

Poll tax; do you get what you pay for?

William Low

*Senior Research Fellow
Local Government Centre University of Warwick*

Summary Using a 1986/7 survey by Cheshire County Council on the distribution of use of local services, the proposition that Poll Tax payments match the benefits derived from services better than rates is examined. Grouping by socio-economic groups and income quintiles, the proportion of total local taxation paid in rates by each group is shown to match the pattern of service usage more closely than Poll Tax.

The Government Green Paper on the abolition of the rating system argued that rates were unfair, harping on the fact that many people did not pay a rates bill directly whilst deriving benefits from local services.

"Domestic rates are paid by a minority of local electors, and vary in a way that now has little or no regard to the use made of local authority services."
(Department of the Environment, 1986, vii.)

Also crucial to the Government's argument was the notion that services would be provided efficiently if local taxation took the form of a charge, hence "Community Charge." In a normal market, people influence the provision of services by paying in accordance with their use of services; consumer sovereignty. This model fits the 'benefit principle' of taxation in economics - the person who benefits should pay - promoting, according to the Government, both equity and efficiency.

The issue of fairness has been debated at length (see Association of Metropolitan Authorities, 1986; Bramley, 1987; Smith, 1987) contrasting the benefit principle (fairness on an individual level) and the ability to pay principle (fairness on a societal level). The former may be desirable, however it is only an assertion that the Poll Tax is indeed a better benefit tax than rates. Is it true that you get what you pay for under Poll Tax?

In February 1986, Cheshire County Council in conjunction with the LSE Welfare State Programme, commissioned a major household survey to collect information about the extent and distribution of use made of particular

services across households. The survey was carried out between May 1986 and October 1987 using structured interviews in the users home. (For more details see Bramley, Le Grand and Low, 1989.) The questions covered services accounting for about 70 per cent of the authority's budget: social services, transport, education, and leisure services.

The data in the survey proved very useful in examining the question, does the Community Charge act as a true charge for services? The survey tells us how many 'units' of a service are used by each household. Assuming that the cost per unit reflects the benefits received, we can add up the use of each service per household in money terms. The costings were done by the Research and Intelligence Unit at Cheshire County Council, dividing total expenditure by total units of usage (from independent service records and grossed up survey results). Households were grouped by socio-economic group (SEG) and income (quintiles) and usage by each group calculated. This distribution of costs is then compared to both rates paid and the potential poll tax figure at the time of the survey (#250 per head).

Each SEG (employers, managers and professionals; intermediate and junior non-manual; skilled manual; and semi- and unskilled manual) was standardised so that it had the same demographic composition as the survey sample as a whole. This is necessary since smaller households, for example, are more likely in the lower SEGs. First, households were divided into nine types: one-, two-, and three-plus-adult; one adult with one and two-plus dependent children; two adults with one and two-plus dependent children; three-plus adults with one and two-plus dependent children. For each SEG, average use of each service by households of each type described above was then computed.

Suppose in SEG4 (semi-skilled and unskilled manual) there were 100 households in all and 15 were one-adult (no children), or 15 per cent, while in the sample as a whole only 7 per cent of households were one-adult. Standardising implies keeping the total number of SEG4 households as in the survey data (100) but adjusting the percentage of each type of household to equal the percentage for the sample as a whole. The average usage calculated from the actual 15 one-adult households is then multiplied by seven to give the standardised cost of service usage. Total SEG usage is the sum of these standardised cost figures. SEG is argued to be an indicator of a household's longterm command over resources.

Each income group was standardised as described above since again, smaller households (e.g. single pensioners) are more prevalent in lower income groups. Households were then ranked according to total household income

and divided into quintiles. We also standardised to account for equivalence scales that consider composition within the household more directly. This adjusts the 'purchasing power' of a household's income assuming that children consume a fraction of an adult's spending and there are 'economies of scale' in purchases. This leads to equivalent income quintiles.

The results (summarised in the table below) using the Cheshire survey showed:-

(a) use of services overall rose systematically with income and social class.

(b) Poll Tax, even after rebates does not match very closely the general pattern of service usage across socio-economic and income groups.

(c) rates similarly do not match very closely the general pattern of service usage across socio-economic and income groups.

(d) but comparing rates and Poll Tax, the rates matched usage more closely than Poll Tax; that is, the better off paid closer to their proportion of use than under Poll Tax.

The survey evidence on use of services is generally what one would expect. The 'pro-poor' services (the use by lowest SEG and income quintile exceeds that of the highest) include free school meals, youth clubs and social services aimed at the elderly and the disabled (meals on wheels, day care, and sheltered accommodation and workshops). Compulsory education is broadly neutral, with the poor and rich receiving roughly equal benefits. Bus use was also, somewhat surprisingly, neutral. However, 16+ education, and road use were strongly pro-rich, as were leisure and amenity services such as museums, country parks and waste tips. Thus for overall service usage, the effect of local authority spending is not strongly redistributive (as previously noted in Le Grand, 1982).

By standardised income the top quintile uses services worth 1.62 times the value (cost) of services used by the bottom quintile. The equivalent income case shows this 'service use ratio' falling to 1.44, so there is little change as a result. Since unrebated poll tax implies everyone pays the same and quintiles account for 20 per cent of the sample, the ratio of standardised poll tax liabilities between top and bottom is 1.0. Standardised gross rates liabilities gave a ratio of 1.51. Therefore, a true Poll Tax fails to match payments with service usage in the way a benefit tax would. The unfair and regressive nature of the tax also stands out.

Accounting for rate and poll tax rebates does affect the results for equivalent income groups. Rebates were calculated per household based on demographic characteristics recorded in the survey, and according to the scheme as it was presented at the time in House of Commons library technical reports but before the actual introduction of the tax. Subsequently, the better off pay proportionately more and the bottom quintile decidedly less, as is the rationale of rebates. As a result, rebated Poll Tax more closely matches service usage than rebated rates but only after a redistributive wrinkle is added. But the Government rejected local income tax in favour of Poll Tax specifically because:

"...efficient provision of services...argues in favour of a form of taxation which has at least some of the characteristics of a charge. It argues against a redistributive tax." (Department of the Environment, 1986, p.24)

The Government cannot have it's cake and eat it too. It argued for a benefit tax rather than a redistributive tax but only by adding an ability to pay element does Poll Tax act like a benefit tax.

The results for SEGs emphasised this. Accounting for the differences in the total numbers of households in each SEG, the service use ratio (professionals, etc. to semi- and unskilled manual) is 1.58. The ratio of gross rates liabilities is 1.66 and would again be 1.0 for poll tax. Rebates have little effect on this pattern. The top SEGs contribute less than their share and the bottom group is taxed too heavily compared to their use of services. The Poll Tax ratio rises slightly to 1.15 whilst the net rates ratio falls to 1.46.

The conclusion might therefore be that rates is a better "benefit" tax while at the same time matching broadly the ability to pay of groups of households. The Poll Tax decidedly fails to meet the criteria of a benefit tax, despite the rhetoric and the euphemisms. The simplest explanation for this is that the better off not only use more services overall but also use more of the expensive services: 16+ and further education, road maintenance, and leisure services. The latter two account for almost 20 per cent of the council's budget. For the less well off, the Poll Tax is poor value for money.

References

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Distribution of the Cost of All Services Used and of Taxes: by (standardised) total household, equivalent income and socio-economic group (percentages)

	Services	Rates Gross	Net	Poll Tax Gross Net	
Household Income					
Highest Quintile	25.5	24.8	n.a.	20.0	n.a.
4th Quintile	25.0	20.3	n.a.	20.0	n.a.
3rd Quintile	16.2	17.9	n.a.	20.0	n.a.
2nd Quintile	17.5	20.6	n.a.	20.0	n.a.
Lowest Quintile	15.7	16.4	n.a.	20.0	n.a.
Ratio High:Low	1.62	1.51	n.a.	1.0	n.a.
Equivalent Income					
Highest Quintile	25.6	25.1	30.2	20.0	25.0
4th Quintile	20.2	21.0	25.1	20.0	23.7
3rd Quintile	20.2	19.5	21.8	20.0	22.0
2nd Quintile	17.9	17.7	16.2	20.0	18.1
Lowest Quintile	16.1	16.7	6.6	20.0	11.2
Ratio High:Low	1.59	1.50	4.58	1.0	2.23
Socio-economic Group					
Professional, etc.	32.0	35.1	28.0	26.0	28.3
Non-manual	26.5	21.3	24.9	20.0	22.1
Skilled Manual	26.0	27.2	34.2	32.0	30.7
Semi/Unskilled	15.7	16.4	14.8	20.0	22.5
Ratio Prof:Unskilled*	1.58	1.66	1.46	1.0	1.15

* Ratios for SEGs adjusted for size of group.