

## Fred Harrison and Peter Gibb

**A** UNIQUE political appointment – a Minister responsible for land reform – secures the land question at the top of the agenda in Scotland.

Jim Wallace, the leader of the Liberal Democrats, has the task of honouring the new Executive's pledge to change the laws of the land.

Donald Dewar, Scotland's First Minister, relishes the priority he has given to a Bill that will enable communities to buy the land they occupy when it comes on the market. He believes that, with the devolution of power to Edinburgh, the new Scottish Parliament will deliver effective solutions: "... day in, day out, it is here that the law of the land will be shaped and laid down".

The euphoria is understandable, but reality must prevail. Traditionally, social, economic and political power is held by those who own the land – or, more precisely, those who pocket the rent of land. That clarification is crucial. For where once only the aristocracy held landed power, now it is found more diversely: the financial institutions, for instance, receive a huge proportion of rental income through the mortgage market.

The power of those who control rent is sufficient to thwart democratic governments. That is what happened with Lloyd George's People's Budget, which was enacted in 1910 on the back of a huge popular mandate. It was not implemented. The same fate befell Labour Chancellor Philip Snowden's 1931 Finance Act. In both cases, the target was the rent of land.

Mr Dewar's intentions are genuine, but his understanding of what constitutes land reform – as defined in his government's Land Reform Action Plan – is limited to rural issues.

**F**LAWS in Labour's plans can be traced to the absence of a coherent philosophy of property rights. This is evident from the plan to abolish feudal tenure.

What the Scottish Executive calls "A simple system of land ownership" will replace feudal superiorities, "and vassals will own their land outright". Present tenure is a sophisticated structure of rights which includes every citizen through his or her relation to the Crown. It is to be replaced by a crude model that *excludes* the majority of people.

Feudal rights as bent to favour landlords must be consigned to history. But it was feudalism in the breach – not in its original form – which betrayed the rights of the people who occupied the land of Scotland. Its early form suited the conditions at the time. It is the anachronisms, which offend modern sensibilities, that need to be abolished.

But feudal tenure recognised the social rights of every citizen. The present "conditionality" of land-holding – proprietors hold land subject to the higher rights of the community – must not be sacrificed.

Scotland needs a democratic debate to define a new philosophy of property rights. The paramount challenge is to identify in practical terms everyone's equal right to land within a model of responsibilities that guarantee justice and economic efficiency. Without that philosophy it will not be possible for Parliament to develop coherent land laws.

Reform is not just about access to rural acres. It is about the power and relationship between the individual and the community. The power that is intrinsic in land intrudes into every corner of everyone's life. That power works with or against people's personal and social interests depending on whether the rules of engagement are fair. At present, they are not.

**HOUSING** High urban land prices contribute to the rural crisis. They encourage salaried town workers to buy country properties. This prices farm workers out of homes. There is no reform worthy of the name that ignores land in the hearts of cities.

Disruption caused by unaffordable housing is illustrated in Edinburgh today. Spiralling property prices induced by the creation of Parliament has led to a call from unions for additional wages to cover

the rising cost of accommodation. Average house prices have escalated by 63% over the last three years, to a level only £8,000 behind London. That increase is in the cost of land: bricks and mortar can be trucked in to equate supply with demand – that's what keeps *house* prices affordable. But that solution is not possible for land sites in locations where people need to live and work.

**SPECULATION** The largest capital gains are reaped in towns, and they send economic shock waves to the farthest islands of the West coast. Land speculation includes the trading-up activities of wage-earning home-owners; but it is a pathological activity. It nurtures the mentality of the casino economy. People seek to accumulate capital as fast as possible, so that they can retire from work and live off the value produced by others. This is the starkest indication of alienation: our culture does not encourage people to view work as a fulfilling experience.

But while income from man-made capital is earned, this is not the case with gains from land. Privatised land-rents are at the expense of the community in myriad ways. Speculation drives urban sprawl, for example. Remove the incentive to speculate and hoard land, and the rate at which we concrete green acres would slow to a sustainable pace.

**ENTERPRISE** Links between land and industry are not monitored by policy-makers, with tragic results. An example is the destructive use of interest rates in the boom/bust phase of the business cycle. As the economy "over-heats", government raises the cost of borrowing money. This hurts everyone, but the policy discriminates disproportionately against some. Most people in Scotland are losers, every time.

☒ **Marginal producers** are operations (whether in Kensington or Kyle) that only just pay their way. They may be financially viable, despite the existing tax burden, but they cannot carry the additional monetary penalties inflicted by interest-hiking government.

☒ **Marginal locations** in geographically peripheral areas – bearing the high costs of public infrastructure and relatively lower productivity (e.g., lower soil fertility or higher transport costs) – mean that many people there just manage to make a living. Add an increase in interest rates, and they are punished out of existence.

But what drives the boom that governments fear will lead to bust? Intensive speculation in land always precedes a major recession. Asset prices are driven up, which provoke higher interest rates. So land speculation by the few surfaces as trauma inflicted on the many. That's how government – blind to the dynamics of the land market, and so deploying inappropriate policies – can destroy jobs and reduce living standards.



**PUBLIC INVESTMENT** Taxation is an abusive tool in the hands of government. This is illustrated by the way taxpayers are forced to pay for public goods that enrich landowners.

Inadequate investment is not due to a shortage of capital. The problem originates with the distribution of the benefits from public spending. Difficulties – such as the funding of Britain's new cross-channel railway system – occur because part of the value created by infrastructural investment is not included in prices charged for the use of services. This extra value – created, say, by a new road or a bridge over a river – is known as an "external economy". But that value does not go begging: it is capitalised into higher land prices.

For the sake of efficiency, user charges (the cost of a train ticket from London's King's Cross to Glasgow Central, say) should equal the "marginal" costs of public services. But this means the prices paid to use public services do not capture (or "internalise") the "external" value. This throws the responsibility onto government. It alone can recoup that value through fiscal policy. In doing so, it would be able to finance the full cost of investment without adding to debt.

The failure to combine user-charges with fair public finance overburdens taxpayers, under-finances public services and enriches landowners who receive windfall gains. Who says there is no such thing as a free lunch? The leakage from public purse into private pockets offends the principle of fair dealing in the market economy. It can be corrected only if everyone who gains from public spending pays for the benefits received. Road congestion charges are an example of land-rent payments. The principle needs to be extended if fairness is to be the cementing principle in land use and public finance policies.

**POVERTY** The world owes no-one a living, but work and the earth's free resources should enable everyone to live fulfilled lives. But our laws restrict access to the means of life, granting the privileged minority a monopoly over the earth. This is the root of poverty. "Social inclusion" will remain an illusion until access to the bounty of the planet is democratised. If people paid rent to the community to use nature's resources – which would eliminate the need for taxation on wages – poverty would evaporate like a Highland mist on a summer's morn.

Licensing of pelagic or river fishing, game rights, and natural energy are proper subjects of public rent charges. Other examples include the use of the airwaves for broadcasting, the pollution-absorbing capacity of the environment, and airport landing rights.

**ECOLOGY** The land of Scotland is wrought with ecological mismanagement. The root of the problem is the roughshod use of nature encouraged by governments that failed to act as stewards of "the commons". The surest way to make people respect nature is to require them to pay for its use. Rental charges encourage conservation.

Earth requires that there be due return for all things taken: similarly, that all things brought forth shall be properly allotted. The inequitable use of the earth's bounty is unsustainable: this is the mirror image of the state's theft of private income through iniquitous taxation.

**O**UR ANALYSIS of contact between land and people's private and public lives leads to one conclusion: major problems stem from the failure to treat publicly-created value as public revenue. Scotland's Parliament is not yet tarnished by such failures. That's why it must resist piecemeal, quick-and-easy policies. In-depth research into "the land question" would identify synergistic solutions.

Take local democracy. It is cramped by dependency on grants from central government. Power ought to be devolved to local government and other community bodies, to create a resilient, interlocking system of

democratic units. As the McIntosh Commission reported in June: "We would urge local government to *renew itself*... We seek... a new culture of *continuous* renewal and improvement which will permanently change the face of Scottish local government". But that outcome is possible only after public finance has been democratised.

Only 20% of revenue is raised locally through taxation. Not surprisingly, citizens are frustrated with the democratic process. The McIntosh Commission stressed that accountable democracy and revenue raising go hand in hand. The local property tax needs to be restructured, and there is a wealth of evidence that favours one reform. The empirical evidence comes from countries like Denmark, Australia, New Zealand, South Africa, and Pennsylvania in the US. Buildings need to be untaxed: that would encourage urban renewal and conservation of greenfield sites. And the rent of the land provides the buoyant and progressive fiscal base for a re-invigorated community.

Everyone would gain from tax reform: there need be no losers. The rent of land and natural resources constitutes the natural source of public finance. This was the principle at the heart of feudal tenure. It was also the basis of societies before the middle ages. And economists of the Scottish Enlightenment, like Adam Smith and William Ogilvie, endorsed this policy for an industrial Britain. It happens to be the only viable policy for post-industrial society. **DL**