

# LAND and LIBERTY

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● COVER PICTURE: The 13th Dalai Lama who instituted land tax reforms in Tibet after the Chinese invasion in 1910.

# OPPORTUNIST CHAOS

BRITAIN'S politicians are under the illusion that farmers do not pay rates, the local property tax which is levied on land and buildings in the commercial, residential and industrial sectors.

There is a modicum of truth in this notion. Owners of farmland have not paid rates ever since agricultural land was de-rated in 1929.

Tenant farmers, however, DO pay rates: the tax is collected in the form of a higher rental charge levied by landlords, who saw no good reason why they should pass on the benefit of de-rating to tenants.

Result? Take two farmers, one a tenant and the other an owner-occupier, each with the same assets in land and capital and producing the same food. The tenant ends up with a lower net income, for he pays the equivalent of the rate charge to his landlord.

The OWNER-OCCUPIER pockets the money that ought to go to the community to finance the fire and police protection that his farm enjoys, and the education from which his children benefit.

*He enjoys public services that are paid for by the rest of the community! He also enjoys a competitive advantage over the tenant farmer (higher profits means an ability to buy better equipment or cut prices).*

The Labour Party now thinks that agricultural land ought to be rated. That does not constitute a threat to the tenant, for under the market mechanism his total rent-plus-rates obligations would not rise.

There would, however, be a massive inflow of income into local exchequers, to the benefit of ratepayers who are hard-pressed by a lethal range of onerous taxes.

But if Prime Minister Margaret Thatcher has her way, she will add residential properties to the de-rating list. Indeed, the abolition law for Scotland will be on the statute book before the general election.

Most experts believe that the Conservative Government is botching up its plans for the property tax. When politicians seek votes by dismantling a time-

honoured and efficient tax, you can expect a chaotic outcome.

This is what happened when California voted in 1978 for Proposition 13 which limited property taxes to 1% of market value (on a capital basis) and restricted annual increases to 2%. An editorial in *Rating and Valuation*, the journal of Britain's Rating and Valuation Association, summarised:

"The predictions which were made at the time are being fulfilled. Inner city areas are decaying, more and more people are suffering the traumas of homelessness, the educational system is crumbling, the once superb road network is being disfigured by lack of maintenance, parks are becoming shabby and the libraries are being closed. In short the physical and social infrastructure is breaking down to an alarming degree."

The journal draws the lesson for Britain: "By tinkering, for political and other motives, with the way in which a property tax operates, distortions of the social framework and unjustifiable hardships arise. Though less severe than in the sunny State of California, political interference with the operation of the British rating system produces effects and consequences which are either not perceived or ignored at the time."

The de-rating of homes will result in a massive increase in the capital values. That's what happened when rates were lifted on properties within so-called Enterprise Zones. The losers would be first-time buyers, who would not benefit from the abolition of domestic rates.

The poll tax which the Tories propose to substitute for the property tax will squeeze poor people, and further divide the nation.

We predict that this political opportunism will end in chaos. But some comfort can be derived from the prospect that from the ashes will emerge the chance to restructure the property tax along even more effective lines — and that must mean refusing to tax buildings while raising the revenue exclusively from the community-created value of land.