

## Community Land Auctions – talk by Dr Tim Leunig 11<sup>th</sup> April 2012

“Auctions are good at capturing value” was the opening claim by Dr Tim Leunig, presenting his idea of Community Land Auctions (CLAs) to a meeting of the PLRG last week in Westminster. Participants in the discussion which followed, taking place in the very room where Labour and the Liberal Democrats held their brief negotiations on possible coalition government in May 2012, were again mainly from these two parties. Leunig himself, son of a cleaning lady (he admitted), is a lecturer in economic history at LSE and also Chief Economist of thinktank CentreForum and member of Kingston Lib Dems.

Offering society three ways of managing the demand for living space in a crowded advanced industrial nation, Leunig asserted that CLAs would work exceptionally well for most people in those parts of the UK where ‘NIMBYs’ are evident: the pressurised south east of England – and of Scotland. Past decades have, he said, shown “The Stick” – dictating housing numbers to local councils – has patently not worked and is hated all-round. A pure “Free Market” (without planning) would be equally unacceptable and unsustainable, although it would ease the housing shortage somewhat in some areas. The land market doesn’t work like the market for widgets or cauliflowers!

CLAs operate within the current planning system but ensure that the vast amount of the huge unearned increase in land values which at present goes to landowners and land-banking developers would go instead to local councils, helping to keep their taxes low and their services of a high standard. Their operation is described in Leunig’s book, a copy of which was given to every attendee.

Some scepticism was expressed that CLAs would suffer the same fate as Labour’s several post-WWII attempts to capture land value uplift ‘one-off’: either owners would decline to offer their sites or developers would decline to bid – waiting for a future government to repeal the legislation. The difference, according to Leunig, is that all owners and developers would have to collude, which is very unlikely when those who do offer or bid all stand to gain substantially by others not doing so. However he accepted that developers with large land-banks might be tempted not to bid, unless there were local ‘new-entry’ developers to content with.

CLAs would also be compatible with Land Value Taxation (LVT) because until LVT is at a high level there is no way that the huge one-off uplift in value would be captured, other than through CLA. Unlike a CLA, LVT captures the ‘spillover’ of value from investment in schools, transport etc., which benefits owners of sites that are not themselves being developed – which is where CLAs do capture value. LVT captures rental value – every year, not just at the time the development occurs.

Leunig said that the current system leads to ‘skill selective migration’: people with skills that are in demand but who live in the ‘wrong’ place (usually where there are no jobs for them) move to find work, leaving poor areas with mainly poor, unskilled people and retirees. That has led to Britain being demographically unbalanced, as well as being a nation of two economies.

The other winners from CLAs would be

- Aspiring home-owners (mainly those in the South) who are having to rent (and driving up rents for the really poor – who would also benefit);
- families in the North wishing to move South (prices would fall there);
- new entrants to the housing development industry.

The losers would be people who already own homes in the South, especially those ready to down-size; and big developers with land banks.

According to Leunig, the Conservatives in Government are deeply split over the policy, which Lib Dems took some time to get behind when he first suggested it. It respects property rights and is not another ‘tax’ but a classic market tool. George Osborne is in favour (as is the right-of-centre Policy Exchange think-tank) but Eric Pickles – whose department is responsible for its implementation - is said to regard it as like Communism! Consequently it is being piloted in such a way as to fail: only three areas, all with a weak housing market, are being allowed to try it out – and only with publicly owned land.

Nevertheless Leunig thinks that there may be nothing to stop Councils taking the initiative themselves, because under the Localism Act “financial gain” to a Council is a “material consideration” in planning decisions. Therefore any Council that felt its taxpayers would benefit from CLAs could decide to incorporate them in their Local Development Framework. It would be up to Government itself – or disaffected major developers – to challenge this in the courts.

There was some discussion about the price elasticity of the housing market, in the event that supply of new homes rapidly increased as a result of CLA. Leunig stated that it is generally accepted that a 1% increase in supply leads to a 2% fall in price of all houses sold.

There was general approval for the idea from those who heard Leunig, although most wanted to find out more. Names of several senior Labour Party figures who support it were exchanged: a one-time Labour Land Campaign activist (Alan Spence) had been calling for auctions of planning permission 30 years ago.

As for whether the current Coalition Government proposals will help take the idea forward, it may depend on how Councils respond to Localism. A call for evaluation of the pilots has been announced, which might be something that PLRG members are interested in answering.

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