# A DEFECTIVE ESTIMATE OF LAND RENT

An attempt to estimate the growth of urban land rents in England and Wales during the period 1845 to 1910 is contained in a paper by Mr H. W. Singer of Manchester University published in the 1941 volume of *Econometrica* (University of Chicago). Some of Mr Singer's results have been summarised by Mr Colin Clarke in his books *National Income and Outlay* and *The Conditions of Economic Progress*. The publicity thus given to these conclusions warrants some attention to them.

The basis of Mr Singer's computation is the valuation made at intervals of some years for the purposes of Schedule A of the Income Tax. These valuations are of the annual value of land and buildings taken together. Apart from the question of the accuracy of these valuations, which Mr Singer does not discuss, there is the problem of separating the figure into the two components of land rent and building rent. The general revaluations made periodically merely show how much the total rent has increased. In the intermediate years, however, additions are made on account of new building. Mr Singer assumes that the amount of new building in a revaluation year is equal to the average increase in the assessments in the adjacent years, and that on subtracting the figure of additions due to new building from the increase between one general valuation and another the remainder is the increase in value apart from new building. This remainder, which Mr Singer describes as the "unearned increment," is not necessarily increase in land rent. It may consist partly of increase (or decrease) in the rent of pre-existing buildings due to increase (or decrease) of building costs. He therefore increases or decreases the building rent at the previous valuation in proportion to the increase or decrease in building costs during the same period. By applying this correction to the "unearned increment" he obtains the increase in urban land rent.

In order that this method of calculation shall work at all it is necessary to make some assumption about the amount of land rent which was included in the composite annual value at the first valuation. Mr Singer assumes that in 1845 out of a total annual value of £36,576,000 only £3,000,000 was land rent. This is 8.2 per cent. His own calculation shows for 1851, six years later, a percentage of land rent of 20.8. There is no reason to suppose that the proportion was more than doubled in the short space of six years. We may, therefore, conclude that the initial figure is much too low.

The next point is that the increases of valuation in non-reassessment years are not solely due to new building. If the new building was placed on a vacant site, the value of that site would not have been in the valuation lists at all. When an entry is made because of the new building it includes the value of the site also. In assuming that increases in non-reassessment years are entirely due to new building Mr. Singer systematically underestimates the increase in land rent. The cumulative effect over a period of 65 years may be very serious.

There is another systematic error in the same direction of underestimation. Mr Singer assumes that if the valuation placed upon a property at two successive revaluations is the same and if the cost of building at each point of time is the same, there can have been no increase in the land rent. It is to be remembered that buildings are constantly wearing out and depreciating in value. If the assessment remains the same the presumption is that the depreciation in the value of the building has been masked by the increase in the value of the land. The neglect of this factor produces another cumulative error.

A further source of error lies in the assumption that rent of existing buildings varies according to the cost of erecting new buildings. This is a perfectly good assumption in the case of perishable consumable commodities such as bread. The price of these is not likely to vary much from cost of production. In the case of things with a long life, such as buildings, there is another influence, and that is the rate of interest on long term investments.

It is rather curious that Mr Singer quotes as an authority for his procedure N. G. Pierson's dictum: "The excess of the annual sum yielded in the shape of house rent over the annual interest yielded by the building capital constitutes the ground rent" (*Principles of Economics*, 3rd ed., Vol. I, p.135). In fact he attempts to evaluate the building capital but not the annual interest.

The result of Mr Singer's calculation is that urban land rents rose from £3,000,000 in 1845 to £49,231,000 in 1910. We have already indicated that the first figure is too small. The final figure is too small because the first is too small and also because of the systematic underestimation inherent in the method of calculation. The figures relate to the sites of non-agricultural buildings. Agricultural land is omitted and so are railways, mines and quarries, ironworks, canals and gasworks, for these were not assessed under Schedule A of the Income Tax but under Schedule D. Land belonging to the Crown is also omitted because it is not assessed at all.

The same property broadly speaking is assessed for local rates. The rateable value of all property in England and Wales in 1911-12 was £218,590,000, or excluding agricultural land was about £194,790,000. This would include the value of government property on which a contribution in lieu of rates was paid, and also the other excluded properties referred to above. The figure for the annual value of land and buildings which Mr Singer uses for the year 1910 is £196,196,000. This may be said to show a fair degree of correspondence between the income tax valuation and that for local rating. We know, however, that the valuations for local rating were in many cases far below the true values. There were cases in which parishes had not been revalued for thirty or forty years, and when they were revalued after such long neglect it was pretty certain that the new valuations were much below the true value. On this account also we may assume that Mr Singer's figures are the result of systematic undervaluation.

Argument by analogy must not be carried too far. It is, however, a remarkable fact that where trustworthy valuations of land and buildings have been made in other countries, the total land value has been found to approach 50 per cent of the composite value. Mr Singer's calculation results in a figure of 25 per cent for his final year, 1910.

Mr Singer says that his figure of £49 millions for 1910 represents a minimum figure for urban land rents. We doubt whether it represents even half of the true figure. Then to it there requires to be added the annual value of the many kinds of land excluded. In the result we cannot help feeling that this mode of calculation leads to a conclusion so wide of the mark as to be deceptive to those who are not fully familiar with the subject.

# THE BRITISH BUDGET

The Budget provides for an estimated expenditure in this financial year of £5,286 millions. Of this £4,400 millions is for the defence services. The revenue required to meet the expenditure is estimated at £2,627 millions which) includes a contribution of £225 millions by the Canadian Government), leaving £2,659 millions to be met from other sources, that is by borrowing.

It is estimated that existing taxation will yield £388 millions more this year than last year. Increases of taxation on beer, wine and spirits are estimated to yield £58 millions; increases in the taxation of tobacco £90 millions; and increase in the entertainments tax £12,000,000. The rate of purchase tax on a number of articles described as luxuries will produce £10 millions more, but the reduction of purchase tax on "utility clothing" is expected to counterbalance this. Thus a total of £160 millions of new taxation is to be raised entirely by indirect taxation.

This is the first occasion in recent times upon which a large increase of taxation is provided entirely by commodity taxation. It is the worst feature of the budget. It is defended upon the ground that it will discourage consumption and free resources for the war effort. Any form of taxation which took £160 millions out of the pockets of the people would have the same result. But no form of taxation would have spread the burden so unfairly as taxes levied upon commodities.

The White Paper on Sources of War Finance issued in connection with the Financial Statement estimates that in 1941 Government expenditure on goods and services amounted to £4,182 millions while personal expenditure on consumption was £3,863 millions. Thus Government expenditure was 52 per cent of the total. The White Paper also estimates the national income in 1941 at £6,338 millions and tax liabilities at £2,557 millions or 40 per cent. of national income. These figures give some indication of the immense burden of the war.

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