



Habian Tract, No. 30.

The Fabian Municipal Program No. 1.

THE "UNEARNED INCREMENT."

What is Meant by It.

THE "Unearned Increment" from land is the amount added to its selling value by the mere increase of the community in population and productive power. Thus John Stuart Mill said:

"The ordinary progress of a society which increases in wealth, is at all times tending to augment the incomes of landlords; to give them both a greater amount and a greater proportion of the wealth of the community, independently of any trouble or outlay incurred by themselves. They grow richer, as it were, in their sleep, without working, risking or economizing. What claim have they on the general principle of social justice, to this accession of riches?"—*Principles of Political Economy*. Book v. Chap. ii. § 5 (p. 492 of 1865 Edition).

And Professor Thorold Rogers added:

"Every permanent improvement of the soil, every railway and road, every bettering of the general condition of society, every facility given for production, every stimulus supplied to consumption, raises rent. The landowner sleeps, but thrives. He alone, among all the recipients in the distribution of products, owes everything to the labour of others, contributes nothing of his own. He inherits part of the fruits of present industry, and has appropriated the lion's share of accumulated intelligence."—*Political Economy*. Ch. xii.

How to Calculate It.

We must distinguish between the value added to land merely by the increase in population, and that due to artificial improvements. The latter, in a sense, is not "unearned" increment, from the point of view of the community, because it is caused directly by the labour of those who have worked on the land. But even this may be really "unearned" as regards the landlord, if he has himself contributed no labor in return.

The annual rental of the metropolitan area at the revaluation in 1891 was nearly £40,000,000, representing a saleable value, if only 15 years' purchase be taken, of £600,000,000. In 1870 the annual rental was about £22,000,000, equal to a saleable value of £330,000,000. The total increment during those 21 years was, therefore, nearly eighteen millions a year rent, representing a growth in saleable value of no less than £270,000,000. A large part of this increased value was, however, caused by expenditure on new buildings. The suburban districts have been filling up; and the central districts have been extensively rebuilt. Fortunately the annual revision of the valuation list enables us to distinguish between new buildings (together with any structural alterations to old ones) and the rise in rent of unaltered land and buildings. We are thus able to ascertain separately, from official figures, the annual growth from this cause in all years except those of the quinquennial revaluation. As those periods have no influence on the building trades, it is fair to assume that the average of the other years applies also to them; and thus

we have the total growth in rental caused by building operations very accurately ascertained. Errors of valuation no doubt occur; but these may be assumed to balance each other; and no one can pretend that London is, on the whole, even now over-assessed. Any additional growth must have been due to intensified demand for existing buildings, caused by increasing population, by the advance of London as an industrial centre, and by the helpless condition of the London poor. All landlords do not benefit equally, and the increase is, moreover, divided between freeholders, copyholders, leaseholders, tenants in "beneficial occupation" and other varieties of the landlord class; but from the point of view of the community at large this annual net increase is a real "unearned increment." How much it amounts to, the table given below, compiled from official figures, will shew.

Table showing the gross valuation of the Metropolis from 1870 to 1891, with the increase each year, distinguishing between that caused by new buildings and that due to rise in value. Compiled from Local Government Board for 1891, c—6460, and County Council Report.

On 6th April.	Gross Valuation.	Total Increase. (Annual Rental.)	Increase due to new buildings (annual rental).	"Unearned increment" of annual rental.
	£	£	£	£
1870	22,142,706	....	....	....
1871	24,103,083	1,960,377	* 501,817	1,458,560
1872	24,388,000	284,917	284,917	....
1873	24,756,711	368,711	368,711	....
1874	25,148,033	391,322	391,322	....
1875	25,574,366	420,333	420,333	....
1876	27,002,649	2,028,283	* 501,817	1,526,466
1877	28,464,833	862,184	862,184	....
1878	29,027,795	562,962	562,962	....
1879	29,682,269	654,474	654,474	....
1880	30,421,071	738,802	738,802	....
1881	33,384,851	2,963,780	* 501,817	2,461,963
1882	33,855,917	471,066	471,066	....
1883	34,470,725	614,808	614,808	....
1884	35,100,704	620,979	620,979	....
1885	35,689,244	588,540	588,540	....
1886	37,027,516	1,338,282	* 501,817	836,465
1887	37,361,895	334,379	334,379	....
1888	37,730,300	365,405	365,405	....
1889	38,028,506	298,206	298,206	....
1890	38,462,493	433,987	433,987	....
1891	39,835,700	1,373,207	* 501,817	871,390
Total		£17,693,004	£10,538,160	£7,154,844
	Increase of 16 ordinary years	8,029,075		
	Increase of 5 quinquennial periods .	9,663,929		
		£17,693,004		

Land.

* Estimated at average of the 16 ordinary years.

What it Amounts to.

The total "unearned increment" during this period is thus seen to have been £7,154,844 in annual rental, representing a saleable value of over

ONE HUNDRED AND TEN MILLIONS STERLING.

It amounts to over one-sixth of the total saleable value of London. This is what we have deliberately allowed the London landlords to receive, over and above their former annual tribute, during the short space of 25 years. This is the princely gift of the London worker to the London landlord. And it still goes on. Although now less than before in the centre of London, it is larger than ever in the suburbs.

What We Might Have Done With It.

Let us see what we might have done with it if we had listened to the political economists, who warned us that it would happen. If the existing land tax of four shillings in the pound had, in 1870, been levied on the landlord at the current valuation (instead of upon that of 1692) it would hardly have deprived him of any of his then income; his total payments would have been only slightly in excess of the unearned increase brought to him by London's growth. During the last 25 years about £110,000,000 has been levied in London by rates. If the landlord had been compelled to pay every farthing of these rates (in addition to anything he may now indirectly bear) he would be as well off now as he was 25 years ago.

What We Might Now Do With It.

The average rise of London valuation (on unimproved buildings) is seen to have been about one per cent. on the average valuation. Even allowing for increased accuracy in assessment, this annual rise in rent represents an annual addition to the saleable value of the property of about £4,000,000. This is our annual "New Year's Gift" (in addition to the £40,000,000 annual tribute of rent) to those who do us the favour to own London. The total rates levied annually amount now to over £7,500,000, and must inevitably increase with the growth of social compunction, and the extension of corporate activity. Would it be anything but bare justice to absorb, in order to meet this deficit, the whole of the £4,000,000 annually added to the value of London? If, to begin with, the rates were divided between owner and tenant, the resulting landlord's rate of half-a-crown in the pound on the "rateable value" would realise about this amount. It should be deductible from the rent in the manner in which the "property tax" (Income Tax, Schedule A) is now deducted, "any agreement to the contrary notwithstanding."

The "Unearned Increment."

London's Ground Rent.

One suggestion may be added. If the £17,693,000 total increase in London's rental value during 25 years of enormous building operations is divided so that £10,538,160 is due to them and £7,154,844 to "unearned increment," we may hypothetically infer that a similar proportion holds good of the total rental value. In that case, out of the annual rental of £40,000,000, we may estimate that £24,000,000 is for buildings, and some

£16,000,000 FOR GROUND RENT ONLY.

This amount, which comes to about eight shillings per week per family, is what we pay for permission to use the low hills and marshes by the Thames on which London is built. How much were these worth before London grew there?

A "Municipal Death Duty" of only ten per cent. upon the value of the real estate in London, whenever transferred by death, would yield *three millions* a year; more than enough to pay all the expenses of the London School Board and County Council put together without the need of any rates at all for these authorities.

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