage of income arising in agriculture = (4) ÷ (5)	Rates payable locally per capita	Total income arising per capita (c)	Rates paid as percentage of income arising = (7) ÷ (8)	Total personal income per capita	Rates paid as percentage of personal income = (7) ÷ (10)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	£	£	per cent	£	£	per cent	£	£	per cent	£	per cent
Dublin	21.8	523	4.2	15.3	368	4.1	22.4	520	4.2	551	3.9
Cork	16.3	423	3.8	13.4	336	4.0	15.6	401	3.9	428	3.6
Limerick	12.7	381	3.3	16.7	337	5.0	13.8	370	3.7	402	3.4
Waterford	16.0	396	4.0	21.3	330	6.4	17.2	381	4.5	421	4.1
Carlow	9.6	390	2.5	19.6	282	6.9	12.9	354	3.6	376	3.4
Kildare	7.8	398	1.9	21.0	329	6.4	11.1	381	2.9	411	2.7
Kilkenny	10.3	337	3.1	17.4	325	5.4	13.1	332	3.9	368	3.6
Laois	8.8	325	2.7	15.2	258	5.9	11.3	299	3.8	322	3.5
Longford	11.8	351	3.4	11.0	178	6.2	11.5	269	4.3	317	3.6
Louth	12.2	440	2.8	21.0	342	6.1	13.5	426	3.2	439	3.1
Meath	6.6	303	2.2	22.8	292	7.8	12.8	299	4.3	334	3.8
Offaly	8.7	384	2.3	14.3	236	6.0	10.5	336	3.1	333	3.2
Westmeath	10.1	347	2.9	22.6	201	11.2	13.9	302	4.6	344	4.0
Wexford	9.0	321	3.1	12.7	287	4.4	11.0	308	3.6	351	3.1
Wicklow	13.0	328	4.0	19.7	249	7.9	14.6	309	4.7	372	3.9
Clare	10.1	470	2.2	8.1	213	3.8	9.2	354	2.6	368	2.5
Kerry	13.9	347	4.0	3.9	241	1.6	9.5	301	3.1	348	2.7
Tipperary	10.5	369	2.8	17.2	306	5.6	13.1	345	3.8	385	3.4
Galway	15.0	391	3.8	4.2	170	2.5	9.8	284	3.5	332	3.0
Leitrim	12.0	381	3.2	2.3	147	1.6	6.1	238	2.6	289	2.1
Mayo	14.2	380	3.7	1.7	142	1.2	7.2	247	2.9	314	2.3
Roscommon	9.4	362	2.6	7.1	182	3.9	8.0	257	3.1	307	2.6
Sligo	11.4	388	2.9	5.2	184	2.8	8.8	300	2.9	338	2.6
Cavan	11.0	367	3.0	5.6	224	2.5	8.2	293	2.8	328	2.5
Donegal	11.3	322	3.5	5.4	139	3.9	8.9	247	3.6	306	2.9
Monaghan	10.7	331	3.2	8.6	262	3.3	9.9	301	3.3	343	2.9
Total	16.0	434	3.7	10.9	245	4.4	14.6	383	3.8	419	3.5
Coefficient of variation (per cent)	26.9	27.8	47.2	53.9	13.1	46.0	29.1	19.3	36.0	15.3	17.0

Basic sources: RLT 1969.70; Ross (1972):

*a* Estimated from "Further Data on County Incomes in the Sixties". *b* Rates on land holdings paid to county councils. *c* that is, per head of estimated population in the agricultural sector.

TABLE 7A.2: *County cross-section regression results: Rates regressed on income, 1959-60 and 1969-70**(Double-log specification, t-ratios in parentheses)*

Equation number	Year	Dependent variable	Intercept	Income per capita	$\bar{R}^2$
1	1959	$R_L$	-4.07 (4.00)	$1.16Y_P$ (5.88)	0.57
2	1969	$R_L$	-7.33 (5.42)	$1.66Y_P$ (7.21)	0.67
3	1959	$R_L$	-2.53 (3.34)	$0.88Y_A$ (5.87)	0.57
4	1969	$R_L$	-4.76 (4.33)	$1.24Y_A$ (6.53)	0.63
5	1959	Non-Ag. $R_L$	-2.38 (1.57)	$0.80Y_{NA}$ (2.72)	0.20
6	1969	Non-Ag. $R_L$	-3.97 (1.92)	$1.08Y_{NA}$ (3.10)	0.26
7	1959	Ag. $R_L$	-4.47 (3.94)	$1.34Y_{AA}$ (5.79)	0.57
8	1969	Ag. $R_L$	-8.24 (4.70)	$1.93Y_{AA}$ (6.04)	0.59
9	1969	Ag. $R_G$	0.38 (1.13)	$0.50Y_{AA}$ (3.56)	0.32

 $R_L$  = Rates payable locally (total) *per capita*.Non-Ag.  $R_L$  = Rates payable locally (excl. agriculture) *per capita*.Ag.  $R_L$  = Rates payable locally (in agriculture) *per capita*.Ag.  $R_G$  = Gross Rates (in agriculture) *per capita*. $Y_P$  = personal income (total) *per capita*. $Y_A$  = income arising (total) *per capita*. $Y_{NA}$  = income arising (non-agricultural) *per capita*. $Y_{AA}$  = income arising (agricultural) *per capita*.

and 1969 may be seen in the equations for Agricultural Rates (equations 7, 8 and 9): there was a large increase in the slope between 1959 and 1969. In both years, the results suggest that Agricultural Rates were progressive between counties, although the 1959 slope (equation 7) is not significantly different from unity. In the non-agricultural sector the evidence suggests that Rates changed from being regressive in 1959 to rough proportionality in 1969 as may be seen from equations 5 and 6. Thus the overall result of progressivity is due primarily to the structure of Rates payable in the agricultural sector. This in turn is due to the operation of the agricultural grant in providing relief for the poorer holdings.

This point is confirmed by equations 8 and 9. In equation 9 we regressed Gross Rates payable in agriculture on income arising: the slope is only 0.5, and significantly less than unity. When Net Rates are used as the dependent variable (equation 8) the slope rises to 1.93 and is significantly greater than unity. Moreover, the  $\bar{R}^2$  for Net Rates is much higher than for Gross Rates, indicating, as we would expect, that the former are more closely related to agricultural income.

The fact that, on average, Rates paid as a proportion of income is higher in high income than low income counties does not deny the possibility that some relatively rich people may pay less in Rates than some relatively poor people. Nor does it deny the possibility that some farmers may pay less in Rates than members of the non-farm community who are less well off. Moreover, we have already illustrated the fact that farmers with equal incomes may pay different amounts in Rates depending on where they live. However, the results reported in this Appendix show that there is a net tendency for Rates paid to be a higher proportion of income in richer than in poorer counties, and thus there is some evidence on the basis of the county data that Rates are progressive with respect to income due above all to the system of Rates relief for agricultural holdings.

## Section 8

### *The Regional Pattern of Local Authority Receipts and Expenditure*

WE reviewed in Section 1 the economic rationale of local government. The existence of local authorities can be justified by the fact that they provide certain public services more efficiently than can the central government. Locally controlled and administered taxes derive from the desire to finance the activities of local authorities at least in part from local resources. It follows, then, that a review of local sources of finance would be incomplete without reference to the pattern of local expenditure and in particular the effect of different sources of finance on local expenditure.

We have already drawn attention to the basic dilemma in this area; national standards in the provision of local services are considered desirable, but excessive reliance on purely local financial resources could result in marked regional disparities in the level of services provided. The response to this problem in Ireland has been increased state grants for specific projects, and consequently a greater dependence of local authorities on the central government in financial matters.

In the traditional theory of public finance grants between higher and lower levels of government are given considerable stress as a method of improving the mix of public goods provided by the local government. In general grants can have three main functions:—

(i) redistribution, i.e., to equalise the resources of local authorities; (ii) to make local government expenditure responsive to local needs; and (iii) to encourage the provision of services with large spill-over effects whose provision might not be worthwhile for any individual local authority. An unconditional grant can be used by the local authority as a substitute for local sources of finance, and stimulates expenditure according to the income elasticity of demand for the services being provided. A conditional, matching grant, acts as a reduction in the price of providing a specified service, and stimulates expenditure by the local authority in accordance with the price elasticity for the service in question.

In Ireland intergovernment grants are of two types:

(i) specific grants for the provision of particular services and (ii) non-specific grants, chiefly the agricultural grant and the contribution in lieu of Rates. Many of the grants of type (i) were originally percentage grants.<sup>1</sup> However, as the

1. See Walker (1962) for a discussion of these grants in the early 1960s.



demand for local authority expenditure increased over the years, relief was given to the ratepayers either by increasing the percentage of particular services automatically financed by state grants or by allowing the amount given in grants to drift upwards without reference to any particular formula. Recent changes in the financing of housing will further increase the importance of specific grants and make it even more difficult to classify grants as either percentage or redistributive in nature.

### *The Rôle of the Agricultural Grant*

The agricultural grant is the means by which the state pays county councils the Rates on derated agricultural land. In Section 5 we outlined the main provisions regarding the system of derating now in operation. An important feature of this grant is that it is a subsidy to poorer individuals rather than to poorer regions.<sup>2</sup>

The grant is a block grant, which supports all the Rates-borne expenditure of county councils. There is a sense in which it is a matching grant because the amount received depends on the Rates poundage and hence, on the Rates collected on the non-derated valuations in the county. But the main determinant of the grant is the amount of derated land in the county.

The grant has some features in common with revenue sharing and other systems of equalisation grants discussed in Section 4. These schemes are designed to aid regions where local income and the local tax base are low, but also to reward areas where local "tax effort" is high. We have shown that the agricultural grant redistributes income to areas of low agricultural income. It does not however take account of low income in the non-agricultural sector. This distinction is important in the Irish context, as the correlation between county income per person in the agricultural and non-agricultural sectors was only 0.31 in 1969.<sup>3</sup> One of the questions which we explore in this Section is the effect of the agricultural grant on the level of local expenditure and Rates paid locally.

The following notation will be useful:

let  $RV$  = total valuation in a county,

$DRV$  = derated valuation in county = agricultural valuations benefiting from Rates relief.

2. Of course the grant aids all farmers, since all enjoy the benefits of derating on a proportion of their land, but, as we illustrated in Section 7, the benefit declines as a proportion of income as the valuation of the holding increases.

3. Based on the data for income arising in Ross (1972). Income per person in each sector is defined per head of the population in that sector. However, the correlation between agricultural income and total income per person was 0.84, so that total county income is reasonably closely related to agricultural income (*per capita*).

(Note that  $RV$  relates to the agricultural land and all rateable structures, whereas  $DRV$  by definition refers only to a part of the agricultural land valuation.)

$R$  = Rates poundage.

$R(RV)$  = Gross Rates levied in the county.

$A = R(DRV)$  = the agricultural grant (ignoring the employment allowance).

The ratio of the agricultural grant to Gross Rates is  $\frac{R(DRV)}{R(RV)}$  or  $\frac{DRV}{RV}$ .

As is implied in the definition of the agricultural grant, this ratio is independent of the Rates poundage and is simply a reflection of the proportion of the county's total valuation that benefits from Rates relief. "Rates payable locally" equals  $R(RV - DRV)$ . Clearly, unless the agricultural grant is continuously extended and increased (and there is a limit to this process; over 77 per cent of all holdings are already fully relieved of Rates) the ratio of the grant to Gross Rates will tend to fall as  $RV$  grows due to the growth of the non-agricultural valuations. The time series for Total Rates and Rates payable locally, presented in Table 4.7, confirmed this tendency.

Table 8.1 presents data on the importance of the agricultural grant by county in 1969-70. It may be seen that the proportion of Gross Rates made up by the agricultural grant varies from less than two per cent in Dublin (all local authorities combined) to over 70 per cent in Leitrim. It seems likely that the situation prevailing in Leitrim, where for every £1 of additional Rates payable locally £2.60 extra is paid through the agricultural grant, would influence local taxation and expenditure.<sup>4</sup>

In order to explore this aspect of local taxation and expenditure more fully, we regressed Rates poundage (Col. 5 of Table 6.1) on the agricultural grant as a percentage of Gross Rates (Col. 9 of Table 8.1) and on rateable valuation as a percentage of personal income (Col. 2 of Table 6.1). The last variable is a proxy for the degree of over- or under-valuation in a county. The following result was obtained:

$$R = 5.38 - 1.483 \left( \frac{RV}{\text{Income}} \cdot 100 \right) + 0.024 \left( \frac{A}{R \cdot RV} \cdot 100 \right)$$

(3.55) (5.78) (4.23)

$$\bar{R}^2 = 0.59$$

4. Data for 1975 show that the importance of the agricultural grant declined, and of Rates payable locally increased, after 1969-70. In 1975, for example, just under 65 per cent of Gross Rates in Leitrim were met by the agricultural grant. We use 1969-70 in our regressions as this is the latest year for which county income data are available.

TABLE 8.1: Rates payable locally and the agricultural grant paid by county in 1969-70

County	County Councils					All Local Authorities Combined				
	Rates payable locally	The agricultural grant	Gross Rates <sup>b</sup> (1) + (2)	Agricultural grant		Rates payable locally	The agricultural grant	Gross Rates <sup>b</sup> (6) + (7)	Agricultural grant	
				as per cent of gross Rates (2) ÷ (3) = 100	per £1 of Rates payable locally (2) ÷ (1)				as per cent of gross Rates (7) ÷ (8) × 100	per £1 of Rates payable locally (7) ÷ (6)
				(1)	(2)				(3)	(4)
(£'000)	(£'000)	(£'000)	per cent	£	(£'000)	(£'000)	(£'000)	per cent	£	
Dublin	2,678.9	314.2	2,993.1	10.5	0.12	17,951.5	318.8	18,270.3	1.7	0.02
Cork	2,435.3	2,013.2	4,448.5	45.3	0.83	5,404.7	2,015.9	7,420.6	27.2	0.37
Limerick	881.6	897.1	1,778.6	50.4	1.02	1,917.1	893.2	2,810.3	31.9	0.47
Waterford	603.0	456.8	1,059.8	43.1	0.76	1,300.7	457.1	1,757.8	26.0	0.35
Carlow	349.6	290.8	640.4	45.4	0.83	436.2	290.8	727.0	40.0	0.67
Kildare	670.0	435.4	1,105.4	39.4	0.65	770.5	435.4	1,206.0	36.1	0.57
Kilkenny	637.7	564.9	1,202.7	47.0	0.89	797.4	564.9	1,362.3	41.5	0.71
Laois	509.7	467.6	977.3	47.8	0.92	509.7	467.6	977.3	47.8	0.92
Longford	273.9	429.8	703.7	61.1	1.57	326.0	429.8	755.7	56.9	1.32
Louth	406.9	316.8	723.8	43.8	0.78	981.5	316.8	1,298.4	24.4	0.32
Meath	817.4	697.0	1,514.4	46.0	0.85	894.6	697.0	1,591.7	43.8	0.78
Offaly	422.3	451.1	873.4	51.7	1.07	544.0	451.1	995.1	45.3	0.83
Westmeath	616.0	535.1	1,151.1	46.5	0.87	744.8	535.1	1,279.9	41.8	0.72
Wexford	687.5	694.7	1,382.2	50.3	1.01	933.7	694.7	1,628.4	42.7	0.74
Wicklow	590.7	385.5	976.2	39.5	0.65	935.6	385.5	1,321.1	29.2	0.41
Clare	601.0	775.4	1,376.4	56.3	1.29	685.9	775.4	1,461.3	53.1	1.13
Kerry	739.1	918.5	1,657.7	55.4	1.24	1,066.6	918.5	1,985.1	46.3	0.86
Tipperary	1,180.5	1,199.9	2,380.4	50.4	1.02	1,600.5	1,199.9	2,800.4	42.8	0.75
Galway	834.3	1,580.6	2,414.9	65.5	1.89	1,444.1	1,580.6	3,024.8	52.3	1.09
Leitrim	178.1	463.8	641.9	72.2	2.60	178.1	463.8	641.9	72.2	2.60
Mayo	606.6	1,261.8	1,868.5	67.5	2.08	802.1	1,261.8	2,064.0	61.1	1.57
Roscommon	437.8	894.3	1,332.1	67.1	2.04	437.8	894.3	1,332.1	67.1	2.04
Sligo	260.9	581.2	842.2	69.0	2.23	441.9	581.2	1,023.1	56.8	1.32
Cavan	389.9	735.3	1,125.2	65.3	1.89	434.8	735.3	1,170.1	62.8	1.69
Donegal	825.3	912.0	1,737.2	52.5	1.11	960.5	912.0	1,872.5	48.7	0.95
Monaghan	312.4	571.9	884.3	64.7	1.83	452.6	571.9	1,024.5	55.8	1.26
Total	18,946.6	18,844.7	37,791.3	49.9	0.99	42,953.2	18,853.4	61,806.6	30.5	0.44

<sup>b</sup> Excludes government contribution in lieu of Rates.  
 Basic source: RLT (1969-70).

This highly significant result<sup>5</sup> suggests that the agricultural grant does not result in an equal fall in the amount of Rates collected locally: in other words, the Rates poundages, and hence Rates payable on non-derated valuations, are stimulated by the importance of derated valuations in the total.

A formal way of depicting the effect of the agricultural grant on Rates payable locally can be based on these results.<sup>6</sup> Rates payable locally,  $L = R.RV - A$

now

$$\frac{\delta L}{\delta A} = RV \cdot \frac{\delta R}{\delta A} - 1$$

Using the coefficient from the regression equation above we have

$$\delta \left( \frac{A}{R.RV} \right) = 2.40 = R.RV \cdot \frac{\delta R}{\delta A}$$

Hence  $\frac{\delta L}{\delta A} = \frac{2.4}{R} - 1$

This suggests that Rates payable locally,  $L$ , fall by less than the amount by which the agricultural grant,  $A$ , increases but that the extent to which the grant increases Rates payable locally declines as  $R$ , the Rates poundage, rises. If  $R = \text{£}3$ , then every additional  $\text{£}1$  of agricultural grant raises Rates payable locally (on non-derated holdings) by  $\text{£}0.80$ ; if  $R = \text{£}6$ , then every additional  $\text{£}1$  of grant raises Rates payable locally by only  $\text{£}0.40$ . This is quite consistent with impressionistic evidence: while the ratio of  $A$  to  $L$  may provide an inducement to increase poundages, there is a limit to this process in the form of the increased burden it places on non-derated valuations. (Some of this burden is, of course, offset by the additional expenditure that can be undertaken as a result of the higher poundage.)

5. As Dublin (county and city) is an extreme observation, with  $A$  equal to less than 2 per cent of  $R.RV$ , we re-estimated this equation dropping Dublin. The result was remarkably consistent, indicating that heterovariance is not a problem:

$$R = 5.22 - 1.48 \left( \frac{RV}{\text{Income}} 100 \right) + 0.028 \left( \frac{A}{R.RV} 100 \right)$$

$(11.82)(5.73) \quad \overline{R^2} = 0.60$

6. Our colleague B. Dowling suggested this approach. A similar conclusion may be obtained by multiplying the regression equation above by  $R$  and differentiating with respect to  $A$ .

TABLE 8.2: Sources of rating authority receipts on revenue account in 1969-70

County	County Councils					All Local Authorities Combined*				
	Total receipts = 100 per cent	Rates payable locally	Grants		Other receipts	Total receipts = 100 per cent	Rates payable locally	Grants		Other receipts
			Agricultural	Other				Agricultural	Other	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
	(£'000)	per cent	per cent	per cent	per cent	(£'000)	per cent	per cent	per cent	per cent
Dublin	5,151.9	52.0	6.1	10.5	31.4	39,620.3	45.3	0.8	28.2	25.7
Cork	6,743.5	36.1	29.9	20.5	13.5	15,543.9	34.8	13.0	36.3	15.9
Limerick	2,460.0	35.8	36.5	19.9	7.8	6,399.4	30.0	14.0	33.4	22.6
Waterford	1,474.6	40.9	31.0	21.8	6.3	3,788.6	34.3	12.1	36.5	17.1
Carlow	1,285.1	27.2	22.6	41.5	8.7	1,456.1	30.0	20.0	38.7	11.4
Kildare	2,569.1	26.1	16.9	45.8	11.2	2,741.3	28.1	15.9	43.6	12.4
Kilkenny	2,542.4	25.1	22.2	40.2	12.5	2,804.8	28.4	20.1	37.7	13.7
Laois	1,952.6	26.1	23.9	42.2	7.7	1,952.6	26.1	23.9	42.2	7.7
Longford	1,369.4	20.0	31.4	42.8	5.8	1,446.5	22.5	29.7	41.0	6.7
Louth	1,882.8	21.6	16.8	51.8	9.7	3,060.6	32.1	10.4	39.9	17.7
Meath	2,909.2	28.1	24.0	38.5	9.4	3,076.1	29.1	22.7	37.2	11.1
Offaly	1,762.5	24.0	25.6	43.3	7.1	1,953.3	27.9	23.1	40.5	8.6
Westmeath	2,227.0	27.7	24.0	38.7	9.6	2,495.4	29.8	21.4	36.0	12.7
Wexford	2,932.9	23.4	23.7	44.2	8.7	3,346.9	27.9	20.8	40.4	11.0
Wicklow	2,167.5	27.3	17.8	49.0	5.9	2,697.9	34.7	14.3	41.0	10.0
Clare	2,937.0	20.5	26.4	45.6	7.5	3,101.5	22.1	25.0	43.9	9.0
Kerry	3,811.1	19.4	24.1	46.7	9.7	4,294.2	24.8	21.4	43.1	10.7
Tipperary	4,567.2	25.8	26.3	38.9	9.0	5,306.6	30.2	22.6	35.5	11.8
Galway	5,275.1	15.8	30.0	46.8	7.4	6,179.5	23.4	25.6	41.2	9.9
Leitrim	1,350.1	13.2	34.3	48.4	4.0	1,350.1	13.2	34.3	48.4	4.0
Mayo	4,110.8	14.8	30.7	49.6	4.9	4,408.4	18.2	28.6	46.8	6.4
Roscommon	2,563.5	17.1	34.9	42.7	5.4	2,563.5	17.1	34.9	42.9	5.4
Sligo	1,792.1	14.6	32.4	47.3	5.7	2,005.9	21.4	28.1	42.0	8.5
Cavan	2,250.8	17.3	32.7	41.7	8.3	2,311.4	18.8	31.8	40.8	8.6
Donegal	4,050.3	20.4	22.5	48.4	8.7	4,245.7	22.6	21.5	46.8	9.1
Monaghan	1,812.8	17.2	31.5	44.3	6.9	2,013.3	22.5	28.4	40.9	8.2
<b>Total</b>	<b>73,951.4</b>	<b>25.6</b>	<b>25.5</b>	<b>38.8</b>	<b>10.1</b>	<b>130,223.9</b>	<b>33.0</b>	<b>14.5</b>	<b>36.2</b>	<b>16.3</b>

Basic source: RLT (1969-70).

\*The figures here are exclusive of town commissioners, joint mental health boards, joint burial boards, joint drainage committees, western health institutions board and miscellaneous bodies, and consequently the total does not agree with that in Table 4.3.

### *Factors Influencing the Level of Local Authority Expenditure*

There has been no econometric research on the factors affecting the level of local authority expenditure in Ireland. Walker's 1962 paper presented a considerable amount of data on patterns of revenue and expenditure, but as this paper appeared before any estimates of county income were available he felt that "the basic material is hardly strong enough to support any very firm conclusions" (p. 29). Nonetheless, he tentatively suggested certain conclusions about the variation across the state in the burden of local taxation and the level of services provided. He also believed that "there is no evidence that the grants from the Central Government particularly help the poorer areas more than the richer areas" (p. 30). In general his two papers leave many issues in this area unresolved and in need of further research.

We have already presented material on the regional pattern of Rates in relation to income. In this Section we wish to explore patterns of expenditure, paying particular attention to the impact of state grants on the level of services provided.

In Table 8.2 we set out the sources of finance for local authorities expenditure on revenue account (all services combined). As mentioned in Section 4, we concentrate on the revenue account because none of the loan account expenditure is financed from the Rates.

It may be seen that Rates payable locally range from as little as 13.2 per cent of revenue account expenditure in Leitrim to as much as 45.3 per cent in Dublin. The other side of this picture is Leitrim's dependence on state grants (including the agricultural grant) to finance 82.8 per cent of its revenue account expenditure, compared with Dublin, which receives only 29 per cent of its revenue from state grants. The vast range between the counties in the structure of their finances reflects (a) the importance of the agricultural grant in some counties and its minor rôle in others and (b) the structure of expenditure (some rural counties spend heavily on roads, which are largely financed by state grants, whereas the urbanised counties spend more heavily on sanitary services and general purposes, which are not so strongly supported by state grants).

Table 8.3 is designed to illustrate how the regional pattern of total revenue account expenditure is affected by the operation of state grants. The first three columns set out receipts from Rates payable locally, columns 4 and 5 show receipts from Total Rates (that is, Rates payable locally plus the agricultural grant, plus the contribution in lieu of Rates) and from all revenue sources (Rates, Grants, and other Income) respectively. Throughout this Section these three concepts of local receipts (and expenditure<sup>7</sup>) are referred to as A, B, and C respectively. It may be seen that the inequality between counties in receipts *per capita*

7. In the note to Tables 8.6A, 8.6B, 8.6C, 8.6D and 8.6E we set out the derivation of these measures. The year 1969-70 was the latest year for which the full details of local authority receipts and expenditure were available when this study was being written.

TABLE 8.3: Rates payable locally, total Rates and total receipts per capita: local authorities by county, 1969-70 (revenue account)

County	Rates payable locally			Total Rates	Total
	Agriculture	Non-agriculture	Total	(3) + Ag. Grant + contribution in lieu of Rates	(4) + Specific grants + other receipts
	(1)	(2)	(3)	(4)	(5)
	£	£	£	£	£
Dublin	15.3	21.8	22.4 21.6*	23.3 22.5*	49.0
Cork	13.4	16.3	15.6	21.6	45.2
Limerick	16.7	12.7	13.8	20.4	46.0
Waterford	21.3	16.0	17.2	23.7	50.2
Carlow	19.6	9.6	12.9	21.6	43.0
Kildare	21.0	7.8	11.1	18.8	39.3
Kilkenny	17.4	10.3	13.1	22.5	45.7
Laois	15.2	8.8	11.3	22.1	43.3
Longford	11.0	11.7	11.5	26.8	50.7
Louth	21.0	12.3	13.5	17.9	41.9
Meath	22.8	6.6	12.8	22.8	43.9
Offaly	14.3	8.7	10.5	19.4	37.7
Westmeath	22.6	10.1	13.9	24.4	46.7
Wexford	12.7	9.9	11.0	19.4	39.3
Wicklow	19.7	13.0	14.6	21.4	42.0
Clare	8.1	10.1	9.2	20.3	41.7
Kerry	3.9	12.9	9.5	17.7	38.0
Tipperary	17.2	10.5	13.1	23.0	43.1
Galway	4.2	15.0	9.8	20.7	41.7
Leitrim	2.3	12.0	6.1	22.6	46.4
Mayo	1.7	14.2	7.2	18.6	39.5
Roscommon	7.1	9.4	8.0	24.7	47.1
Sligo	5.2	11.4	8.8	20.5	40.8
Cavan	5.6	11.0	8.2	22.3	43.4
Donegal	5.4	11.3	8.9	17.5	39.2
Monaghan	8.6	10.7	9.9	22.5	43.7
Total	10.9	16.0	14.8 14.6*	21.8 21.6*	44.7
Coefficient of variation (%)	53.9	26.9	28.99	10.76	8.32

Note: Data for Dublin, Cork, Limerick and Waterford include receipts of Unified Health Authorities.

Basic sources: Receipts side of RLT Revenue Account for 1969-70.  
Population data from Ross (1972).

\* This difference arises from a discrepancy in the County Borough Corporation Accounts between the "allocation to services" figure for General Purposes in the Rate Account, and the figure in the General Purposes account; in all cases above, the smaller figure is based on the Rate account entry.

TABLE 8.4: *State grants on revenue account to local authorities, per capita by county, 1969-70*

	Including the agricultural grant*		Excluding the agricultural grant*	
	All services	Excluding all state grants to health and that part of the agricultural grant allocated to housing	All services	Excluding health grants
	(1)	(2)	(3)	(4)
			£	
Dublin	13.0	3.7	12.1	3.7
Cork	22.5	8.6	16.5	5.9
Limerick	21.8	8.7	15.2	5.3
Waterford	24.4	9.0	18.0	6.0
Carlow	25.2	11.2	16.5	6.9
Kildare	23.3	11.7	15.6	7.6
Kilkenny	26.4	11.3	17.0	6.4
Laois	28.6	13.2	17.8	7.8
Longford	35.8	16.5	20.5	8.3
Louth	21.0	10.6	16.6	8.4
Meath	26.2	12.5	16.3	7.2
Offaly	24.0	10.4	15.1	5.5
Westmeath	26.8	11.9	16.3	6.3
Wexford	24.0	11.6	15.7	7.2
Wicklow	23.2	11.2	16.4	7.4
Clare	28.7	13.5	17.6	7.6
Kerry	24.5	10.1	16.3	6.1
Tipperary	25.0	12.4	15.1	6.8
Galway	27.8	10.5	16.9	5.2
Leitrim	38.4	19.2	22.0	10.7
Mayo	29.8	12.6	18.3	7.1
Roscommon	36.5	17.0	19.9	8.1
Sligo	28.6	11.8	16.9	6.4
Cavan	31.6	14.7	17.4	6.8
Donegal	26.8	13.1	18.1	8.6
Monaghan	30.2	13.1	17.6	6.4
<i>Total</i>	22.6	9.5	15.7	6.1
<i>Coefficient of variation (%)</i>	19.7	25.1	11.3	19.7

\*And contribution in lieu of Rates.

Basic source: RLT (1969-70).

declines as we move from A to B to C: *per capita* receipts from Rates payable locally vary far more than receipts from Total Rates. The agricultural grant plays a major rôle in equalising financial resources between counties. Other grants and other receipts further reduce inequality, so that total receipts *per capita* exhibit less than one-third the relative variation present in Rates payable locally. One



must guard against the assumption that "Rates payable locally" would remain at their present level in the absence of the agricultural grant: we argued earlier in this Section that the result of the grant is to stimulate local tax effort on non-derated valuations.

In Table 8.4 we set out the level of state grants per person, using four definitions of grants—including and excluding the agricultural grant, and including and excluding health grants. We excluded health grants (and the proportion of the agricultural grant attributable to the housing subsidy charge on the Rates) in order to clarify the pattern that would have prevailed in 1969–70 if the policy to be fully implemented in 1977 had been in force at the earlier date. In order to test explicitly whether *per capita* grants were going more to poorer than to richer areas, the correlations of each of the columns in Table 8.4 with personal income *per capita* may be considered. These are:  $-0.83$ ,  $-0.81$ ,  $-0.70$ , and  $-0.56$ . All are highly significant statistically and show that all four concepts of state grants are highest (*per capita*) in areas of low income *per capita*. This is conclusive evidence against Walker's belief (on the basis of tentative evidence) that state grants did not aid the poorer areas more than the richer.<sup>8</sup>

Walker's assertions related to the years 1959–60. The growth of state grants during the 1960s has, as we saw in Section 4, greatly altered the structure of local authority finances. In order to summarise the regional impact of the expansion of the grants system, the data in Table 8.5 may be compared with the earlier tables of this Section. We see that

1. Rates payable locally (per person) varied much *more* at the end of the 1960s than at the beginning (the coefficient of variation rose by 48 per cent from 19.7 to 29.0 per cent).
2. Local authority revenue from all sources (per person) varied somewhat less at the end of the 1960s than at the beginning (the coefficient of variation fell by 26 per cent, from 10.0 to 8.3 per cent).

We may illustrate these effects by considering the position of Mayo and Dublin (taking the counties as a whole)<sup>9</sup> at the two dates:

	<i>Rates payable locally</i>		<i>Total local authority revenue</i> ( <i>per capita</i> )	
	1959/60	1969/70	1959/60	1969/70
Mayo as percentage of Dublin	42	33	64	81

8. Admittedly, Walker modified this assertion in his 1964 paper but even there he still felt there was a "strong argument for an alteration of the grant structure so as to provide special help for areas which are relatively poor" (p. 12).

9. Including the Unified Health Authority in the Dublin figure for 1969–70.

TABLE 8.5: Rates and total receipts per capita of local authorities by county, 1959-60

County	Rates payable locally	Rates + state grants + other receipts
	£	£
Dublin	9.9	20.8
Cork	7.9	18.6
Limerick	7.0	18.5
Waterford	9.5	21.5
-----		
Carlow	7.2	17.7
Kildare	7.4	18.8
Kilkenny	7.2	18.9
Laois	7.0	18.3
Longford	7.8	20.4
Louth	7.4	18.7
Meath	8.5	20.6
Offaly	6.8	16.8
Westmeath	8.5	20.4
Wexford	6.0	14.6
Wicklow	8.1	19.5
Clare	6.4	18.4
Kerry	5.2	14.9
Tipperary	7.6	18.9
Galway	6.0	16.7
Leitrim	4.8	17.6
Mayo	4.3	13.4
Roscommon	6.3	18.6
Sligo	5.5	16.7
Cavan	5.8	18.2
Donegal	5.1	15.3
Monaghan	6.0	18.2
-----		
Total	7.6	18.5
Coefficient of variation (%)	20.3	11.0

Basic sources: Receipts side of RLT Revenue Account 1959-60.  
Population data from Ross (1972).

This evidence shows the regional impact of state grants in a favourable light. The growth of state grants between 1959 and 1960 resulted in more uniform standards of local services throughout the country (as far as this can be measured in terms of *per capita* local authority expenditure). Residents of poorer counties now receive a level of services more similar to that provided in richer counties, despite the fact that they contribute less by way of Rates to the financing of local services. This result has come about mainly by the expanded relief granted to smaller farmers through the agricultural grant.

Turning to the individual services provided at the local level and the pattern

of *per capita* expenditure by county in 1969–70, we wish to focus on: (i) the relationship between locally financed expenditure and local resources as measured by county income; (ii) the rôle of state grants in equalising the standards of service and lessening the dependence on local resources (iii) whether local expenditure can be related to a measure of the needs of local communities for the individual services and the effect of state grants in this respect; and (iv) the influence of the agricultural grant on the levels of expenditure on the various services. To study these matters we have proposed a model of local expenditure and tested it econometrically. The results are discussed in full in the Appendix to this Section. The three expenditure variables mentioned earlier have been calculated for each service and the data are presented in Tables 8.6A to 8.6E. A study of the coefficients of variation for each service and each concept of expenditure (namely, A, B and C) allows us to see in detail the effect of state grants on expenditure. It may be seen that *per capita* health and public assistance expenditure, in particular, become more uniform, whereas *per capita* expenditure on roads becomes more unequal, due to the operation of state grants.

The model of local expenditure described in the Appendix, while being very simple, appears to perform quite well for most services. To summarise our findings on the four points raised in the last paragraph:

- (a) in general there was a highly significant positive relation between expenditure out of local Rates and income; the income elasticity of demand for housing appears to be very high, that for roads very low. This impression is supported by time series evidence (discussed in the Appendix).
- (b) state grants reduce the dependence of local expenditure on local income—the relationship between income and expenditure in general becomes less significant or even negative as one moves from expenditure out of local Rates (A) to total expenditure (C).
- (c) the needs variables used tended to be highly significant in explaining all three expenditure variables, but only in the cases of roads, and public assistance and health, was there any evidence that state grants made expenditure more closely related to needs as we defined them;
- (d) the agricultural grant as a proportion of Total Rates had in most cases the expected relationship with variables B and C in that the coefficient was significant and positive, i.e., as the relative importance of the agricultural grant increases it tends to stimulate expenditure at the local level. The agricultural grant however, had a negative influence on expenditure as defined in variable A, reflecting the fact that this grant gives relief of local Rates.

TABLE 8.6A: *Local authority per capita revenue a/c expenditure on roads, 1969-70*

<i>Source of finance</i>	<i>Rates payable locally</i> A	<i>Total Rate account = A + non-specific grants</i> B	<i>Total = B + specific grants + other receipts</i> C
<i>County</i>	£	£	£
Dublin	1.83	1.93	3.51
Cork	2.24	3.78	7.04
Limerick	1.77	3.21	6.07
Waterford	2.38	3.94	7.15
Carlow	2.34	4.24	8.77
Kildare	1.97	3.53	9.52
Kilkenny	2.34	4.35	8.28
Laois	2.35	4.60	10.72
Longford	2.18	5.61	11.49
Louth	1.93	2.90	9.24
Meath	3.19	5.90	11.42
Offaly	1.65	3.34	6.86
Westmeath	2.50	4.61	9.57
Wexford	2.22	4.43	9.88
Wicklow	2.44	4.08	10.04
Clare	1.98	4.65	10.75
Kerry	1.29	2.84	6.47
Tipperary	2.51	5.00	9.44
Galway	1.42	3.95	7.91
Leitrim	1.59	5.86	14.81
Mayo	1.49	4.41	9.77
Roscommon	2.36	7.25	13.90
Sligo	1.37	3.96	8.99
Cavan	1.86	5.40	10.50
Donegal	1.95	4.07	11.31
Monaghan	2.27	6.39	11.30
<i>Total</i>	1.98	3.58	7.40

*Basic sources:* See Table 8.3 and Appendix to Section 8.

TABLE 8.6B: *Local authority per capita revenue a/c expenditure on health and public assistance, 1969-70*

<i>Source of finance</i>	<i>Rates payable locally</i> A	<i>Total Rate account = A + non-specific grants</i> B	<i>Total = B + specific grants + other receipts</i> C
<i>County</i>	£	£	£
Dublin	7.35	7.64	18.42
Cork	5.72	8.07	20.69
Limerick	5.22	7.68	20.55
Waterford	6.99	9.97	25.20
Carlow	4.51	8.32	18.73
Kildare	3.86	6.96	15.84
Kilkenny	4.45	8.49	22.58
Laois	4.93	9.67	20.99
Longford	3.80	9.87	23.09
Louth	2.59	4.62	14.19
Meath	4.47	8.30	19.09
Offaly	3.41	7.12	17.77
Westmeath	4.80	9.06	20.38
Wexford	3.37	6.87	16.70
Wicklow	3.50	6.09	15.74
Clare	3.31	7.85	19.31
Kerry	3.18	7.17	18.65
Tipperary	3.76	7.63	17.56
Galway	2.72	7.98	21.28
Leitrim	2.48	9.16	21.16
Mayo	2.69	8.35	20.74
Roscommon	3.09	9.47	22.16
Sligo	2.43	7.93	19.45
Cavan	2.84	8.34	20.47
Donegal	3.07	6.56	17.37
Monaghan	2.93	8.38	20.84
<i>Total</i>	4.95	7.99	19.29

*Basic sources:* See Table 8.3 and Appendix to Section 8.

TABLE 8.6C: *Local authority per capita revenue a/c expenditure on sanitary services, 1969-70*

<i>Source of finance</i>	<i>Rates payable locally</i> A	<i>Total Rate account = A + non-specific grants</i> B	<i>Total = B + specific grants + other receipts</i> C
<i>County</i>	£	£	£
Dublin	4.56	4.74	5.99
Cork	2.07	2.65	3.98
Limerick	1.66	2.31	3.10
Waterford	2.22	2.69	3.95
Carlow	1.12	1.68	2.72
Kildare	1.31	2.07	3.16
Kilkenny	1.16	1.84	3.21
Laois	0.86	1.69	2.17
Longford	1.22	2.54	3.54
Louth	1.80	2.13	2.92
Meath	0.96	1.51	1.91
Offaly	1.07	1.74	2.17
Westmeath	1.36	2.09	3.07
Wexford	0.95	1.44	2.68
Wicklow	1.81	2.32	2.79
Clare	0.74	1.42	1.78
Kerry	0.81	1.31	2.43
Tipperary	1.37	2.03	3.41
Galway	1.22	2.02	2.76
Leitrim	0.30	1.11	1.29
Mayo	0.65	1.47	2.08
Roscommon	0.52	1.59	2.30
Sligo	0.94	1.80	2.59
Cavan	0.83	2.04	2.74
Donegal	1.04	1.93	3.02
Monaghan	0.67	0.95	1.78
<i>Total</i>	2.23	2.76	3.79

*Basic sources:* See Table 8.3 and Appendix to Section 8.

TABLE 8.6D: *Local authority per capita revenue a/c expenditure on housing, 1969-70*

<i>Source of finance</i>	<i>Rates payable locally</i> A	<i>Total Rate account = A + non-specific grants</i> B	<i>Total = B + specific grants + other receipts</i> C
<i>County</i>	£	£	£
Dublin	2.64	2.74	13.05
Cork	1.28	1.91	7.04
Limerick	1.83	2.78	8.67
Waterford	2.30	2.91	8.41
Carlow	1.44	2.40	6.79
Kildare	1.02	1.73	5.54
Kilkenny	1.40	2.19	5.19
Laois	0.98	1.93	3.89
Longford	1.18	2.74	4.98
Louth	1.68	1.98	7.62
Meath	1.33	2.38	5.63
Offaly	0.80	1.45	4.03
Westmeath	1.28	2.24	6.17
Wexford	0.89	1.56	4.23
Wicklow	1.18	1.80	5.26
Clare	0.75	1.69	3.99
Kerry	0.56	1.11	2.63
Tipperary	1.35	2.23	3.37
Galway	0.71	1.58	3.50
Leitrim	0.65	2.38	3.09
Mayo	0.47	1.31	2.19
Roscommon	0.86	2.63	3.93
Sligo	0.85	2.04	3.75
Cavan	0.67	1.72	3.51
Donegal	0.87	1.78	3.71
Monaghan	0.56	1.22	3.32
<i>Total</i>	1.54	2.16	7.45

*Basic sources:* See Table 8.3 and Appendix to Section 8.

TABLE 8.6E: *Local authority per capita revenue a/c expenditure on general purposes, 1969-70*

<i>Source of finance</i>	<i>Rates payable locally</i> A	<i>Total rate account = A + non-specific grants</i> B	<i>Total = B + specific grants + other receipts</i> C
<i>County</i>	£	£	£
Dublin	6.02 } <sup>a</sup>	6.23 } <sup>a</sup>	8.03
Cork	5.24 } <sup>a</sup>	5.43 } <sup>a</sup>	6.46
Limerick	4.25	5.18	7.56
Waterford	3.27	4.39	5.48
	3.30	4.24	
Carlow	3.48	4.97	5.95
Kildare	2.91	4.51	5.21
Kilkenny	3.70	5.62	6.45
Laois	2.15	4.21	5.47
Longford	3.09	6.08	7.62
Louth	5.52	6.25	7.94
Meath	2.82	4.67	5.82
Offaly	3.57	5.74	6.86
Westmeath	3.94	6.40	7.49
Wexford	3.57	5.08	5.86
Wicklow	5.66	7.09	8.18
Clare	2.46	4.73	5.84
Kerry	3.65	5.29	7.12
Tipperary	4.08	6.08	7.34
Galway	3.73	5.17	6.20
Leitrim	1.10	4.08	6.03
Mayo	1.91	3.10	4.72
Roscommon	1.21	3.73	4.76
Sligo	3.21	4.77	6.05
Cavan	1.97	4.81	6.23
Donegal	1.95	3.20	3.81
Monaghan	3.43	5.53	6.45
<i>Total</i>	4.14 } <sup>a</sup> 3.92 } <sup>a</sup>	5.31 } <sup>a</sup> 5.09 } <sup>a</sup>	6.78

*Basic sources:* See Table 8.3 and Appendix to Section 8.

<sup>a</sup> This difference arises from a discrepancy in the County Borough Corporation Accounts between the "allocation to services" figure for General Purposes in the Rate account, and the figure in the General Purposes account; in all cases above, the smaller figure is based on the Rate account entry.



*Note to Tables 8.6A, 8.6B, 8.6C, 8.6D and 8.6E*

Variable A was calculated by multiplying (for each rating authority) the allocation from the Rate Account to the service in question by the ratio of Net\* to Total Rates. The figures for the rating authorities were then aggregated by county.

Variable B is the allocation of the Rates receipts to the various services shown for each rating authority's Rate Account, aggregated by county.

Variable A cannot be derived from variable B simply by multiplying by the ratio of Net† to Total Rates, due to the existence of several rating authorities in most counties and the fact that the allocation of Rates to services differs between rating authorities within counties.

Variable C is total receipts on Revenue Account for each service, aggregated by county.

*Conclusion*

There is marked regional variation in the structure of local finances. In most of the poorer counties, Rates payable locally contribute relatively little to total receipts. In many of the counties of Connacht and Munster, less than 20 per cent of county council revenue account income was from local Rates in 1969-70, compared with over 50 per cent for Dublin county council. Similarly, the contribution of the agricultural grant to revenue account income varied from just over one-third of the total in Roscommon and Leitrim to only 6 per cent for Dublin county council. From Rates payable locally *per capita* receipts varied from less than £10 in many Munster and Connacht counties to over £20 in Dublin. State grants had the effect of greatly reducing the variation in *per capita* receipts, with the result that the relative variation between counties in total receipts per person was much less pronounced than that in Rates paid locally.

In the Appendix to this Section we explore these regional variations in greater detail, using an econometric approach. We conclude that county income influences local expenditure, with the richer counties spending more, other things equal, on local services than the poorer counties. The proportion of the Total Rates met by the agricultural grant also appears to influence local expenditure. Finally, expenditure on the various services is influenced by local conditions or "needs" for the services.

\*Total Rates less the agricultural grant and the contribution in lieu of rates.

† i.e., Rates payable locally.

## Appendix to Section 8

### *An Econometric Study of Local Authority Expenditure*

This Appendix presents the results of two approaches to the study of local authority expenditure. The first is based on a cross-section analysis, using the data for 1969-70 revenue account expenditure on a county basis for each of the services. The second uses time series data for expenditure by local authorities on each of the services over the period 1953-70. All the data have been converted to a *per capita* basis and, in the case of the time series, to constant prices. As Walker (1962) pointed out "statistics of *per capita* expenditure may be taken as indicating in a very broad way the level of service being obtained by inhabitants of an area" (p. 28). The present Appendix updates and extends the analysis of expenditure undertaken by Walker for 1959-60 and suggests an econometric approach to the study of these data.

#### *Cross-Section Results*

Expenditure on each service is financed from three sources: Rates; state grants, and other receipts. State grants include the agricultural grant and the contribution in lieu of Rates, which are non-specific, and other grants which are specific to particular services. Other receipts are mostly payments for services. We have looked at expenditure<sup>1</sup> on each service under the following three definitions:

- A. Expenditure out of Net Rates (i.e., Rates payable locally);
- B. Expenditure out of Total Rates (i.e., A + non-specific grants);
- C. Expenditure on revenue account (i.e., B + specific grants + other receipts).

In attempting to explain local authority expenditure by county, we hypothesise that the level of county income per person is important. We expect the special characteristics or needs of the county to have an influence on the volume of the various services provided. We are also interested in examining the effect of the agricultural grant on the level of local expenditure and its effect on local tax effort.<sup>2</sup> In counties where the agricultural grant is important, the cost to the

1. In the notes to Table 8.6 we set out how these expenditure variables were calculated. In fact, they are based on "receipts" rather than "expenditure".

2. The contribution in lieu of Rates would have the same effect as the agricultural grant but it is relatively minor in most counties.

local ratepayers as a whole of increasing the yield of Total Rates is low, so that the ratio of the agricultural grant to Total Rates should have a positive influence on local authority expenditure on the various services. We have already presented some econometric results on this topic for all services combined.

County income is expected to have a significant influence on locally financed expenditure, but not necessarily on total local authority expenditure on revenue account, since central government grants should help to reduce the effect on expenditure of variations in the level of local resources. This hypothesis has been discussed in the main part of this Section.

The ratio of the agricultural grant to Total Rates should act as a price variable (with sign reversed), especially in explaining expenditure definition B. Expenditure as defined in A may, however, tend to be low in counties where the agricultural grant is relatively important, due to a tendency to substitute central for purely local sources of finance (as is implied in the concept of the grant).

Four equations were estimated for each of the dependent variables A, B, C, namely:— equations containing separately personal income by county (Y), the ratio of the agricultural grant to the Total Rates (P), and the needs variable (N) as regressors, and an equation containing all three variables together. All equations were estimated in linear and double log form. As the former performed consistently better, we present only the linear equations. A number of needs variables were experimented with, but we summarise only the more interesting results.

Table 8A.1 shows the results for expenditure on roads. Expenditure financed from local taxation is less than half of that out of Total Rates and less than a quarter of total revenue account expenditure, which reflect the importance of central government grants. The coefficient of variations does not drop in going from A to C, but government grants result in making expenditure on roads more sensitive to the needs of counties (measured by the miles of primary and secondary roads *per capita*).<sup>3</sup> The variables Y and N are highly inter-correlated, which accounts for the significant negative coefficient of Y in equations 5 and 9. As expected, P had a significant positive coefficient in equations 6 and 10, although the implied elasticity is very low. Equations 4, 8 and 12 suffer badly from multicollinearity. For B and C the needs variable alone gives the best fit. In general, our needs variables are too highly correlated with income to allow meaningful estimates of individual coefficients to be obtained from the multiple regression equations.

Table 8A.2 shows the results for public assistance and health. The importance of central government grants is apparent: the coefficient of variation drops in

3. We do not wish to imply, however, that this measure of needs shows that the regional distribution of expenditure conforms to an optimal pattern as this would be measured by a more sophisticated study, based on traffic flows, or the miles of "deficient" roads per person.

TABLE 8A.1: Regression results: per capita expenditure on roads by county in 1969-70.

Equation	Dependent variable	Intercept	$Y(\bar{Y}=3.62)$	$P(\bar{P}=44.4)$	$N(\bar{N}=4.81)$	$\bar{R}^2$	Mean of dep. var.	Coefficient of variation of dep. var.
1	A	1.879 (3.200)	0.049 (0.303)			0.00	2.05	% 21.3
2	"	2.311 (8.657)		-0.006 (-1.014)		0.00	"	"
3	"	1.862 (5.810)			0.040 (0.623)	0.03	"	"
4	"	3.484 (2.182)	-0.330 (-1.084)	-0.047 (-3.761)	0.382 (3.655)	0.38	"	"
5	B	9.454 (7.921)	-1.396 (-4.288)			0.41	4.39	27.5
6	"	1.900 (3.789)		0.056 (5.257)		0.52	"	"
7	"	1.118 (2.125)			0.681 (6.467)	0.62	"	"
8	"	-1.183 (0.341)	0.449 (0.679)	0.024 (0.876)	0.603 (2.657)	0.60	"	"
9	C	20.754 (9.229)	-3.132 (-5.104)			0.50	9.41	25.7
10	"	4.144 (4.188)		0.118 (5.614)		0.55	"	"
11	"	2.857 (2.552)			1.361 (6.073)	0.59	"	"
12	"	4.953 (0.680)	-0.383 (-0.275)	0.037 (0.678)	0.859 (1.805)	0.58	"	"

$N$  = Miles of primary and secondary roads *per capita*.

TABLE 8A.2: Regression results: per capita expenditure on health and public assistance by county in 1969-70.

Equation	Dependent variable	Intercept	$T(\bar{Y}=3.62)$	$P(\bar{P}=44.4)$	$N(\bar{N}=21.5)$	$\bar{R}^2$	Mean of dep. var.	Coefficient of variation of dep. var.
1	A	-1.964 (-1.527)	1.619 (4.612)			0.45	3.90	% 33.6
2	"	6.691 (12.034)		-0.063 (-5.295)		0.52	"	"
3	"	7.763 (6.693)			-0.180 (-3.388)	0.30	"	"
4	"	4.995 (1.191)	0.164 (0.202)	-0.075 (-2.001)	0.077 (0.867)	0.50	"	"
5	B	10.537 (6.844)	-0.706 (-1.680)			0.07	7.98	15.2
6	"	6.572 (9.516)		0.032 (2.151)		0.13	"	"
7	"	5.405 (4.565)			0.120 (2.213)	0.14	"	"
8	"	3.484 (0.666)	0.458 (0.451)	0.031 (0.655)	0.068 (0.614)	0.08	"	"
9	C	23.518 (7.177)	-1.094 (-1.224)			0.02	19.55	12.8
10	"	17.192 (11.614)		0.053 (1.683)		0.07	"	"
11	"	13.989 (5.743)			0.259 (2.324)	0.15	"	"
12	"	8.001 (0.744)	1.070 (0.512)	0.010 (0.100)	0.337 (1.475)	0.09	"	"

$N$  = Over 65 dependency ratio.

going from A to B to C; income has a very significant positive coefficient in equation 1, but in 5 and 9 the coefficient is negative; and the coefficient on N (the over 65 dependency ratio) is significant and negative in equation 3, but becomes significant and positive in 7 and 11. The coefficients of P have the expected sign although the elasticity implied is very low. The goodness of fit obtained for B and C is low.

The results for sanitary services in Table 8A.3 are much as expected, except that the coefficient of P is significant and negative in each of the equations 2, 6 and 10, while income has a significant and positive coefficient in equations 5 and 9. These results can be explained by the fact that income has a high negative correlation with P and a high positive correlation with the needs variable for sanitary services (the coefficients are respectively  $-0.93$  and  $+0.93$ ). The needs variable used is the proportion of the population living in towns which gives a good fit in each of equations 3, 7 and 11. In fact the goodness of fit is impressive in all equations.

The results for expenditure on housing are presented in Table 8A.4. We failed to explain B, while A and C seem to fit our general theory. It is difficult to find a reason for the poor showing for B (the correlations between A and B, and B and C are  $0.73$  and  $0.65$  respectively). The results for A and C are much the same as those for sanitary services, with P having a negative coefficient in equation 10 and Y a highly significant positive coefficient in equation 9. The needs variable shown is the male marriage rate which appears to perform quite well. We also tried to measure needs for housing by using (a) the proportion of the housing stock built before 1919 and (b) the number of people per room (both measures taken from the 1971 Census): however, both these variables were *negatively* correlated with all three measures of expenditure on housing. The increase in the value of the income coefficient (and its significance) in equations with C as dependent variable may be taken as a reflection of the importance of local income in determining the flow of "other income" to a local authority's housing account: most of this income is rent on local authority housing, and most tenants' liability is related to their incomes under the differential rent scheme.

Finally, in Table 8A.5 we present the regression results for expenditure on general purposes. Goodness of fit is poor for B and C, but high for A. As for sanitary services and housing, the income variable is significant and positive in equation 9, while P is significant and negative in equations 6 and 10.

### *Time Series Results*

We also studied the level of local authority expenditure out of both Rates and revenue accounts on the various services for the period 1953 to 1970. The model proposed here is very simple—local authority expenditure on each service is

TABLE 8A.3: Regression results: per capita expenditure on sanitary services by county in 1969-70

Equation	Dependent variable	Intercept	$T(\bar{Y}=3.62)$	$P(\bar{P}=44.4)$	$N(\bar{N}=33.2)$	$\bar{R}^2$	Mean of dep. var.	Coefficient of variation of dep. var.
1	A	-3.523 (-7.448)	1.325 (10.264)			0.81	1.28	% 63.9
2	"	3.366 (14.173)		-0.047 (-9.284)		0.77	"	"
3	"	0.033 (0.248)			0.038 (910.983)	0.83	"	"
4	"	-0.804 (-0.547)	0.501 (1.445)	-0.008 (-0.643)	0.019 (1.696)	0.84	"	"
5	B	-1.721 (-2.874)	1.017 (6.228)			0.60	1.97	37.8
6	"	3.531 (11.939)		-0.035 (-5.588)		0.55	"	"
7	"	1.021 (5.804)			0.028 (6.227)	0.60	"	"
8	"	-0.310 (-0.151)	0.515 (1.062)	-0.001 (-0.075)	0.014 (0.914)	0.59	"	"
9	C	-1.775 (-2.413)	1.268 (6.318)			0.61	2.82	31.6
10	"	4.798 (13.437)		-0.045 (-5.849)		0.57	"	"
11	"	1.690 (7.352)			0.034 (5.701)	0.56	"	"
12	"	0.397 (0.156)	0.877 (1.457)	-0.017 (-0.766)	-0.001 (-0.038)	0.59	"	"

$N$  = Proportion of population living in towns.

TABLE 8A.4: Regression results: per capita expenditure on housing by county in 1969-70.

Equation	Dependent variable	Intercept	$T(\bar{Y}=3.62)$	$P(\bar{P}=44.4)$	$N(\bar{N}=5.79)$	$\bar{R}^2$	Mean of dep. var.	Coefficient of variation of dep. var.
1	A	-1.751 (-3.957)	0.791 (6.554)			0.63	1.14	% 46.6
2	"	2.435 (12.742)		-0.030 (-7.285)		0.68	"	"
3	"	-0.750 (-2.264)			0.322 (5.770)	0.56	"	"
4	"	0.447 (0.264)	0.267 (0.972)	-0.016 (-1.261)	0.069 (0.694)	0.67	"	"
5	B	0.996 (1.536)	0.282 (1.593)			0.06	2.02	25.3
6	"	2.423 (7.982)		-0.009 (-1.413)		0.04	"	"
7	"	1.395 (3.074)			0.107			
8	"	0.350 (0.128)	0.306 (0.688)	0.005 (0.254)	0.057 (0.353)	-0.02	"	"
9	C	-7.416 (-4.820)	3.524 (8.394)			0.74	5.35	42.4
10	"	10.781 (13.553)		-0.122 (-7.203)		0.67	"	"
11	"	-1.784 (4.882)			1.233 (4.882)	0.48	"	"
12	"	-1.743 (-0.222)	2.634 (2.544)	-0.043 (-0.903)	-0.097 (-0.257)	0.72	"	"

$N$  = Male marriage rate, 1969.



TABLE 8A.5: Regression results: per capita expenditure on general purposes by county in 1969-70.

Equation	Dependent variable	Intercept	$T(\bar{Y}=3.62)$	$P(P=44.4)$	$N(\bar{N}=33.2)$	$\bar{R}^2$	Mean of dep. var.	Coefficient of variation of dep. var.
1	A	-1.550 (-1.329)	1.327 (4.168)			0.40	3.26	% 37.1
2	"	5.761 (12.497)		-0.056 (-5.734)		0.56	"	"
3	"	1.850 (6.115)			0.042 (5.398)	0.53	"	"
4	"	8.548 (2.570)	-1.135 (-1.446)	-0.052 (-1.861)	0.034	0.57	"	"
5	B	3.141 (2.535)	0.519 (1.537)			0.05	5.02	19.3
6	"	6.085 (10.937)		-0.024 (-2.016)		0.11	"	"
7	"	4.415 (12.495)			0.018 (1.997)	0.11	"	"
8	"	8.594 (2.072)	-0.919 (-0.938)	-0.024 (-0.689)	0.025 (0.802)	0.07	"	"
9	C	2.959 (2.255)	0.934 (2.608)			0.19	6.34	17.4
10	"	7.871 (13.013)		-0.034 (-2.668)		0.20	"	"
11	"	5.329 (14.599)			0.031 (3.220)	0.27	"	"
12	"	6.036 (1.393)	-0.546 (-0.534)	0.012 (0.320)	0.053 (1.637)	0.23	"	"

$N$  = Proportion of population living in towns.

assumed to depend on GNP and on the price of the service relative to the general price level. In time series, unlike the cross-section, we would not expect a needs variable to explain much of the variance, due to the narrow range of variation in most needs variables for the country as a whole over the post-war years. The dependent variables and the income variable are expressed in *per capita* terms and at constant prices. The same deflator was used for local authority expenditure under all headings, namely, the implicit price index of public authority expenditure on current goods and services. This index assumes no changes in productivity—an assumption which is certainly not very satisfactory for some local authority services. In the case of the roads, for example, there probably have been significant increases in productivity, with the adoption of greater mechanisation over the years. There is, however, no readily available alternative deflator for local authority expenditure.

As may be seen in Table 8A.6, when GNP and the relative price variable were the only regressors serious autocorrelation was evident. This suggested that there might be some cyclical behaviour in the dependent variables which was not being explained by the two regressors. We therefore re-ran each equation with the growth rate in GNP in the current year, the growth rate in GNP in the previous year, and both rates together. In Table 8A.6, we show the equations including the growth rate variable which appeared to give the best results in terms of the Durbin-Watson statistic and goodness of fit.

The results are extremely interesting. The  $R^2$  obtained is generally very high and the significance of the individual coefficients is impressive: the problem of multicollinearity was not severe.

The income variable is highly significant in all equations except for revenue account expenditure on roads. The fact that income is significant for rate account, but not for revenue account, expenditure on roads suggests that specific grants for roads have not grown in line with the growth in GNP.

The rate of growth of GNP is a significant variable in most of our equations and negative signs predominate: the only exception is local expenditure on roads from revenue account. This finding may be due to lagged effects from the growth in rateable valuations, but it suggests a welcome counter-cyclical influence. However, if local authority capital expenditure were included the result would probably be very different. We have drawn attention to the sharp reduction in the public housing programme during the recession of 1957, which alone would tend to make total local authority expenditure pro-cyclical.

The elasticities implied by the coefficients of the income variable are very low for roads, very high for health, and fairly high for housing and general purposes. This pattern of elasticities is in conformity with the obvious tendency for expenditure on health to expand far more rapidly than national income as a whole, while roads expenditure has grown less rapidly than national income.

TABLE 8A.6: Results of time series regressions of local authority expenditure at constant prices out of Rate and revenue accounts, 1953-1970.

Equation	Dependent variable	Intercept	$T(\bar{Y}=2.522)$	$P(\bar{P}=1.073)$	$r$	$r-1$	$\bar{R}^2$	D.W.	Elasticity at the mean of Income Price	Coefficient of variation of dep. var.	
1	Exp. on roads out of rates a/c	3.922 (10.747)	0.371 (3.970)	-2.762 (-5.190)			0.635	1.23	0.49	-1.56	5.5
2	Exp. on roads out of rates a/c	3.983 (12.159)	0.442 (4.928)	-2.946 (-6.094)	-0.014 (-2.254)		0.71	1.57	0.59	-1.67	"
3	Exp. on roads out of revenue a/c	5.095 (4.195)	0.021 (0.068)	-0.931 (-0.526)			-0.03	0.87	0.01	-0.24	5.0
4	Exp. on roads out of revenue a/c	5.247 (4.752)	-0.229 (-0.748)	-0.624 (-0.387)		0.050 (2.083)	0.16	1.42	-0.14	-0.16	"
5	Exp. on P.A.+health out of rates a/c	1.777 (1.723)	1.086 (4.112)	-1.023 (-0.680)			0.83	2.45	0.80	-0.32	12.5
6	Exp. on P.A.+health out of rates a/c	1.638 (1.669)	1.248 (4.586)	-1.183 (-0.825)		-0.034 (-1.612)	0.84	1.78	0.92	-0.37	"
7	Exp. on P.A.+health out of revenue a/c	4.355 (1.688)	5.011 (7.581)	-8.324 (-2.212)			0.93	0.77	1.57	-1.11	20.2
8	Exp. on P.A.+health out of revenue a/c	4.679 (3.659)	6.186 (16.776)	-10.761 (-5.709)	-0.134 (-5.539)	-0.094 (-3.358)	0.98	1.47	1.94	-1.43	"
9	Exp. on sanitary services out of rates a/c	1.136 (5.409)	0.581 (10.882)	-1.286 (-4.235)			0.95	1.59	1.21	-1.14	13.8
10	Exp. on sanitary services out of rates a/c	1.084 (5.484)	0.619 (11.275)	-1.315 (-4.553)		-0.008 (-1.816)	0.96	1.70	1.29	-1.17	"
11	Exp. on sanitary services out of revenue a/c	0.760 (1.836)	0.829 (7.818)	-1.157 (-1.917)			0.94	0.60	1.73	-0.77	17.5
12	Exp. on sanitary services out of revenue a/c	0.717 (1.831)	0.898 (8.254)	-1.240 (-2.166)		-0.014 (-1.673)	0.95	0.78	1.41	-0.83	"
13	Exp. on housing out of rates a/c	1.316 (5.182)	0.646 (9.992)	-1.917 (-5.176)			0.92	1.10	1.84	-2.32	17.8
14	Exp. on housing out of rates a/c	1.258 (6.173)	0.711 (12.571)	-1.978 (-6.648)		-0.014 (-3.075)	0.95	2.10	2.02	-2.39	"
15	Exp. on housing out of revenue a/c	3.547 (2.813)	1.665 (5.155)	-4.132 (-2.248)			0.80	0.38	1.27	-1.34	14.6
16	Exp. on housing out of revenue a/c	3.431 (2.736)	1.810 (5.200)	-4.277 (-2.336)		-0.031 (-1.137)	0.80	0.53	1.38	-1.39	"
17	Exp. on general purposes out of rates a/c	3.165 (3.661)	1.122 (5.067)	-3.289 (-2.609)			0.76	1.71	1.15	-1.43	12.3
18	Exp. on general purposes out of rates a/c	3.022 (4.346)	1.359 (7.038)	-3.580 (-3.525)		-0.047 (-3.099)	0.84	2.29	1.39	-1.58	"
19	Exp. on general purposes out of revenue a/c	3.174 (3.434)	1.238 (5.226)	-3.329 (-2.470)			0.79	0.78	1.15	-1.31	12.6
20	Exp. on general purposes out of revenue a/c	3.329 (3.839)	1.392 (5.865)	-3.754 (-2.934)	-0.030 (-1.838)		0.81	0.88	1.29	-1.48	"

Variables:  $Y$  = Per capita GNP at 1968 constant prices (£'000).

$P$  = (Implied deflator for Public Authority expenditure on current goods and services) ÷ (implied deflator for GNP).

$r$  = per cent growth rate from year to year of GNP at constant prices.

$r-1$  =  $r$  lagged one year.

The relatively high (and significant) price elasticities for roads and general purposes are very striking. They suggest that relatively labour intensive processes (e.g., local road repairs, park maintenance, clerical work) have been affected by the steady rise in wage costs relative to the general price level over the years, and that the consequence has been a significant curb on local expenditure on these types of activities. The numbers employed by local authorities on road works fell from 20,000 in 1953 to 11,000 in 1972. All of this reduction occurred in county councils, while employment by county borough corporations increased (see *Trend of Employment and Unemployment*, 1953 and 1972).

### *Conclusion*

The model tested here is relatively simple and lacks the sophistication of some recent US studies (for example, Gramlich and Galper, 1974). On the whole, however, the results are encouraging and suggest that some progress can be made in explaining the variation in local expenditure both over time and from county to county using the approach we have adopted.

Our results suggest that local expenditure is responsive to the level of local income: regional income differentials are reflected in the level of locally-financed (or Rates-borne) expenditure on local services. Over time, the high income elasticity of demand for health and housing is striking.

Some simple measures of local needs for the various services are significantly associated with expenditure *per capita* on these services, especially when expenditure from state grants is included. Apart from health expenditure, our results suggest that the needs for most local services (*per capita*) are greatest in the urban areas.

The very large variation between counties in the proportion of Total Rates which are payable locally was seen to be associated with variations in expenditure from Total Rates, especially in the case of roads and health, although in both cases the magnitude of the effect was small. These results are relevant to an economic evaluation of the agricultural grant and its effects on local expenditure and taxation.

Finally, significant price effects emerged in our time series analysis, using the public authority expenditure deflator relative to the GNP deflator as a price variable. It seems that rising relative labour costs have had a dampening effect on local authority expenditure on the labour intensive services, especially roads and general purposes.

## Section 9

### *New Sources of Local Revenue*

WE have shown in Section 4 that the Rates are of decreasing relative importance as a source of local authority finance. The policy of transferring health and most housing charges from the Rates, to be completed by 1977, implies that the proportion of local expenditure financed from the Rates will decline further. In Section 8 we saw that in many Irish counties in 1969-70 local Rates amounted to less than one-fifth of revenue account expenditure.

In general, the declining relative importance of local Rates has been matched by the increasing rôle of state grants as a source of local finance. Over half local expenditure on revenue account is now financed by state grants, and in some counties this proportion almost reaches four-fifths. With the important exception of the agricultural grant, these state grants are specific to individual projects and may involve considerable state influence on local expenditure.

As we saw in Sections 1 and 2, the argument can be put forward that local tax revenue should remain an important source of local authority income, and state grants could be regarded as a threat to local financial autonomy. For these reasons, there is continuing interest in finding new types of local revenue to replace or supplement the Rates as a source of local tax revenue.

The possibilities may be grouped as follows :

- (i) Changes in the Rates designed to raise their yield.
- (ii) Introduction of new local taxes.
- (iii) Introduction of new non-tax sources of local revenue.

We have already discussed (i) in Section 6 and shown that on 1973-74 estimates, the loss of Rates revenue due to exemptions and reliefs amounted to about £20 million. There is clearly room for a significant increase in Rates revenue by removing exemptions on the ESB, mines, etc., as suggested in Section 6. If changes in the rating system, designed to make the tax structure more progressive, were introduced along the lines discussed in Section 7, it is likely that the combination of removing exemptions and increasing relief to low income families would result in a net increase in Rates receipts. (In fact, we suggested that the cost of the main new reliefs discussed in Section 7 should be borne by the central government.) There is, therefore, considerable room for

increasing the financial resources of local authorities by a reform of the rating system along the lines advocated in earlier sections.<sup>1</sup>

### *New Local Taxes*

It is necessary to clarify exactly what is meant by a *local* tax. A tax that is initiated by a local authority, at a rate which it determines, and collected locally, is obviously a genuine local tax. However, most taxes that are called local are subject to some degree of central control: local income taxes, for example, are frequently confined to a relatively narrow range of rates, specified by the central government, and local authorities are generally obliged to introduce the tax. In such cases the only local feature of the tax is the tax base. The arguments that are advanced in favour of maintaining a significant rôle for local taxation as a source of finance for local expenditure seem to require that genuine accountability and answerability in fiscal matters to a local electorate exist, and this in turn seems to require that the local authority at the very least controls the rate at which local taxes are levied. We take this as a minimum requirement for a true local tax.

It is worth stressing that there is a distinction between legal and effective powers with respect to local tax rates. In Section 1 we summarised very briefly some of the recent literature on the effects of local differences in tax-expenditure patterns on residential choice (the "Tiebout hypothesis"). We have also stressed the possible importance of excess burden or distortions in the economic system as a result of local taxes. These considerations suggest that the effective freedom to introduce genuinely local taxes is very limited in a small country with a large number of local authorities, regardless of the legal powers bestowed on local authorities. We mentioned earlier that one of the merits of the Rates as a local tax is the immobility of real estate and the low risk of excess burden as a result of taxing it, yet we have shown (in Sections 7 and 8) that the effective rate of local taxation in Ireland varies less between counties than is suggested by the variations in Rates poundages.

If a new local tax is to make a worthwhile contribution to the problems of Irish local government finance it should have certain characteristics: its effects on after-tax income distribution should be acceptable; its tax base should be reasonably widely distributed throughout the country, so that all areas might hope to receive enough revenue from it to make a significant contribution to the financing of local expenditure; the cost of administration should not be high in relation to the yield of the tax; above all, it should be capable of being levied at different rates by local authorities without risk of serious excess burden in the

1. A general revaluation of rateable property should not be designed to increase the yield of the Rates. The purpose of such a revaluation is to correct anomalies in the relative valuation of different properties.

form, for example, of shoppers moving their business to an adjacent jurisdiction with lower rates of (sales) taxation.

A detailed discussion of the possibility of introducing new forms of local taxation in Ireland is contained in the 1968 *Report* of the Interdepartmental Committee.

The only new sources of local tax favoured by the committee were (i) local powers to impose a turnover tax at 50 per cent of the national rate, and (ii) a local entertainment tax. The proposal to have a local turnover tax ceased to be a possibility with the introduction of VAT and the abolition of the national turnover tax. VAT does not lend itself to local administration due to the problem of measuring value added locally. (France, for example abolished local sales taxes on the introduction of a national VAT.) The proposal to introduce a local tax on entertainment (cinemas, dance halls, etc.) certainly seems feasible and local authorities would probably have reasonable freedom in deciding the rate to charge, but it would never provide a significant source of local revenue. In 1972, for example, local expenditure on "entertainment and sport" amounted to only £25 million according to NIE, or about 2 per cent of total consumption. Presumably only part of this would be taxable locally so that, even with very high rates of taxation, the yield would be small relative to local authority expenditure.

The Interdepartmental Committee concluded that a local income tax would not work satisfactorily in Ireland and it also argued against local excise taxes (on alcohol or petrol for example) and local fees (for hunting, gambling etc.). We agree with the recommendation against local excise taxes since they would probably cause serious excess burden unless levied at either a uniform or an insignificant rate. We feel, however, that a local income tax should be considered again as a possibility if only because it appears to operate successfully in other countries. Table 3.6 shows that personal income taxes are very important sources of local revenue in Denmark and Germany (FR).

There can be no doubt that the administration problems associated with a local income tax would be serious. A number of decisions would have to be taken: what range of local tax rates would be permissible? Would people be liable where they work or where they live? But these problems are not insuperable, and the Danish example proves that a local tax can be administered in a small country with a very large number of local authorities. (In Denmark, income tax is levied by the state, county and district. There are 276 districts in the country. However, the whole tax collection procedure is highly organised and computerised, with the further benefit of a very efficient national system of personal registration. The local income can vary only within limits set by the central government.)

The considerations which we believe are most telling against a local income

tax in Ireland are: first, the base of the tax is very unevenly distributed throughout the country so that the tax would seriously increase disparities in local financial resources. This is shown simply by the fact that Dublin (county and city) accounted for 43 per cent of non-agricultural personal income in 1969 (Ross, 1972, Table 1). Secondly, a local income tax would imply raising the already high rate of marginal income taxation in Ireland. (The cumulation of three income taxes in Denmark contributes to the apparently widespread dissatisfaction with the entire tax system.) Finally, the amount of genuine local autonomy with regard to local income tax would probably be small: the central government would probably stipulate a fairly narrow range within which local taxes would have to lie, and each local authority would be greatly influenced by the action of its neighbours in deciding a tax rate (which is the case in Denmark).

The main attraction of a local income tax, to supplement or replace the Rates, lies in the belief that it can be made fairer or more progressive than the Rates and in the fact that, unlike Rates, it would be a very buoyant revenue source. Whether a local income tax structure would in fact be fairer than a modified version of the existing rating system is not clear. A genuinely progressive local income tax, levied at different rates by various local authorities, would probably be evaded by many tax-payers, thereby frustrating its intention. If, as in most countries operating a local income tax, the local tax consisted merely of a surcharge on the state income tax payable to the local authority on the basis of residence, then similar results could be obtained from a system of revenue sharing (discussed below) with the additional advantage that the amount of revenue received by individual local authorities need not depend exclusively on the local tax base. On balance, then, we do not believe that a local income tax is an attractive option in Ireland.

After local income taxes and real estate taxes, the next most important local taxes in Table 3.6 are a local wealth tax, which is operated in France and Italy, and a profits tax, which is used in Germany and Luxembourg. A wealth tax can hardly be considered as a serious possibility at the local level in Ireland, because this tax has recently been introduced at the national level. Even at the national level, the yield of the wealth tax is unlikely to be very large in relation to local government expenditure. Of course, the option exists to assign the yield of the new wealth tax to local authorities, but since the tax is being levied at a uniform rate nationally, it would not represent a genuine local tax. A local profits tax is also highly unlikely in Ireland for, unless compelled to do so by legislation, very few local authorities would risk charging a local profits tax even at a low rate—most local authorities outside the main urban areas are very conscious of the need to attract industry by providing the most favourable terms possible in relation to neighbouring areas.



Hepworth (1971, Chapter IV), quoting the submission of the Royal Institute of Public Administration to the Royal Commission on Local Government (1968) cites tax revenue generated by motor vehicles as being the only feasible and worthwhile taxes in addition to Rates at the local level for the UK. The taxes he mentions are (i) the road tax on non-commercial vehicles (the rate of which could be varied at the local level), (ii) driving licences and (iii) motor fuel tax. In considering any of these in Ireland at present, account has to be taken of (i) the importance of cars and trucks for transport and commerce in the rural areas, where the population density is much lower than in the UK, (ii) the recent sharp increases in all fuel costs and the probable reluctance of any local authority to impose further taxes on these items, (iii) the very small area of many Irish counties, which creates enormous pressure for uniform rates of petrol taxation, and (iv) the rôle of EEC regulations in the area of taxation of road vehicles. For all of these reasons, the proposal to use these types of taxes seems inappropriate in an Irish context today.

One further possible source of local revenue linked to transport is a congestion tax on traffic entering urban areas. The proposal would yield revenue only in the main urban areas (in practice probably only the county borough corporations of Dublin, Cork, Limerick and Waterford would want to consider such a tax). A full evaluation of this possibility would have to be undertaken in the context of the general transportation problems of these cities.

Other possible local taxes exist, but they are mostly of a minor nature. In France the "patente" referred to in Table 3.6 is a remnant of the "centime" or 1/100 local surcharge on state income tax. In The Netherlands the toll on canals etc., is very minor. The large variety of local taxes in Italy seem to be predominantly of a nuisance nature, with their origins in historical accident rather than economic relevance. Several countries levy local licence fees on services. The wisdom of introducing any such minor taxes in Ireland, to be administered by very small local authorities, is obviously questionable.

A final possibility consists in restructuring the Rates so that a higher proportion of this tax is paid by local commercial property. This could be achieved by charging a high rate poundage on commercial-industrial valuations or it could be achieved by a progressive poundage with respect to the size or valuation of the property. At present all property liable to Rates pays the same poundage but this proposal raises the possibility of an incentive to have property classified as "domestic" rather than commercial. Furthermore, the impact of this proposal would differ greatly between local authorities, affording proportionately much greater relief of domestic Rates in localities with a large non-residential property base. From the economic viewpoint this proposal would resemble closely a local corporation income or profits tax (some of its cost would be borne by the fall in profits tax liability that it would occasion) and would of course be recognised

as such by local authorities. We have already drawn attention to the pressure on poorer local authorities to maintain low poundages in order to attract industry, and their probable lack of enthusiasm for a progressive poundage structure. The result envisioned for this restructuring of the Rates could, it seems to us, be more efficiently attained by assigning a proportion of the yield of corporation profits tax to the localities in which the companies operate, with a view to relieving the Rates on local residential property, but it seems arbitrary to pick on this particular tax in this context.

### *New Non-Tax Sources of Local Revenue*

#### *(a) Charges for Services*

There is probably some scope for increasing the revenue of local authorities by charging for services that are now provided without direct charge and by increasing the charges for others that are now supplied at a highly subsidised price. In the first category are libraries, parks, etc. There may be room for imposing the charges for some of these, but against the benefits (in terms of additional local revenue) from this source of action must be set the possible adverse result of discouraging the public from using socially desirable services. Housing is the most important example of a service provided by local authorities to the public at a greatly subsidised price. The net rent paid on local authority housing was less than £1 million in 1972 compared with a subsidy of over £14 million. (In the Appendix to Section 2 we illustrated how these figures were derived for 1970.) It is doubtful whether the proportion of the gross rent on local authority housing that is met through subsidy is widely appreciated. This subsidy could be reduced by charging higher rents, but such a decision involves social and political issues that are much broader than our present terms of reference. Moreover, by 1977 this housing subsidy will be met from central government funds, and hence increasing the rents charged by local authorities would not increase their overall financial resources (although it would decrease their dependence on state grants).

#### *(b) Revenue Sharing*

We have repeatedly mentioned the growth in state grants to local authorities and the possibility that this trend in financing local government curtails autonomy at the local level. In Section 8 we presented, on the basis of 1969-70 data a detailed evaluation of the regional pattern of the present grants system.

We have also seen that in several countries there has recently been a shift in emphasis from specific to block grants. In most countries these schemes involve the use of a formula incorporating "needs" and "equalisation" elements to allo-

cate the sum to be shared between the individual authorities. The degree of autonomy built into these schemes depends on whether, as in The Netherlands, a fixed proportion of the state's tax yield is allocated in this way, as in the United Kingdom, the amount to be distributed is the object of negotiation each year. The United States scheme, involving a sum fixed for five years, falls somewhere between these two models.

A major possible objection to schemes of this type is that they may give rise to less economical use of resources at the local level than occurs under a system of specific grants (with tight control by the central government) or when expenditure is financed through local taxation. We have seen that the belief that local authorities should finance a substantial part of their current expenditure through local taxation permeates many previous discussions of local government finance in Ireland. This view stresses the answerability and accountability of local authorities to their electorate, and suggests that these attributes are enhanced by the discipline of having to raise locally a substantial proportion of the amounts spent locally. Against this, however, must be placed the consideration that local authorities are responsible for a major share of total public expenditure, while the central government has pre-empted the major sources of tax revenue and their built-in revenue buoyancy. Up to now, the main way out of this dilemma in Ireland has been increasing dependence on specific grants, supplemented by the growth of the agricultural grant. The case for a system of non-specific grants of the type that may be grouped under the general name of revenue sharing has not received much attention.

The particular merit of a revenue sharing scheme lies in providing a structure whereby local authorities can participate in the superior revenue yield of the state's taxes without the disadvantages that many believe are inherent in an extensive system of specific grants. Furthermore, revenue sharing is usually based on a formula which takes explicit account of local variations in needs and resources, whereas the regional allocation pattern under a specific grants network, while it contains implicit regional policies, is not flexible in this respect.

In order to illustrate how a revenue sharing scheme might operate in Ireland, we present some of the details of the formula actually adopted in the United States, contained in the State and Local Fiscal Assistance Act of 1972 (HR 14370). A full account of how the Act operates has been published by the US Department of Treasury (1973).

A fixed amount,  $F$ , is set aside each year for revenue sharing. No state may receive, *per capita*, more than 1.45, or less than 0.20, times  $F$  divided by the total US population. No state may receive more than half its total income from non-revenue sharing sources in revenue sharing. Within these two constraints, the amount to be allocated to the  $i$ th state,  $F_i$ , is decided according to the following formula :

$$F_i = F \cdot P_i \cdot \frac{T_i}{Y_i} \cdot \frac{P_i}{Y_i} / P \cdot \frac{T}{Y} \cdot \frac{P}{Y}$$

where  $P_i$  = population of the  $i$ th state  
 $T_i$  = local tax revenue in the  $i$ th state  
 $Y_i$  = income in the  $i$ th state,

and  $P$ ,  $T$ , and  $Y$  are the corresponding national totals.

Thus, a state's share in the total to be disbursed depends on three factors:

- (a) Its population as a share of the national total ( $P_i/P$ )
- (b) Its local "fiscal effort" relative to the local fiscal effort of other states ( $T_i/Y_i \div T/Y$ )
- (c) The inverse of its income per person relative to the inverse of national income per person ( $P_i/Y_i \div P/Y$ )

It is also possible to include a measure of local "needs" for the services to be financed through revenue sharing. In the scheme in operation in the US, the proportion of the population living in urban areas has this function. In Section 8 we experimented with various measures of needs for local services and saw that expenditure on many of the services that will still be chargeable to the Rates by the end of this decade are highly correlated with urbanisation. The needs element in the United Kingdom Rate Support Grant is calculated on the basis of a relatively elaborate regression analysis of actual expenditure patterns.

In Table 9.1 we illustrate the use of the above formula (without a needs variable) in Ireland on the basis of 1969-70 data. Column 6 shows the final allocation of the amount to be shared (assuming £1 per person shared nationally). Westmeath would obtain the largest *per capita* transfer (£1.42), Kildare the smallest (£0.79). The reasons for this outcome may be seen from column 2 ("local fiscal effort") and column 3 (the inverse of county income per person). Local fiscal effort is very high in Westmeath (as we have already noted), and income per person is below average; both these factors raise Westmeath's share in the revenue to be distributed. Kildare, on the other hand, is below average in fiscal effort and above average in income per person, and both these factors tend to lower its share. It is of interest to compare the regional pattern of grants resulting from the application of this formula with the actual pattern in 1969-70. In Table 8.4 we set out the actual regional pattern under four definitions of

TABLE 9.1: Illustration of revenue sharing formula for Ireland in 1969-70.

County	Population $P_i$	Rates as per cent of personal income = $\frac{T_i}{Y_i}$	Population divided by personal income = $\frac{P_i}{Y_i}$	$P_i \cdot \frac{T_i}{Y_i} \cdot \frac{P_i}{Y_i}$ = (1) × (2) × (3)	Proportion of revenue going to each county (= entry in col. 4 ÷ £24,458)	Revenue per capita in county assuming £1 per capita shared nationally (= £2,940.7 × Col. 5 ÷ Col. 1)
	(1) (‘000)	(2) (per cent)	(3) (£)	(4) (£)	(5) (£)	(6) (£)
Dublin	830.469	3.93	1.81	5,907.38	0.242	0.86
Cork	347.524	3.63	2.34	2,951.94	0.121	1.02
Limerick	139.315	3.42	2.49	1,186.38	0.049	1.02
Waterford	75.584	4.09	2.38	735.75	0.030	1.17
Carlow	33.874	3.42	2.66	308.16	0.013	1.09
Kildare	69.731	2.69	2.43	455.81	0.019	0.79
Kilkenny	61.339	3.53	2.72	588.95	0.024	1.15
Laois	45.089	3.51	3.11	492.20	0.020	1.31
Longford	28.494	3.61	3.15	324.02	0.013	1.37
Louth	73.016	3.06	2.28	509.42	0.021	0.84
Meath	70.113	3.82	2.99	800.82	0.033	1.37
Offaly	51.793	3.15	3.00	489.44	0.020	1.14
Westmeath	53.327	4.06	2.91	630.04	0.026	1.42
Wexford	85.033	3.13	2.85	758.54	0.031	1.07
Wicklow	64.225	3.91	2.69	675.51	0.028	1.26
Clare	74.408	2.50	2.72	505.97	0.021	0.83
Kerry	112.886	2.71	2.87	877.99	0.036	0.94
Tipperary	123.062	3.38	2.60	1,081.47	0.044	1.06
Galway	148.262	2.93	3.01	1,307.57	0.053	1.06
Leitrim	29.104	2.12	3.46	213.48	0.009	0.88
Mayo	111.614	2.29	3.18	812.80	0.033	0.88
Roscommon	54.453	2.62	3.18	465.09	0.019	1.03
Sligo	50.595	2.63	3.26	393.87	0.016	0.94
Cavan	53.146	2.50	2.96	405.24	0.017	0.92
Donegal	108.192	2.91	3.05	1,029.52	0.042	1.14
Monaghan	46.056	2.86	2.92	384.62	0.016	1.00
<b>Total</b>	<b>2,940.700</b>	<b>3.48</b>	<b>2.39</b>	<b>24,458.39</b>	<b>1.000</b>	<b>1.00</b>

$T_i$  = Rates paid locally in ith county  
Sources: as for Table 7.A.1.

$P_i$  = Population of ith county.

$Y_i$  = Total personal income in ith county.

grants. Table 9.2 presents the matrix of intercorrelations between the actual and the revenue sharing regional pattern.

TABLE 9.2: *Intercorrelations between county pattern of grants per capita 1969/70, and the outcome of a revenue sharing formula*

			$X_1$	$X_2$	$X_3$	$X_4$	$X_5$	
A C T U A L 1969/70	Hypothetical revenue sharing <i>incl. ag. grant</i>		$X_1$	1.0				
		Total	$X_2$	0.15	1.0			
	less health etc.		$X_3$	0.14	0.94	1.0		
		Total	$X_4$	0.13	0.91	0.86	1.0	
	<i>excl. ag. grant</i>		$X_5$	0.04	0.66	0.83	0.77	1.0
		less health, etc.						

It may be seen that the revenue sharing formula would result in a radically different allocation of grants between areas than occurred under any of the four definitions of grants used for the 1969-70 data. The contrast is not due, as might have been expected, to the operation of the agricultural grant: the correlation between  $X_1$  and  $X_5$  and  $X_3$  is lower than between  $X_1$  and  $X_2$  and  $X_3$ .

One may not conclude on the basis of this showing that the existing pattern of grants is "irrational": it is designed, not as an explicit instrument of regional policy, but to supplement the financial resources available to local authorities and to encourage them to provide certain services. The contrast between the present pattern of grants and what would occur under a revenue sharing formula of the type we considered, is due to the relatively low level of grant income per person received in the wealthier urban areas (especially Dublin) at present. The main reason why Dublin would gain through the implementation of a revenue sharing policy is, as may be seen from Table 9.1, the inclusion of "local tax effort" (Rates payable locally as a percentage of income) in the formula. This variable is low in many western counties due to the relief of much of the rateable property in those areas from any Rates liability.

The acceptability of a revenue sharing scheme and the precise terms on which it would operate depend on a number of issues that go beyond our present terms of reference. In particular, it is necessary to ask what degree of financial independence it is desired to enshrine in the grants system, and to what extent it is desired to influence the composition of local authority expenditure. The regional implications of any grants policy are, however, inescapable. The material presented in Section 8 points out certain features of the Irish system as it operated in

1969-70. The present discussion of revenue sharing illustrates some of the implications of a totally different approach to the provision of grants to local authorities.

### *Conclusion*

The most obvious source of additional revenue for local authorities lies in a reduction of the exemptions and remissions from Rates at present allowed. The estimates we presented in Section 6 suggested that a 20 per cent growth in Rates receipts would follow from the abolition of exemptions for which very little economic or social justification exists.

There is little scope for introducing new local taxes that would have a significant impact on the revenue of local authorities in Ireland. While a local income tax might be feasible, it would have to be set at a low rate and probably made uniform between local authorities and administered by the central government. It would hardly represent a genuinely local tax to the degree attained by the Rates at present.

It is likely that local authorities will have to continue to depend heavily on state grants to finance local services. In Section 8 we evaluated the effects of state grants on Irish local expenditure statistically. In the present Section we suggested that consideration might be given to the substitution of a system of general revenue sharing for part, at least, of the present network of specific grants. Revenue sharing would have the merits of embodying an explicit mechanism for equalising expenditure on local services between areas of the country, as well as allowing local authorities automatically to share in the buoyancy of the taxes that the central government has pre-empted. In this manner, the proposal could significantly enhance the vitality of local government. The actual type of revenue sharing that might be used, and the formula for implementing it, would depend on a variety of political and social considerations.

The revenue sharing proposal is not, however, a suggested new revenue source, but rather a reorganisation of the existing grants system. Similar reorganisation occurred in the United Kingdom in 1966 and in Denmark in 1972. The merits of the proposal must be judged in relation to the past growth and likely development of the existing grants system.

## Appendix

### *Rate Collection*

THE one aspect of the present system of local finance which has not been discussed in the preceding Sections of this study is the collection of Rates. This requires careful consideration in the event of a decision to retain Rates as the principal form of local taxation.

Under existing law, Rates are *generally* payable each year in two equal parts, called moieties, the first of which is payable as soon as the Rate demand note has been served, the second being payable on July 1. However, under the Local Government (Rates) Act, 1970, and Regulations made thereunder, the rated occupiers of domestic and agricultural hereditaments have a *statutory right* to pay their Rates in ten instalments. While under law the onus rests with ratepayers themselves to pay the Rates levied on their property according as they become due, local authorities employ rate collectors to recover the Rates demanded. The law makes provision for the appointment of rate collectors and specifically assigns to them certain powers and obligations in relation to their duties.\*

While the law provides for the normal payment of Rates in two equal parts, different "patterns" of payment have evolved in different areas. The following table shows the percentage Rate collection per month for the different categories of rating authorities. The table has been compiled from information furnished by 25 county councils, the four county borough corporations and 25 borough corporations/urban district councils; it covers the local financial year 1973-74 and the transitional† financial "year" 1974 which comprised the nine months from April 1 to December 31.

The following table is not indicative of any particular pattern of Rate payments—when, in the 1974 transitional financial year, ratepayers were requested to ensure that the full 1974 Rate would be paid before December 31 1974 the previously accepted tendency towards peak payments in September/October and March was quite obviously ignored. However, the table makes it reasonably clear that a great many ratepayers tend to pay their total Rates bill in one or two large remittances.

\*In this Appendix, we refrain from consideration of the office, duties and powers of the *Rate Collector* as we feel that this would not be within our terms of reference.

†Under the Exchequer and Local Finance Years Act 1974, the local authorities financial year was made coterminous with the calendar year; in order to effect the change a nine-month transition "financial year" was provided for in the Act.



TABLE A.1: *Proportion of Rates collected each month, 1973/74 and 1974*

Month	Counties	County Boroughs	Boroughs/UDCs
<i>Per cent</i>			
<i>1973/74</i>			
April	2.54	1.04	1.92
May	0.34	0.65	0.53
June	0.27	3.10	2.89
July	1.66	8.67	7.38
August	6.22	7.94	10.72
September	23.83	9.00	18.04
October	21.84	15.36	15.21
November	7.18	15.56	8.73
December	6.83	9.82	6.73
January	5.69	11.50	6.47
February	4.88	8.78	7.60
March	18.72	8.58	13.77
<i>Total</i>	100.—	100.—	100.—
<i>1974</i>			
April	3.05	1.17	2.45
May	0.49	1.32	1.22
June	0.71	2.60	1.92
July	5.27	14.46	13.60
August	11.20	13.11	13.48
September	24.81	17.49	21.41
October	19.56	20.55	18.93
November	13.34	14.23	13.17
December	21.56	15.07	13.81
<i>Total</i>	100.—	100.—	100.—

From other statistics obtained from the local authorities it is equally clear that the option to pay Rates in instalments spread over ten months of the year has not been found to have any general appeal among those ratepayers to whom the scheme applies. In the local financial "year" 1974 only 15,877 ratepayers in all, availed of the rates instalment scheme; of these 10,824 persons live in one or other of the four county boroughs and 1,216 in other boroughs and urban districts (note: there are over 700,000 dwelling-units in the state).

Despite the apparent acceptance of the general notion that Rates are payable in two parts it is possible, if not probable, that one of the underlying elements of discontent with the existing rating system is that the two moieties of Rates, either collectively or separately, constitute the largest bills to be faced by many householders during the course of the year. At a time when charges for most of the expensive services availed of by householders—for instance electricity, domestic gas, central heating and telephone services—are payable on a monthly, bi-monthly or quarterly basis, the annual Rate demand is for a single, relatively

large amount albeit payable, as a rule, in two equal sums. We feel therefore that serious consideration might be given (in the event of the continuance of a local tax on the occupation of property) to an alleviation of the "demand" made by an abandonment of the system of two moieties and the formal adoption of a payment/collection system involving more frequent instalments and smaller amounts. As there would appear to be a tendency for voluntary arrangements to fall through or not to be pursued, we would recommend that any modified payment arrangement or range of options decided upon should be mandatory. In other words if a range of payment options is made available it should be mandatory on each ratepayer to select one of the options and to adhere to the commitment entered into arising from the choice made.

We feel that there are two distinct groupings or ratepayers to be taken into consideration, viz.

- (a) those in the agricultural and fishing sectors whose incomes tend to be seasonal, and
- (b) those who are paid a weekly or monthly wage or salary, and all industrial and commercial concerns which are not directly involved in agriculture or fishing.

The great majority of rated occupiers of property would be included in the latter. In the case of these ratepayers we would recommend that the Rates should be payable on a monthly basis. One obstacle to the achievement of such an arrangement is the failure of many, if not most, of the rating authorities to have their rate demand notes issued to ratepayers until the third or fourth month of the local financial year, or even later. The difficulties posed by failure to get the demand notes issued sufficiently early could be surmounted by a continuation of the monthly charge applicable to the preceding financial year until an adjusted monthly charge has been assessed to take account of the new Rate poundage applicable to the current local financial year. For example, in 1975, a ratepayer would continue to pay at the 1974 monthly rate up to, possibly, April or May at which stage the monthly levy would be adjusted to take account of the total Rates liability for the full year, based on the Rates struck for 1975. In the case of ratepayers in the agricultural and fishing sectors we feel that an option or options other than monthly payments should be available. We would suggest the following alternatives:

- (i) Two moieties payable in the months of March and September, i.e., the months which have been most favoured by the agricultural community in the past, and

- (ii) Payment on a quarterly basis, in the months of February, May, August and November, i.e., the mid-month of each quarter, which would give those paying on a quarterly basis neither advantage nor disadvantage *vis-à-vis* ratepayers required to pay on a monthly basis.

It should, of course, be open to ratepayers in these sectors to opt for payment on a monthly basis.

We have considered whether there should be some form of inducement provided for early or prompt payment such as a form of discount, but have concluded that such a scheme would favour those who might be best in a position to pay early or promptly. Also, in order to provide an effective inducement, the rate of discount would have to compare favourably with interest rates on deposits left with banks, building societies, etc. The net cost of such discounts (given that there might be some saving of bank interest on overdraft accommodation used by the local authority) would have to be borne on the local tax; this, in turn, could result in a subsidisation of those in a position to pay early or promptly by their less affluent fellow ratepayers (or local taxpayers). Though the primary object of our recommending more frequent and small demands for local tax payment is to reduce the impact on the resources of those liable to pay (thereby removing one of the present elements of dissatisfaction with the existing rating system) we would point out that those liable for the local tax would also benefit in another, indirect, way. At present, the uneven cash flow accruing to local authorities from rates causes them to rely to an excessive extent on bank overdraft. The cost of the interest, which comes to an appreciable amount each year, is borne on the Rates. An improved inflow of rate moneys could result in substantial reductions of interest payable with a consequent saving on the Rates themselves.

### *Conclusion*

We feel that the legal provision and payment "pattern" which obtain most generally at present whereby the total Rates bill is payable in the two parts, or moieties, may impose an undue strain on the resources of many of those liable to pay and may be an underlying source of discontent with the rating system. We find that the statutory right of householders and occupiers of agricultural hereditaments to opt to pay the Rates in instalments spread over ten months of the year is not being availed of except to a very limited extent. We have also pointed out that the irregular inflow of cash to the local authorities from Rates has been causing an excessive dependence on bank overdraft, with the consequent cost of interest falling on the ratepayers. We therefore recommend that consideration be given to the implementation of a new scheme or range of options

whereby Rates would be payable in more frequent and smaller amounts and that adherence to such scheme, or the option chosen by an individual person should be mandatory. We recommend that the majority of ratepayers be required to pay on a monthly basis. We recommend *against* any scheme of discounts for early or prompt payments.

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