Comments on Nanpantan Proposals

The purpose of this note is to briefly outline four proposals for land rent capture and financial transformation, as discussed at the Nanpantan workshop in July. There are four proposals roughly covering the same ground, considered on the first three pages, and three further ideas on the last two.

# Hugh’s Proposals: State Mortgage; State Land Purchase

## Definition

Hugh's first scheme is a government bank issued mortgage. It would be funded out of broad money; that is a government owned commercial bank would be created, willing and able to create broad money. When an individual borrows money in the new system, they would borrow both from a normal commercial bank for the element paying for the cost of the house, and from the government bank, covering the cost of the mortgage.

Hugh's second scheme is the purchase of the land by a government owned institution. In this case, the government owned bank would finance the deposit on the mortgage, and in return would receive the long term rental streams after the mortgage on the property were paid off.

## Aims and Claims

1. Public capture of secondary claims on land rent
2. Neutralise land rent as a source of inequality (how?)
3. Move towards a more just distribution of wealth
4. Remediate disruptiveness of 100% LVT
5. No change in the money supply
6. Easy to understand scheme; don’t let the perfect be the enemy of the good

## Comments

1. I like the clarity of the two ideas: government mortgages and land sale. They are both easy to explain and understand.
2. It's useful to have a financial model, explaining payments to be made.
3. The scheme would be funded out of broad money creation (i.e. equivalent to a commercial bank), not narrow money creation. The justification here seems to make it as easy as possible to understand, by not confusing two complex reforms at the same time.
4. There's little localism to the core proposals. A non-local scheme has the disadvantage of providing little incentive for local people to improve their area; in fact it might encourage anti-gentrification movements.
5. There's a focus on the profit from mortgage lending, and getting social hands on the rent. This in some ways is similar to the justification for building societies. How does option 1 differ fundamentally from a building society? What about simply returning to building societies?
6. How would the new bank be capitalised?

# Duncan’s Proposal: People's Land Trust (Mandatory)

## Definition

Duncan's scheme is for a ‘People’s Land Trust’ (PLT) which would purchase land underlying a building at the point of transaction. It would be mandatory, so that every time there was a change in ownership of a building in the UK, the PLT would buy the underlying land. After the transaction the new owner of the building would pay a ‘land use charge’ (LUC) to the PLT indefinitely. The net profits from the scheme would be either invested in infrastructure or granted to citizens as a dividend. In one version of the scheme, both initial payment and the on going charge would be payable in an alternative currency.

## Aims and Claims

1. See land rents distributed more evenly
2. Reduce costs of housing (how?)
3. Reduce distortions in the allocation of capital (how?)

## Comments

1. The PLT will purchase land at a 'fair price' on sale. It's not stated how a 'fair price' would be determined.
2. If the intervention of the PLT is mandatory, would this discourage transactions? Or possibly encourage some form of financial innovation involving leases.
3. There is a claim that land ‘does not obey the usual laws of supply and demand’ Perhaps a better way to say this is that it *does* obey supply and demand, it's just that, unlike most other goods, supply is fixed.
4. There is little analysis of how the alternative currency proposal would work. It probably needs a separate paper or appendix to explain it. It's interesting, but too vague at the moment.
5. It’s claimed that increases in land values were taxed (is this to do with ‘betterment charges’): perhaps this claim could be more precise.
6. Which land tax was abolished in 1967? Is this schedule A taxation of imputed rents? Again perhaps this claim should be more precise.
7. How would the new bank be capitalised?

# Beth's Proposal: People's Land Trust (Voluntary)

## Definition

Like Duncan’s proposal. Beth's proposal for a Voluntary People’s Land Trust (VPLT) is also applicable at the point of sale of property. However, the main difference with Duncan's scheme is that Beth's scheme is voluntary, that is the PLT does not mandate that the underlying land should be sold when a building changes hands. The long term profits to the scheme be remitted as a per-capita dividend to those members in the scheme, perhaps with a delay.

## Aims and Claims

* The main purpose of the plan is to prevent the issues associated with other policies (e.g. Land Value Tax) to reduce the price of land.
* Such issues may include too-rapid falls in the price of land, and excessive taxation on land that is already encumbered with a mortgage.

## Comments

* I am worried about adverse selection. In particular, you could have people joining the scheme with only a very small piece of land. It's likely that these effects would dominate.

# Stephen's First Proposal: Location Value Covenants

## Definition

A public bank would buy and lease back land. The scheme would be used to refinance existing mortgages as ‘deals’ run out. The scheme relies on a valuation process for both the land rent and the capital value of land; this valuation process would be shared with Land Value Tax (LVT), but could be based on ‘big data’.

Assume for a moment that the LVC would be equal to the initial capital value of land. The rate of ‘interest/rent’ paid on the land would be set initially to be equal to the average lending rate on the mortgage it has displaced and over ten years would transition to the rental value of land. Lending by banks would be discouraged (perhaps by making the bank liable for LVT).

The lending would be done by a local social bank with Bank of England support. It would be capitalised by central government. The profit would be invested in marketable securities and the dividends paid out to local people.

## Aims and Claims

1. To reduce the financial system’s addiction to secondary claims on land rent and to repurpose it towards business investment
2. In so doing, to capture more land rent for public purposes
3. To allow local institutions the capability to improve.

# Bill’s Proposal: Diminishing Partnership Scheme

## Definition

An investor would purchase a property and rent it back to the new occupier. Over time, the occupier would over time purchase the property from the investor, paying rent on the portion still owned by the investor. Such a scheme could also provide affordable housing and there could also be a community cooperative managing the housing.

## Aims and Claims

* The main purpose is to improve housing affordability and move from debt-based housing finance to equity based finance.

## Comments

* The presentation of the scheme could be simplified, by keeping the basic idea very simple (for example, not including the housing cooperative initially, as it is non-core to the main idea).

# Stephen's Second Proposal: Norm-based LVT

## Definition

Norm-based taxation is a proposal for the replacement for Council tax and uniform business rates in England. It is intended to capture as much as possible of the incremental \*change\* in land rent for public purposes, whilst retaining, in the first instance, the cu.

The current council tax is rather arbitrary, based as it is on out-of-date valuations (1991 in England and Scotland). The tax paid goes up less than proportionally even the out-of-date valuations. And of course, being

Norm based LVT suggests two forms of reform: first keep the current levels of LVT and tax incremental increases in rent at 100 per cent of the change in land rent.

Such a scheme is entirely consistent with proposals to make council tax fairer. So for example if council tax were replaced by a uniform property tax (as proposed by the Mirrlees Review) or a Land Value Tax this would be based on the existing values, but with the *change* in land rents taxed 100 per cent. So, if land rents on a property go up by £50 per year, then the council tax would be increased on the property by £50 per year.

## Aims and Claims

1. Capture 100% of the increase in land rent without changing individuals tax bills too much
2. Thereby de-politicise revaluation and provide incentives for community improvements

## Comments

The idea of municipal deductibility was floated: if a community association, municipal authority or central government increases the rent, then they should receive compensation for that. There was also an attempt to grapple with allocation of increases in land rent between local authority and central government. Such ideas are consistent with valuation procedures that use big data to assess the causal basis for land rent increases (or decreases).

# Bill's Second Proposal: Land Value Tax with Freehold Reform

## Definition

In Bill's LVT with freehold reform proposal, freehold would be replaced by 20 year leases, renewable every year conditional on payment of land value tax. So there would be 20 years on the lease at the start of year one, and then if the correct land value tax payment were made, then there would still be 20 years on the lease at the start of year 2.

If the LVT were *not* paid, the lease would not be renewed. Individuals would be free to choose to not pay the renewal fee, and if they did, after 20 years they would lose the land under their property entirely and full ownership would revert to the state.

## Aims and Claims

* Not especially clear; here I am reading in to the proposals
* Move away from freehold to leasehold arrangements
* Allow people to default on LVT and thereby lose the perpetual lease

## Comments

* The presentation of the scheme could be simplified and the aims made more clear.

# Other Comments

* Tideman suggests that in the event of a Land Value Tax being introduced, banks should pay that portion of the Land Value Tax that is covered by the mortgage.
* It should be noted that the schemes are sort of equivalent to shared ownership schemes. We already have a part ownership scheme, where the occupier has a share but also pays rent to the developers, who also retain a share. Perhaps we should market this idea as ‘community shared ownership’.