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Land reform as an engine of economic progress

Overview

In this talk Andy Wightman explores the importance of land not just as an economic resource but in terms of how it fits with our sense of place. He focuses in particular on the themes of democracy, power and vigilance. The way we regulate land, its ownership and use, has an impact on places and people. The breadth, depth and importance of land use and land reform, is illustrated by its impact on the economy, health and wellbeing, cultural values and democracy. A look at the historical journey of how we got to where we are today gives the background to current issues including housing, finance and democracy and a brief look to the future of land reform indicates the direction we might be travelling in.

Introduction

Andy began his talk by explaining a little of his own background. He left school and went to work as a tree planter in Aberfeldy in Perthshire. He got interested in forestry and went on to study this at university. An incident that stands out for him as a student was the visit of the CEO of a company that was involved in selling land to celebrities and planting trees on it as part of a tax avoidance scheme. He asked a naïve question about why you would choose to plant trees in this way. Shortly after he was pulled aside by his professor and told that it was not a smart move to ask politically-sensitive questions. This led to the realisation that when you talk and ask questions about land and power and money, some people feel uncomfortable. This is what he has been doing ever since and one of the underlying themes of this talk is the importance of democracy, transparency and vigilance.

A range of issues connected to land

It is not often acknowledged that land played a central role in the financial crash of 2007/8. The sub-prime mortgage lending to people in the USA and the complicated financial products sold around the world on the back of these was the trigger for the global financial crash. Similarly a failure to properly regulate the relationship between money and land brought down the Irish economy. Land and how you steward it, and how you regulate things like lending are important.

Land is also an important factor in growing inequality, not only here in Britain, but around the world. Thomas Piketty highlighted this in his recent book. Oxfam also highlighted this in a report for the Davos World Summit. Number three of their seven policy suggestions to reduce inequality is to move taxes from income and consumption onto wealth and assets.

The way we organise and regulate the banking system is also important. The system in the UK is very different from that in Germany. In Germany 70% of the banking system is accounted for by hundreds of locally-controlled small banks which are either owned by local governments or are co-operative banks. In Britain 97% of the money in the economy is 'magiced' out of thin air by private banks and over the last 30 years increasing amounts of this money has been devoted to lending for domestic property – an essentially unproductive asset. If you look at a graph of money supply and house prices it is no coincidence that they roughly track each other. Historically the German economy is very different, they have not sunk money and private debt in to housing; they have put money in to industry to create jobs. In addition in Britain we have what are called recourse loans, where the debt and associated risk sits on the shoulders of citizens, as opposed to non-recourse loans, which they have in the USA, where the risk sits with the banks. How we manage this 'archaeology of land', the stuff that is beneath the surface that people don't really think about, is actually very critical.

Andy then shared two examples of why land matters. The first relates to the Linwood car plant. A shopping centre was built in the town in the 1960s to service the growing population associated with the car plant. By the year 2000 this shopping centre had gone in to decline. A key reason for this was that the rents on the shops were being driven up to such an extent that people were going out of business. Local people began to question why this was happening. They started looking at the landlord of the shopping centre, Balmore Properties Ltd., but found it difficult to get any information. Following on from years of neglect the company repeatedly refused to meet the community or elected representatives. Then Tesco stepped in and offered to take over the shopping centre. What they did not disclose at the time was that Balmore had been set up by Tesco as an agent – a front company with the express aim of driving all the tenants out of the shopping centre so Tesco could come in like a knight in shining armour. What this highlights is a community completely out of control over a major aspect to do with its land and its community because of a lack of transparency.

A second, completely different, example comes from Aberdeen. Jean Bain, a tenant farmer, was the last native speaker of Deeside Gaelic. When she died in 1992 this distinctive dialect died with her. The reason for this is linked to the 1886 Crofting Act. When this Act came in the decision was taken that it should only apply to the current seven crofting counties in the highlands. The most progressive opinion was that it should apply Scotland-wide but this was fiercely resisted by lowland land owners. So the crofters in Aberdeenshire had no security of tenure and as a result they slowly disappeared and Jean was the last one. So land matters in terms of the curation of our culture.

How did we get here? The six land grabs

Andy then took us through a brief history of land matters, what he calls 'the six land grabs'. The first of these was when Robert the Bruce secured the crown of Scotland and in doing so secured ownership of the whole country. The crown owns the whole country except for the parts it chose to give out in the form of royal charters to friends and nobility and the early Royal Boroughs of Scotland. Before this there were indigenous forms of tenure.

The second land grab took place in the 16th century during the reformation. There was a slow insidious process of appropriation of the church's wealth by the granting of large areas of land to noble friends of the churches financial officers. By the time Knox opened the books there was nothing left. His dream of taking this wealth, which was bigger than that of the crown at the time, and devoting it to the building of schools and the administration of the country was thwarted.

In the 17th century the Scottish parliament spent most of its time passing laws to buttress the power of property and protecting the interests of land owners. This was the third land grab. Some of these laws have continued right up to the present time. The final act in the 17th century was the Division of Commonties Act (1695). The result of this was that poor people lost their access to very valuable areas of common land. This was the fourth land grab.

The Royal Boroughs were exempt from this Act. However, in these areas there was rampant nepotism and corruption and that meant that a lot of common land in Scotland's boroughs disappeared. This was the fifth land grab.

The final land grab was focused overseas. There was a very simple process of planting a flag and reading a declaration proclaiming the land for the crown. This was the great scramble for the colonies. The last act of imperial land grabbing actually took place in 1955 in Rockall just off the shore of Scotland. More recently these claims are being challenged. For example in Australia where in some areas such as the Murray Islands the Aboriginal community have succeeded in obtaining a court ruling which states that their land is not crown land. Throughout the 1990s Australia had a battle with itself about these issues. This has not been fully resolved but has been an important moment in terms of recovering a sense of who is who and whose land it is.

Contemporary issues

In the modern era land reform is popularly thought of as a process that takes place in Venezuela or Thailand or Zimbabwe and that it is essentially a re-distribution process. But land reform is much wider than this. It was defined by the Scottish Land Reform Group in 2014 as: *"Measures that modify or change the arrangements governing the*

possession and use of land in Scotland in the public interest.” So anything that changes the relationship between society and any piece of land is technically a land reform.

One important example and a big political issue in Britain today is housing. The ratio of house price to earnings has increased from a ratio of 3.5 in 1930 to 7.5 now. Housing has become virtually unaffordable. Another thing to note is that in the 1930s only about 5% of the price was for the land and 90-95% was for the building itself. So 90% of the available money contributed to the local economy through employment of builders and labours and the purchase of materials. The houses built were of very high quality, many of which are still standing, and will long outlive houses that are built today. Today the cost of the land in the UK is typically 50% of the total price and can be as much as 70%. So the amount available to spend on the quality of the building is much less. In addition the cost of the land has increased hugely and this has made housing more expensive. It also explains the volume house building model as it is the land that is the major expense and so then builders want to capitalise and build as many houses as possible on the land they have. This contrasts hugely with the market in France or Germany where up to 80% of the housing market is self-build. People can buy a plot of land reasonably cheaply from the local municipality and then 80-90% of their funds are available to actually spend on building the house and contributing to the productive economy.

There are examples in Scotland of companies like Hebridean Homes who can build a high-standard, three-bedroom house for £85,000 which would be affordable on an average wage. The problem is you need the land to put it on and this is very expensive so the whole thing becomes unaffordable. In addition the tax relationship of land is skewed. When you sell a house you pay no capital gains tax. This tends to push house prices up. There are many other things that also push house prices up, for example how we bid for houses. This increase in house prices is one of the principal reasons for growing levels of inequalities in society and why people under 30 today can expect to grow up poorer than their parents; the first generation to be in that position for a hundred years.

How we tax land is also very important. For example we have chosen to say that empty industrial buildings don't need to pay rates. Yet they will still expect the state to provide essential services such as emergency fire services. We have an economy that is growing more and more unequal and property and land is a key element of this. The Mirrlees Review was written in 2010 by the Institute for Fiscal Studies and the Nuffield Foundation. It says: *“In the UK, poor tax design contributes to an inefficient housing market, distortionary taxation of financial services, excessive reliance on debt, employment levels lower than they need to be and distorted and inefficient savings and investment decisions.”* The review sets out a long-term strategy for reform. They argue, for example, for dramatic reform in the way we tax property.

Andy described a study he undertook in Northern Ireland which demonstrated what the effect of moving to a system based on a land value tax would be. The result is a redistribution of the burden of property taxation towards people who own land that is more expensive. Andy and colleagues have done similar modelling in Scotland. So why if it is so simple and the benefits of a land value tax are almost undeniable do we not have one? Why indeed is the possibility barely part of mainstream public debate, with proponents considered marginal and unconventional? Andy argued that the answer is that Britain is wedded to the notion that house prices will forever rise and this is difficult for politicians to challenge if they want to be elected. Andy sees this as deadly for the economy and for future generations. The *Financial Times* was brave enough to do a piece about this recently in which its lead editorial said that if Britain wants to become a competitive economy again it needs to get house prices down, and fast, as this is a massive drag on the economy.

These issues have been debated through the centuries. In the early 1900s following the introduction of a bill that included the levy of land tax an amazing survey was done of the ownership, occupation and value of every single hereditament in Great Britain and Ireland. These maps only came in to the public domain in the 1990s. They show that the Edwardians could do what we apparently find so difficult today. Information about land use in the UK is very limited in contrast to Denmark where they have very sophisticated land administration systems. Part of the challenge of the land reform agenda is to get information that does exist out in to the public domain.

Another important issue is the link between democracy and governance of land. Most of the rest of Europe has much more decentralised forms of civil administration. We have the most concentrated pattern of private land ownership of anywhere in the world. We also have the most concentrated pattern of local government. In places like Norway a large proportion of income tax is given to the local kommune. You are meeting on a daily basis the people who are making decisions and this leads to a much higher level of trust and transparency in how public money is being spent. In Denmark they have a land tax not only on property owned inside the country but also on property you own outside the country. So there are Danes who own land in Scotland who are paying tax but not to Highland Council but to their local kommunes in Denmark. In addition big landowners and farmers in Scotland got de-rated in the 1950s for no logical reason. Why should a hairdresser in a village be paying £5,000 a year in non-domestic rates and a millionaire farmer outside paying nothing? We need to get this straight.

Andy suggested to Scottish ministers a year ago that one way of solving the housing crisis would be that no one should have to pay more than £10,000 for a housing plot. The response was 'that would be difficult'. In his view this would revolutionise housing and he noted housing is a human right.

Where are we going?

Andy concluded with some thoughts about where land reform issues are heading. In Scotland at the moment there is a big debate on land. The Scottish affairs committee is completing its enquiries. The Land Reform Group reported last May and the Land Reform Bill will be introduced in to parliament in June. This will introduce the Land Reform Commission and a number of other provisions. It will bar offshore tax havens from being used to register companies to own land; provide for better land information and powers of intervention; reform in the public sector; action of charities; reintroduce shooting rates for sporting estates; reform Common Good law; agricultural holdings and so on.

There are also lots of other reforms coming up: Council Tax reform and the Council Tax Commission; succession law and inheritance (children currently have no legal rights to inherit land in Scotland and that is going to change); changes to harbour legislation (including Trust Ports); compulsory purchase; and the crown estate is going to get devolved including a substantial area of seabed, marine foreshore and agricultural estate.

Debate around all these topics is beginning to be legitimised. This is new. People have more confidence in talking about these things and there is more information and awareness. With the advent of social media we can also talk to each other much more easily than we could 15 years ago when the land reform started in parliament. So we are in very interesting times.

The views expressed in this paper are those of the speaker and do not necessarily reflect the views of the Glasgow Centre for Population Health.
Summary prepared by the Glasgow Centre for Population Health.