Did Jae-myung Lee's land dividend election campaign fail?

- Land dividend as a means to overcome the rent-seeking mental model

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1. Introduction

In the presidential election held in 2022, candidate Jae-myung Lee presented a basic income pledge that included a land dividend funded by land holding tax and a carbon dividend funded by carbon tax (Jong-sung Yoo, 2022). Taxation was a taboo in Korean politics, this time he broke that taboo.

However, he did not put land or carbon dividends at the forefront of the presidential debate. It was because of the strategic judgment that if tax became a main issue, it would be unfavorable to the election.

As a result of the election, he was defeated by a margin of 0.7%.

The purpose of this paper is to analyze the mental model of the rent-seeking economy using the system dynamics methodology and to confirm that the land dividend policy has the potential to reform the rent-seeking economy by overcoming the rent-seeking mental model.

2. Mental Model in Systems Thinking

System dynamics, or systems thinking, is a methodology developed by Forrester (1968) et al. It analyzes a system in terms of a feedback loop.

Meadows' *The Limits to Growth* (Meadows, 1972, 2004).

Systems thinking methodology involves the analysis of mental models. The mental model was first proposed by the psychologist Craik (1943) and is a branch of cognitive science. It asserts that human reasoning is not based on logic, but on mental models created by one's own perceptions, imaginations, and theories.

Peter Senge (1990) applied mental models to business problems. He defined mental models as "deeply ingrained assumptions, generalizations, or even pictures or images that influence how we understand the world and how we take action". Using mental models Senge (1990, 2006) explained why the best business ideas can fail, and why mental models are so powerful in affecting what we do.

3. Analysis of rent-seeking mental models

1) The rise in real estate prices was a global phenomenon, low interest rates
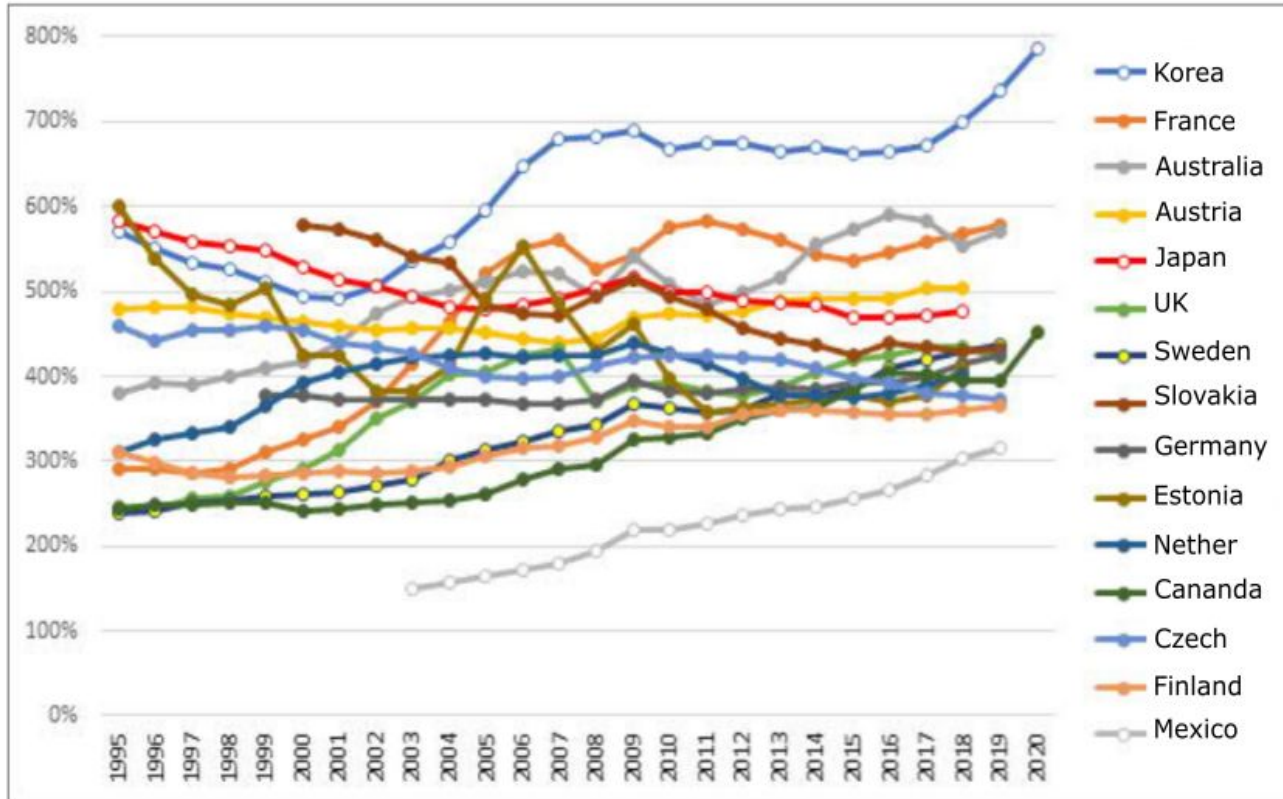
The ratio of Real estate value to GDP.
Korea 800%.
We have to explain why Korea is the highest.
This is because the real estate holding tax rate is the lowest.
The effective tax rate on real estate holding

1.38% US(housing),
0.85% UK,
0.34% Australia,
0.17% Korea.

2) Increasing the supply of real estate through the construction of new cities will stabilize real estate prices

The real estate market imagined by those who advocate for supply expansion
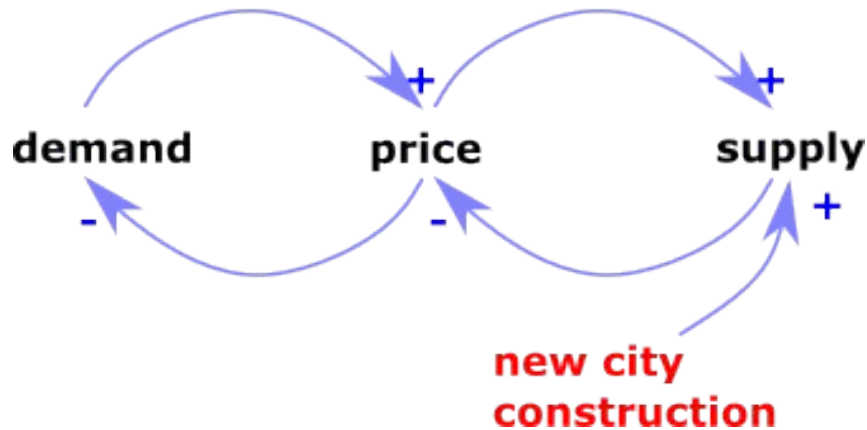
Causal Loop Diagram
A + sign means both variables move in the same direction, and a - sign means they move in the opposite direction.
If changes in variables are amplified in the same direction while circulating the loop, it is called a positive feedback loop (reinforcing feedback loop)
If it is stabilized in the opposite direction, it is called a negative feedback loop (balancing feedback loop).

demand — price — supply
new city construction

<Figure 3> Real estate market reflecting the characteristics of real estate
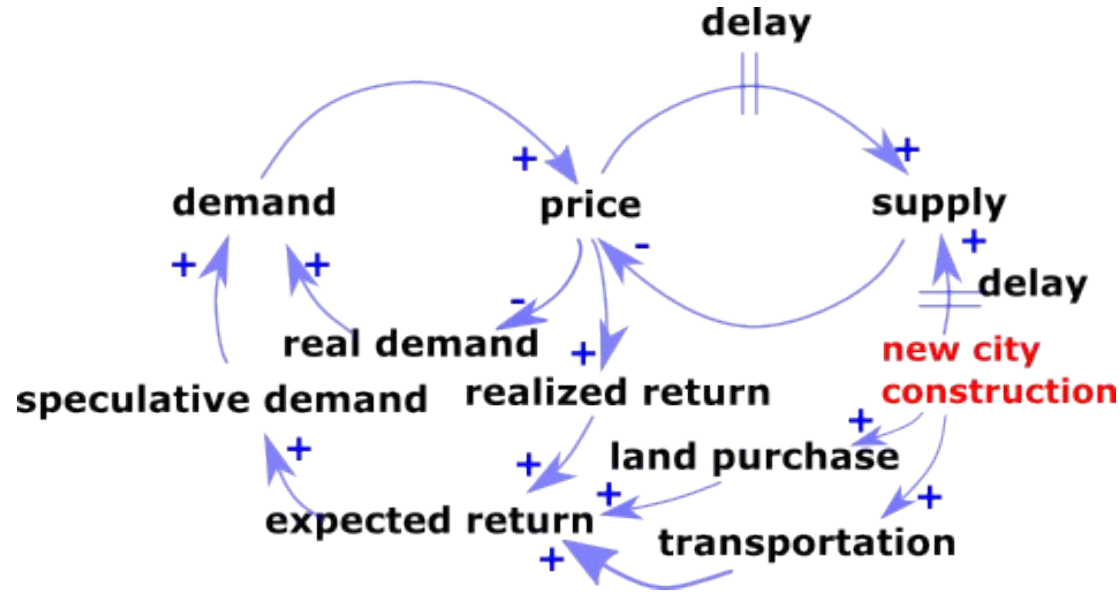
An increase in real estate prices increases the realized return, and then increases the expected return, generating speculative demand.

Even if a large-scale supply plan is announced, construction takes time, so supply is delayed for 3 to 4 years.

In the meantime, land prices rise due to land purchases, road construction, etc. and speculative demand further increases.

Rent-seeking mental model:

Land ownership is absolute. Real estate speculation is a normal economic activity. Income from real estate speculation is legitimate. The rise in real estate prices reflects market supply and demand, and is efficient without harming the economy. Excessive regulation or excessive taxation of the real estate market undermines the value of private property.

Commons mental model:

Land ownership is not absolute. Excessive rise in land prices causes great harm to the economy and society. It is desirable to curb speculation through taxation on land. Part of the increase must be distributed to everyone as a basic income.

Theory of public concept of land

"In order to guarantee all people the right to live as human beings, land ownership could no longer be absolute, but was changed to entail obligations or restrictions for the promotion of public interest or public welfare."(Constitutional Court 1989.12. 22. 88헌가13 결정)

<Figure 5> Interaction between rent-seeking economy, rent-seeking politics and rent-seeking mental model
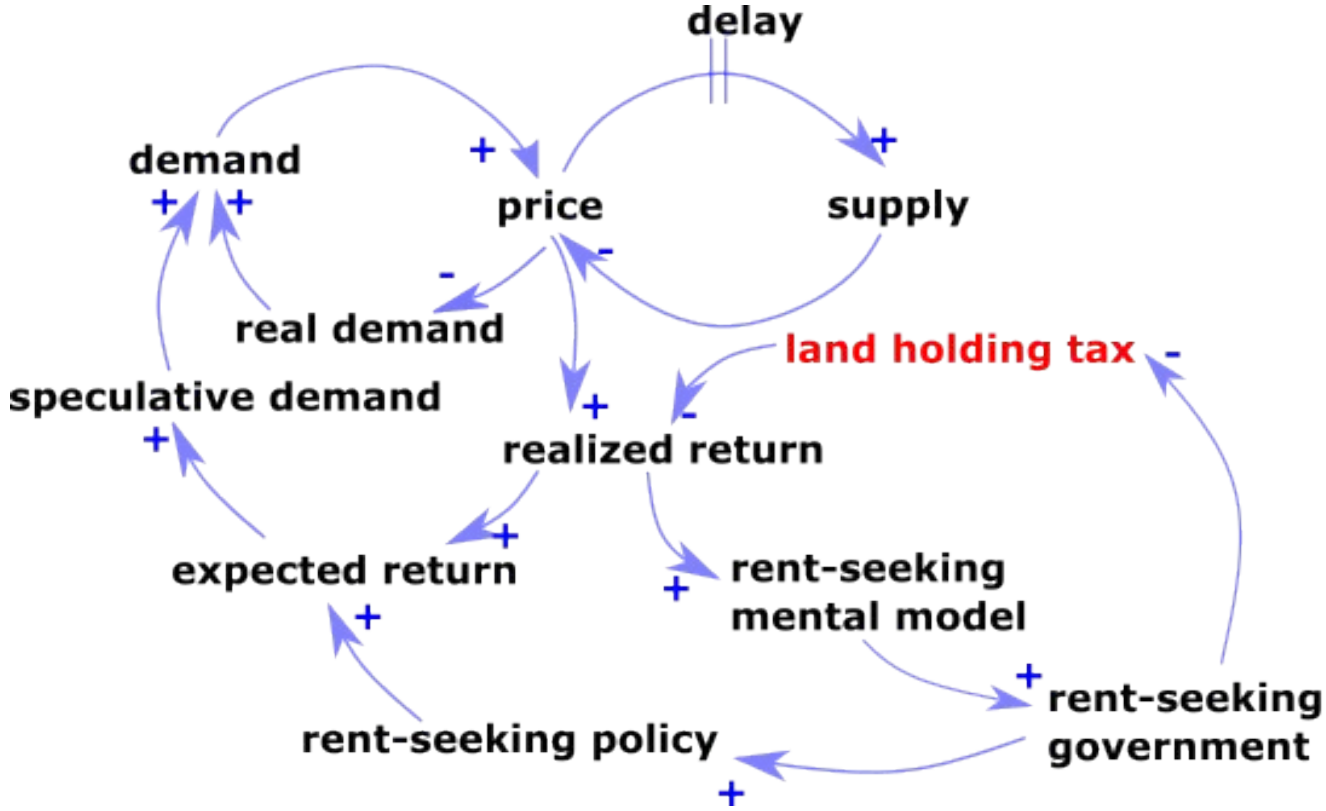
4. Land dividend combined with land holding tax

1) Advantages of land holding tax

The land holding tax is an effective means to prevent real estate speculation. Policies that directly target prices are unlikely to be effective. There are too many factors that affect price. On the other hand, the land holding tax can surely reduce the realized return.

realized return = price - tax

The land holding tax is difficult to avoid because of the fixedness of the land.

The land holding tax does not directly regulate prices and does not impair market efficiency as it is levied on land with a fixed supply.

2) Political resistance of land holding tax

① Resistance from higher taxes to be paid. In Korea, about 50% of households own land. They are likely to oppose the land holding tax.

② Resistance can arise when landowners become conscious of the decline in the value of their private property (land) due to the land holding tax.

Theoretically, the value of real estate = present value of the annual rent.
If Interest rate is 5%, the value of real estate that generates 20 in rental income each year is 400. (400 * 0.05 = 20)

Similarly, the annual tax paid goes through the capitalization process and is converted into debt. If you pay an additional 1.2 in holding tax every year, the real estate value will decrease by 24.

The purpose of land holding tax is to prevent real estate speculation by lowering the value of land. It is for this very purpose that political resistance can arise.

<Figure 6> Political resistance to land holding tax
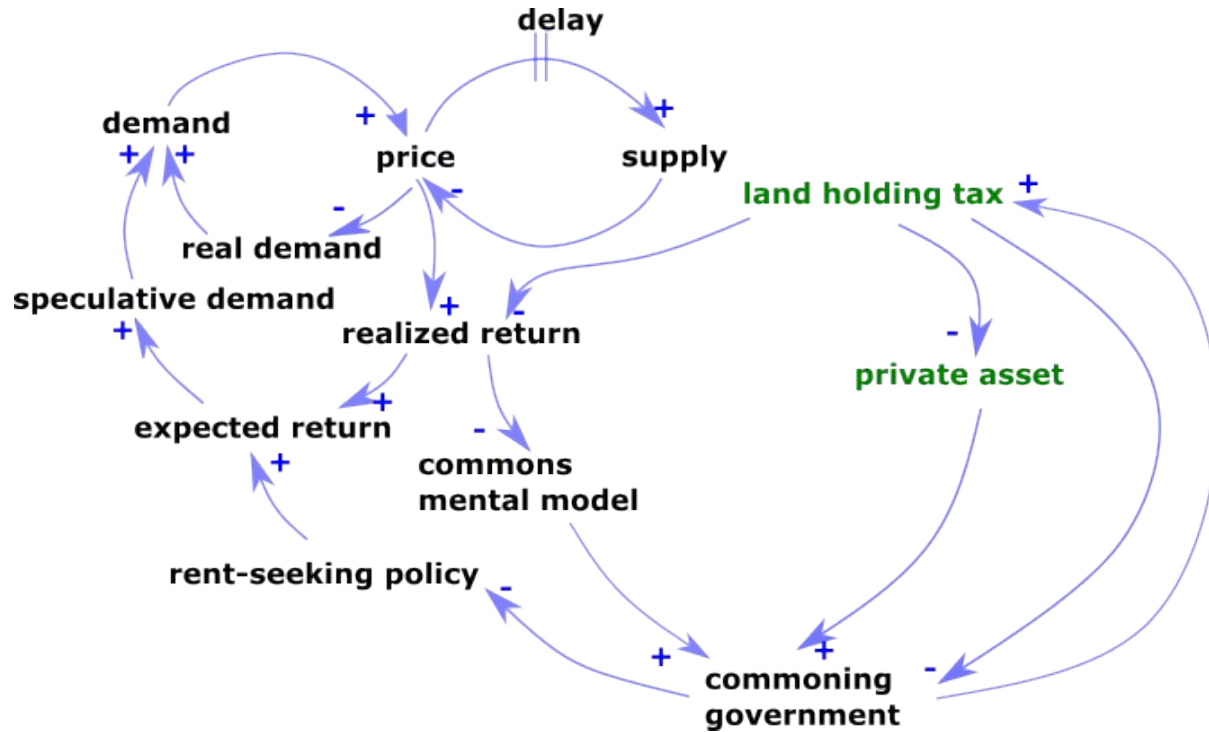
3) The role of land dividend

Land dividends can solve the problem of political resistance

① resistance due to the tax.

The combination of land holding tax and land dividend can make the majority of households net beneficiaries(households that receive more than they pay). According to Jae-myung Lee's pledge, land holding tax/land dividend policy makes about 90% of households (all of the non-homeowners and 80% of homeowners) net beneficiaries. Anyone who opposes a land holding tax because of the money they pay can change their attitude with a land dividend.

② resistance due to falling real estate values. If homeowners (50% of households) are conscious of falling real estate values, even if they receive more money than they pay, they can still oppose the policy if their property values fall.

We can overcome this resistance by changing our mental model as follows:
Just as the tax I pay each year is capitalized into liabilities, the dividend I receive each year must also be capitalized into assets. Paying taxes every year will reduce the value of my private property, but receiving annual dividends will increase my share of the common property.

The reason land dividends are paid to everyone is that everyone is a common owner of the land. A land dividend gives everyone the right to become a common owner of the land. Before receiving the land dividend, my only property was my house, but after receiving the land dividend, my property consists of my house and my share of the common land.

〈Table 1〉 Changes in property values of land owners before and after land holding tax/dividend (net beneficiaries of land dividend policy)

Before land holding tax/land dividend				After land holding tax/land dividend			
income		value		income		value	
rent	2,000	private property	40,000	rent	2,000	private property	40,000
land tax				land tax	120	decrease	-2,400
dividend			0	dividend	180	share of commons	3,600
sum	2,000	total property	40,000	sum	2,060	total property	41,200

〈Table 2〉 Changes in property values of non-homeowner before and after land holding tax/land dividend

Before land holding tax/dividend				After land holding tax/dividend			
income		value		income		value	
rent	-2,000	private property	-40,000	rent	-2,000	private property	-40,000
land tax				land tax	0	decrease	0
dividend			0	dividend	180	share of commons	3,600
sum	-2,000	total property	-40,000	sum	-1,820	total property	-36,400

〈Figure 7〉 Role of land dividend in reducing political resistance
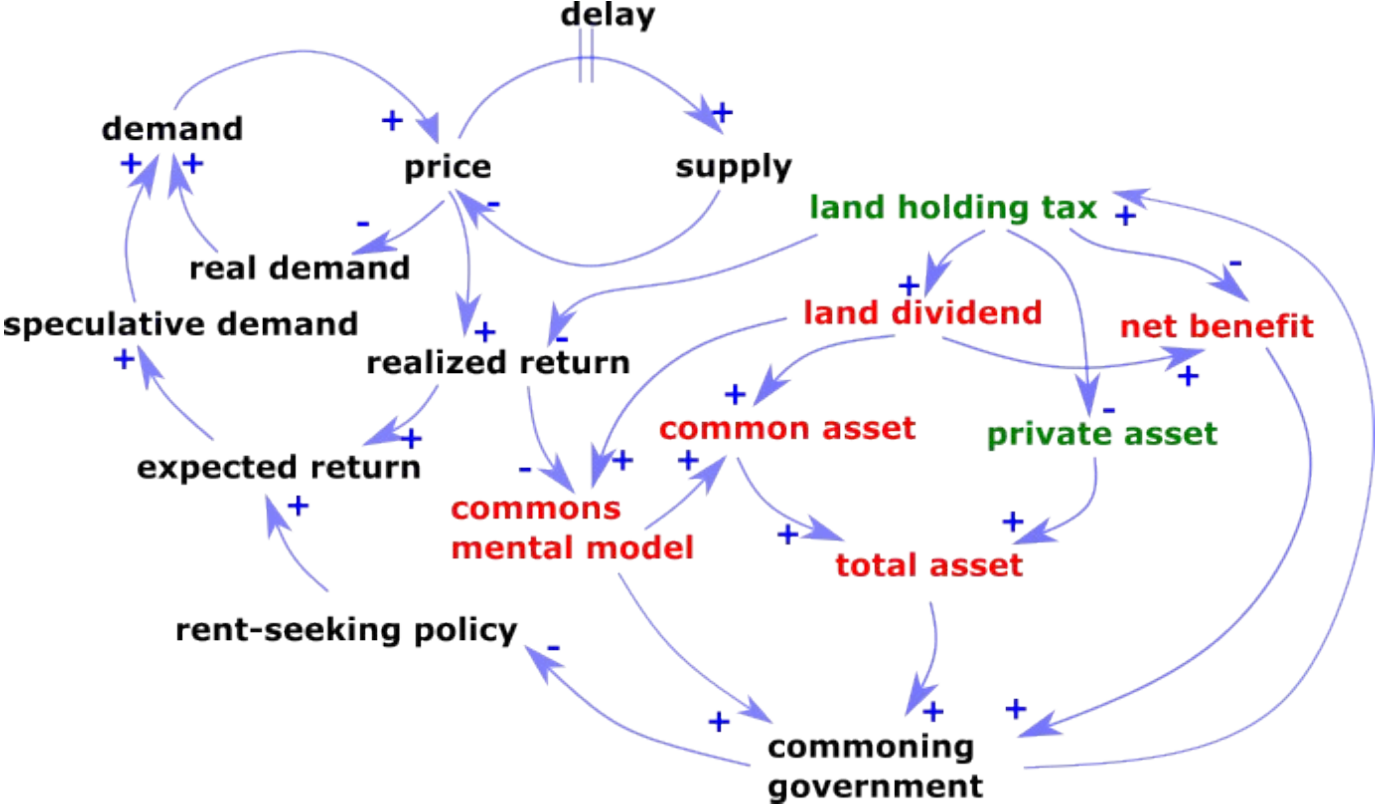
The process by which land taxes reduce the value of private property is easily recognizable because it occurs in the real estate market. In the market, real estate with debt collateral is traded at an amount deducted by the amount of debt.

However, the process of capitalizing dividends into shares of common property is not carried out in the market.

Therefore, it is necessary to change the mental model to recognize this process. To change people's mental model, we should not try to hide the tax part of the land holding tax/dividend policy, but actively communicate that even though the tax reduces the asset value, the land dividend increases the asset value more.

Land allocation can change the mental model by making everyone realize that they are common owners of land.

5. Conclusions

BIKN "Basic income refers to income paid in cash to all, unconditionally, individually, regularly, and unconditionally, as a share based on the right of all members of society to the commons."

Even if there is income that is unconditionally and individually paid to all of the groups, such as child allowance, if the children and parents who receive the allowance do not have the consciousness of the commons, the basic income mental model cannot be considered to have taken root firmly.

To introduce a land holding tax/land dividend, it is necessary to actively inform that 90% of people, including all of the non-homeowners, will become net beneficiaries, and that 90% of the people's total wealth will increase.