was undoubtedly the largest transaction of its type in history. The complex agreement which emerged calls for a rental of $9 million in the first year increasing annually by $200,000 so that the average annual rental during the twenty-one year renewal period is $11 million. Since the original lease provided that the rent be set at six per cent of appraised land value, the value imputed by these rentals ranges, over the renewal period, from $150 million, or $294 a square foot, to $217 million, or $425 a square foot. . . . When it became apparent that a flat rental agreement could not be reached, it was decided that an attempt would be made to devise a solution that did not necessarily conform to the original lease provision for a flat rental. Mr. White for Rockefeller Centre particularly requested his negotiating counterpart to consider the need to recast the lease completely, i.e. to produce a modern ground lease that reflected current conditions, terms, and composition of ownership. Mr. Helmsley, on the other hand, stressed the need to protect Columbia against the erosive effects of inflation.

The ultimate agreement was complex. In addition to the $9 million rental, which was to graduate at the rate of $200,000 annually, Rockefeller Centre agreed to pay a lump sum of $4 million to Columbia on the execution of the recast lease. In return, Columbia agreed to sweeping revisions in the ground lease which offered the Centre the opportunity to mortgage, sublease, or sell the leasehold with minimal restrictions.

The principle of protecting a fee owner against inflation has been firmly established by this negotiation. The $200,000 graduation was structured to represent approximately one-half of the average expected rate of inflation over the twenty-one-year period. The 50 per cent compromise rate reflected an appreciation of the lessee's problems.

It is clear that sharp increases in ground rent tend to place the lessee at a competitive disadvantage, even if such agreed increases fairly reflect the increasing value of the land, and total rent remains at approximately six per cent of land value. There is no assurance that net rent increases for space in aging office buildings will be equal to the increases called for in renewals of ground leases. Further, as the buildings age, capital improvement programmes must be instituted to maintain competitive parity. At the same time, higher operating costs, particularly for repairs and maintenance, are required by aging buildings. This cash demand, plus the increasing ground rent, significantly and adversely affect cash flow for the lessee. An inevitable squeeze results, usually at the ground lessee's expense. One can truly question the prudence of a leasehold investment beyond, say, a sixty-year period when land value is to be estimated on the assumption that it is vacant, unimproved, and unrestricted by a lease. Landowners must recognise that harsh treatment of leasehold building tenants in the negotiations may boomerang by reducing the capacity of the lessee to pay the market rent.

Said Mr. White: "It was a great moment of pride for us to be involved in the settlement of the rent and terms of the ground lease on the most valuable tract of urban land in the world."

## *Pace-maker for Prices and Incomes*

B.W.B.

TIME was when the study of inflation was a nationally mystifying whodunnit. Like the successive victims in Agatha Christie's *Ten Little Niggers* we were baffled by the whole sordid business and were liable to lunge out wildly at every possible suspect (except of course the right one) in an effort to unmask the villains responsible.

It is true that during this time we were regaled with a most interesting parade of red-herring suspects. Inevitably we had the trade unions (who were said to cause 'cost-push inflation'), the "greed" of the British people (demand-pull), the avarice of employers (price inflation), the rapacity of speculators (fast buck) and the unfriendliness of the foreigner ("world prices have moved against us") as well as the general excuse of governments who lose control of affairs ("blown off course").

But times change, and just as in the theatre the whodunnit has tended to give way to the "whydidhedunnit" and the "willhegetaway withit", so the study of inflation is turning to why governments do it, whether they are right to do it, how successful they are in what they are doing it for and, perhaps, whether they might as well give over and try something different.

For there can surely be no doubt now, after the academic crusading of Milton Friedman and the Chicago School and the more colloquial, but no less effective, persistence of Enoch Powell, that the real villains have been unmasked. Now we all know that governments are responsible for inflation and that, just as they would (perhaps justifiably) take the credit for any achievement of monetary stability, so they, and they alone, must take the blame for monetary mismanagement.

In confirming this analysis in his new booklet*, Professor Walters, Cassel Professor of Economics at the London School, performs an excellent service to the general reader. Small in size (read it in half an hour) but thorough in its coverage, and instantly intelligible to the layman, the booklet puts responsibility for inflation squarely where it belongs: "The real cause of inflation is the accelerating money supply, and that is under the control of the government. The politicians are the guilty men."

In proving his conclusion the author deals with the question of motive and argues that it is governments' commitment to full employment and their fear of the electoral consequences of a rising tide of unemployed that induces them to tinker with the money supply and then, when the inevitable inflation leaves them holding "a tiger by the tail" to try to repress its effects by controls and restriction.

But the cover-up, he insists, is worse than the original crime. Pursued effectively for any length of time, so-called incomes policies would call for rationing as those goods which become unprofitable to produce go off the market or under the counter. And the whole process would lead to a drastic decline in output, as experienced in pre-Erhard Germany and in Allende's Chile. Perhaps it is just as well, as Mr. Heath and his Canute-like colleagues now know to their cost, that the tide of inflation cannot long be held back by controls on prices and wages.

Understandably, perhaps, the author ends on a gloomy note. Inflation can be slowed down only by reducing the supply of money, but this would usher in a two-year period of retrenchment with the level of unemployment inevitably rising. Professor Walters accepts that this would not be a popular electoral policy for any political party but there is, he suggests, no alternative.

But is he right? Is there no measure which will save us from the cyclical slide into unemployment yet call for no meddling with the money supply? Until economists of Professor Walter's standing have fully studied the effects that land-value taxation (as opposed to labour, capital and consumer taxation) would have on our economic affairs — on the benefits it would bring to labour and the incentive it would give to employers — they have no grounds for concluding that the only solution to our present ills is one which, in its essentials, would merely put the clock back to the 1930's.

• ***Money and Inflation***, **A. A. Walters, Aims of Industry, 15p.**

# Local Authority Reaction to Whitstable Survey

**The Land Institute has recently held a number of private meetings with senior local government officers to test the reaction to the Institute's report on its site-value rating research project at Whitstable. Frank Othick, Secretary of the Institute, reported as follows in *Local Government Chronicle* May 31.**

THERE WAS fairly general agreement on the need to save local government through an effective finance structure, but there were differing viewpoints on the means of achieving it. A local income tax had limited support, but greater hope was placed on a general reform of income tax so that means-related benefits of all kinds, including rate rebates, could be abolished, leaving people in a position to pay the market price for services provided. A royal commission found favour as the time involved would, or could, be well spent if at the end of the day there was massive publicity for a report on a searching enquiry.

It was agreed that it was essential to strengthen local finance as one hope of local independence, or as much as central government would permit anyway. It was a myth to think of "wriggling out of central control", but this comment was followed by a plea that it was really a doctrine of despair and it was timely to look at site-value rating as a worthy candidate to help achieve reasonable financial freedom. Indeed, political pressure ought to be applied to ensure that it was properly considered. Another view was that local government was entitled to a share in total taxation as distinct from grants.

It soon became clear that the incidence factor could be decisive in any scheme to replace or supplement rating as we know it. Relief to selected groups of ratepayers was always achievable, and site-value rating might well provide the extra cash to make imaginative incidence changes possible. To spread the present load was essential in view of inflation and rising costs. To some, site-value rating as a supplement was the best bet, but any changes had to satisfy some very stringent political tests of acceptability.

There was general agreement that on its own the recent site-value exercise was insufficient because it was undertaken on too small a scale and in an insufficiently representative locality. But at least it had proved that it was a practical proposition, and more evidence might even indicate a possibility of replacing the present system. It had provided fresh evidence of tangible benefits, including, in some people's minds, a splendid way of complementing taxation with planning. The exercise had also provided fresh evidence of its comparative administrative and technical simplicity, although there were plenty of tricky questions.

It was suggested that the pace at which changes to a new system were made was crucial. A gradual changeover found favour once the merits of the system had been established.