antagonistic groups, so that it has become natural enough for A, conscious of his own burden, to look to B and to suggest that he is better able to bear the cost of public services. That attitude is noticeable each spring when the various interests attempt to bring pressure to bear upon the Chancellor in the hope that he may be able to afford them some relief, and it has been considerably magnified by the recent re-valuation for rating. This suits well those who appropriate the value of our Motherland but it stands in the way of a just solution of economic and social problems being adopted. Taxpayers and ratepayers must cease their profitless game of beggar-my-neighbour. They must realise that every man and woman has an absolute moral right to receive the full value of his or her effort, mental or physical, and that the way to benefit themselves is by working to secure equal economic freedom for all. P. R. S.

A Reader Considers . . .

The Sad Case of a Leaseholder

A correspondent puts to us the following case, which he says is "typical," and he gives us a "mathematical calculation" wondering how it impinges upon the theory and policy of the taxation of land values:

"A freeholder leases land for 99 years on the terms of £10 a year ground rent and the cession, at the expiry of the lease, of the house which the leaseholder builds (value £3,000). For the use of the land and for nothing else, the freeholder is enriched and the leaseholder impoverished at the end of the lease by the annual ground rent, plus £3,000. The annual ground rent is therefore £10 cash plus 1/99th of £3,000, say £30. This can be proved by the fact that if the leaseholder sells his lease after 50 years, for example, it will realise only about £1,500. I regard this as incontrovertible! If I were a government valuer I should say the land is worth £10 a year plus £30, equals £40 a year in the open market and that is what the leaseholder is paying, and is what the freeholder is getting and will be taxed upon. I should add that the house does not "revert" or "return" to the landlord because he had no house before; it is a new acquisition in return for the use of the land over 99 years."

OUR REPLY

For the sake of our correspondent's mathematics we have to imagine that the purchasing power of money remains the same throughout the period, and that the house has the same value, namely £3,000, on the 99th year as on the first year of the lease. The leaseholder, having spent the £3,000 on the building of the house, has (under contract of lease) the use of the house over the whole period; and at the end of the lease he has to surrender that £3,000 value to the landlord as final payment for the use of the land *in addition to* the annual ground rent, fixed from the beginning at £10 a year.

Our correspondent overlooks entirely the present value of a payment that is to be made in the future. He would reduce the £3,000 capital value payable *hence* to an annual value payable *now* and there his "mathematics" are unsoundly based. The case is the same as if the leaseholder borrowed the £3,000 say at 5 per cent interest (£150) and had to repay after 99 years. What sum as a prudent man would he set aside annually in order to make this repayment? Actuarial tables show that at this rate of compound interest, a sinking fund of £1 4s. per annum will in 99 years amount to £3,000. Implicit, therefore, in the transaction is that the annual amount the leaseholder is paying for the use of the land is £10 plus the £1 4s.; that is, £11 4s.

Again our correspondent is mistaken in saying that if the lease were sold after 50 years it would realise only about £1,500. He omits interest from his sinking fund calculations. Given (as we have already had to imagine) that the house maintains and will maintain its value at £3,000 and therefore its rental value at £150 per annum, and adding the said sinking fund of £1 4s. per annum, the person who buys the lease after it has run for 50 years is buying the equivalent of an annuity of £151 4s. for 49 years. At 5 per cent compound interest, the value of such annuity is £2,750 and that is the figure at which the lease should sell.

Turning the Wheel Full Circle

Interesting as these calculations may be, with regard to the case as stated, our correspondent would deserve discharge from his job as valuer if he made the kind of valuation he suggests. In the valuing of land for taxation purposes, the valuer is required to ignore the existence of any buildings or improvements upon the particular site being valued. He would assess the annual land value; that is to say the annual rent which, at the date of valuation, and in the open market, a willing lessor is prepared to pay upon a perpetually renewable tenure. If our self-appointed valuer had his way, he would have to take into account the value of the building standing on each different site; and behold, there are say three sites each of the same value and with leasehold houses thereon that have to be surrendered on expiry of the lease—one worth £3,000, another worth £2,000 and the third worth £5,000. Apparently our correspondent would put a different assessment upon these different sites simply *because* of the different buildings standing thereon, which would bring us back to the present state of affairs with taxation imposed in the measure of development undertaken. One is curious to know how our correspondent would deal with owner-occupied freehold property where there is no case of surrender to a ground landlord, and also with vacant sites where there is no building at all?

What the community is concerned with is the actual land value as periodically assessed. The rent payable by one party to another is a matter of private contract bearing no necessary relation to the true land value. Over and over again it is seen how land values rise during the term of leases, so that while the leaseholder continues to pay his contracted fixed ground rent, he enters into enjoyment of a part—it may be a very large part—of the economic rent of the land. The leaseholder has then become part-owner of the land-value. Such may very well be the position of the "typical leaseholder" who has our correspondent's sympathy.

The conclusion is that in the application of land-value taxation, liability for the payment would be borne by those who enjoy the land value, and so in proportion to their prospective shares therein. A. W. M.