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# The Economics of Real Property by Ralph Turvel

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terms. That they were Blackstonians does not mean that we cannot be Brandeisians.”

Dean Levy cannot complain, therefore, if the following prediction proves to be correct. Future civil libertarians will continue to quote Holmes and Chafee and then, to demonstrate their objectivity and their mastery of the materials, will add a footnote.<sup>3</sup>

*William P. Murphy\**

THE ECONOMICS OF REAL PROPERTY. By Ralph Turvel. Allan & Unwin, Ltd., London, 1957. 148 pp.

One of the secrets of the superiority of our modern standard of living over that of past centuries is the increased division of labor—the use of specialists. This applies to all types of production and at all levels of functional operation in society. Thus, for example, there is a division of labor between the decision-makers in government and business (usually called executives, administrators, planners, co-ordinators, commissioners, etc.) and those who provide the information as to “what, when, why and how” (usually called scientists—physical and social). The decision-maker operates with a general sense of the situation, a knowledge of alternative actions available, and an idea of goals, aims and purposes. He depends upon scientists to constantly clarify the situation and to provide information and reasoning. He must balance and coordinate the various scientific opinions relevant to the specific problem, relate the result to his values and to other relevant considerations, and make his decisions. The decision-maker and the scientist both need each other—whether this relationship is consciously formalized by organization or not. An effectively functioning society requires that they be able to work together. Thus, it requires that they overcome the barriers to communication set up by specialization and professionalization.

Mr. Turvey, who is a reader in economics at the University of London and one of the ablest young British economists of our day, has written this book on the economics of real property in order to aid the “people concerned with real estate problems, such as valuers and town planners” (p. vii). While the author would not argue that economics is the only study worth considering when dealing with such problems, he justifiably feels that many recent “expert commission” reports apparently ignore what economics may contribute

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<sup>3</sup> *But see* Levy, *Legacy of Suppression* (1960).

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to solving their problems. The tendency for this problem area to be somewhat shunned by modern economists also makes this book largely theoretical and introductory (since definitive empirical research is lacking in many areas) and the author appeals for further work by economists.

The really interesting question about any economics book meant to assist policy and decision-makers is more whether it communicates (*i.e.*, is palatable and blendable with the training of most decision-makers) and less whether it is to be taken seriously as a technical work. The reviewer has already, in a sense, prejudged the latter since, if the book were not technically competent, he has wasted this journal's space, his efforts, and the reader's time. One of the ways of testing the readability of this book might be to use the proverbial taste-testing panel—*i.e.*, a group of lawyers chosen at random—and report on its reactions. This would be costly in time and money (and give inconclusive or contradictory results) and would be regarded by many as a violation of the constitutional provision concerning cruel punishment. Instead, the reviewer proposes to summarize a large part of the argument presented in the book in order to demonstrate that (like many other studies) it largely fails in its task of communication.

Turvey's main purpose, to which the second half of the book is devoted, is to present a significant economic analysis of three important problem areas in real property: taxation, freedom of contract (*i.e.*, the case for government interference with market decisions), and compensation (or special assessment in cases of betterment) for compulsory acquisition of private property by governmental authority. These analyses are meant to rest on the theoretical structure which is built up in the first half of the book. This theoretical structure is concerned with the economics of the markets for real property of various types and the determination of prices (*i.e.*, rents and property values). The analysis employed is called comparative statistics by economists. That is, it is concerned with the change from one equilibrium situation (prices and values stable and determined in a way that satisfies the given demand and supply factors and market conditions) to another (with slightly changed supply and demand factors). The equilibria dealt with are largely partial equilibria (except in the chapter on taxation); *i.e.*, they ignore effects from and to other related markets in the economy. This type of economic analysis enjoys the benefits of simplicity, but it would take someone with *more* than just a passing grade in the usual elementary economic course (the sort of person Turvey says he is addressing) to apply such analysis to the real problem in society.

Turvey attempts to develop a supply and demand analysis of the determination of urban property values (based on the concepts of the ceiling price of the buyers and the floor price of sellers). This reduces basically to a calculation of the present value of the expected system of net returns (taking into account various costs). Rather than saying that prospective buyers engage in capitalizing the expected net returns at a rate of interest (which reflects the condition of the money market and the attitudes toward holding various real properties as available investments) and then comparing this capital value to building and site costs, Turvey builds a clever little diagram that (assuming returns and costs are known) shows that the amount spent on building varies inversely to the interest rate. The reviewer, at this point, must object to the introduction of any diagrammatics (however clever) in any economics policy book especially meant for the laity. This is sure to alienate the reader and encourages the writer to be less explicit and careful in his text. After a short discussion of complicating factors affecting the ceiling price, Turvey concludes that properties for which there is a large market have fairly determinate prices—though sales may take a long time (*i.e.* one may have to wait to obtain what one wants at the price one has in mind). The reviewer would suggest that “time” here is a reflection of an imperfection in the market and that “long run” prices are less determinate than shorter-run prices. Turvey attempts to prove that one cannot easily separate site value and building value, or at least cannot derive site value from the total value of the property, since replacement cost of an existing building is a fictitious price. This, however, does not prove that the concept of site value, separate from value of the building, is meaningless or that there are no other economically rational ways of arriving at such a valuation. Turvey apparently does not see and does not tie in with his analysis the peculiarly important influence of history on land and site values. The real distinction between real property markets and most other markets dealt with by economics is the former’s specificity and tie to history.

In Chapter 3 Turvey engages in an analysis of rents, the various factors determining them and their influence on the (long run) allocation of real property among different uses. A concluding section deals with rent control—a topic generally well calculated to make economics appear most ludicrous if it is not supported by other social sciences and individual and social value considerations. Though his analysis and explanation is somewhat stingy, Turvey points out that rent control has certain economic effects: the use of controlled dwellings is misallocated and labor mobility is reduced, controlled

private-owned housing is kept in poor repair, there is a tendency to owner-occupation and furnished leasing, the income distribution is probably shifted in favor of tenants at the expense of landlords, and new building may be discouraged (even if uncontrolled). The reviewer feels that this last effect is unlikely, since building costs are kept down by repair neglect on controlled buildings and rents of uncontrolled properties are kept up.

Turning to the policy chapters, we find the two on taxation interesting and rather well done. The expenditure side of taxes, however, is considered in a somewhat sterile fashion; *i.e.*, the analysis deals with the imposition of a tax on rents paid by tenants, replacing some other (*e.g.* income) tax. The reviewer does not see why the author feels he has advanced the progress in the area by eschewing the language (and techniques) of shifting and incidence; he has dealt with the subject implicitly, and it is not made any clearer or easier for the reader. The substitution of a tax on site value (now assuming the valuation of site is possible) for the present real property tax is analyzed in chapter 7, as stimulus to building and a way of raising the site values of most properties. This is a good demonstration of the limits and uses of economic analysis.

The chapter on freedom of contract attempts to find the economic case for government interference in the market based only on the allocation criterion, *i.e.*, the degree to which economic efficiency is achieved in the use of resources. The distributional aspects (*i.e.*, questions of the fairness or equity of current income distribution or tax burdens) are purposely left out. This largely, as the author admits, vitiates the use of this chapter for policy.

The large final chapter, dealing with compensation for compulsorily acquired property and with betterment charges levied on property owners who have gained as a result of government action, is a quick history of the (sometimes amusing) English experiences in modernizing London and of recent efforts to nationalize the increase in land values due to development. It provides interesting background (vicarious experience) material for a policy maker, but is quite inconclusive.

It must appear to many an author that his reviewer has engaged in a brutal hatchet murder of his brain-child in order to find some bones to pick. Yet, it is the reviewer's duty to keep the consumer informed and alerted and to be one of the factors encouraging the production of books that do what they promise to do. Turvey has written an interesting and useful book, but not one that will be of much help to most policy makers in the area of real property (with-

out much expansion and translation). He has failed in this because of the apparent reluctance to apply to paper the type of remastication most teachers perform daily in the classroom for the tender digestive tracts of their students. One must equally guard against jumping to the opposite extreme and insisting that prospective policy-makers must know more technical economics. Obviously, they should know more of everything. However, the realities of the division of labor and specialization require not more Leonardos, but more communication and cooperation. The atomic age would have been impossible without the coordinated effort of many different specialists. Perhaps the physical scientists have the advantage of a common language of communication (mathematics). Perhaps great advances in the social sciences await such a development. However, it does seem possible that a little more effort and care would make the mother tongue more productive.

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