SUBMISSION TO THE LAND REFORM REVIEW GROUP

The establishment of the LRRG is a welcome sign that land reform might be back on the Government agenda. After a spell of activity in the early days of the Scottish Parliament, nothing much has happened recently and the SNP has shown little interest in the issue.

Some very good work was done in the first few years of the millennium under the general banner of land reform, notably the abolition of feudalism (albeit with caveats), the establishment of national parks and the access legislation. Less successful was the flagship policy of Community Right-to-Buy (CRtB), which was a timid attempt to address the grossly inequitable distribution of land rights in Scotland.

Failure of the Community Right-to-Buy

The CRtB emerged from public consultations by the Land Reform Policy Group (LRPG), set up by the Scottish Office prior to the formation of the Scottish Parliament, and was promoted ***"as an essential prerequisite of land reform"*** by the late Donald Dewar in his 1998 McEwen Lecture.[1] The LRPG's prediction was that it would ***"effect rapid change in pattern of ownership,"***[2] a claim that sounded wildly optimistic even at the time, and which has proved to be fantasy. The Scottish Government's own figures show that only 11 successful purchases have been made since the legislation came into force.[3] In a newspaper article in 2009 Andy Wightman calculated that at the current rate of progress it would be year 2025 before even 1% of Scotland's land was in community ownership.[4]

The idea of buy-outs was probably inspired by the success of communities such as those of Assynt (1993) and Eigg (1997). These were iconic purchases which had enjoyed huge press coverage about the problems of remote communities under absentee landownership. Much of the funding came from the public purse, trusts, charities and individual private donations. However, the assumption that such contributions would continue on the same scale until the "rapid change in pattern of ownership" had been accomplished across Scotland was always implausible. Even if communities could negotiate the complex bureaucracy required to prepare a bid for a buy-out, where would the funds come from? The notion of huge sums of public money being poured into the pockets of already-rich landowners would have grated with the majority of taxpayers.

Donald Dewar was all too aware of the problem when he warned that ***"we would need to ensure that the wishes of the community did not automatically lead to a demand on the Government for funds – we cannot be the provider of all resources for this project"***.[5] The Government has admitted that the money available from the Scottish Land Fund ***"is often too small to make more than a modest change to the pattern of land ownership in Scotland"***[6] which begs the question as to why such extravagant claims were made for the CRtB in the first place. At best the CRtB legislation could be retained in the event of a community succeeding in a bid and finding a generous private benefactor; at worst it should be acknowledged as a policy cul-de-sac.

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[1] Donald Dewar – "Land Reform for the 21st Century" McEwen Lecture 4th September 1998, P. 18-19
[2] LRPG – "Identifying the Solutions" (September 1998) P. 23
[3] Scottish Government "Overview of Evidence on Land Reform in Scotland" 2012 (P.16)
[4] The Herald – "Five Years On – What Has Land Reform Achieved?" 12th June 2009
[5] Donald Dewar – "Land Reform for the 21st Century" McEwen Lecture 4th September 1998, P. 19
[6] Scottish Government "Overview of Evidence on Land Reform in Scotland" 2012 (P.32)

Limitations of the LRPG approach

The LRPG produced a series of three consultation documents between February 1998 and January 1999. The first words of the first document were ***"The land area of Scotland is about 2% urban and 98% rural. Land reform issues relate primarily to rural land."*** It went on to confirm that the remit was ***"to identify and assess proposals for land reform in rural Scotland…."***[7] This set the tone for a hopelessly inadequate approach, effectively warning us not to expect the forthcoming legislation to be of much relevance to the land on which the vast majority of people live and work.

The same LRPG document rightly acknowledged ***"Land reform is needed on grounds of fairness, and to secure the public good".***[8] Those needs apply universally; they do not change with change of use, or vanish if a piece of land ceases to be classified as "rural". It is most encouraging therefore that the LRRG's remit includes urban land.

A fiscal approach

If we accept the axiom that everyone has an equal right to life, and therefore to the necessities for sustaining life, we must accept that everyone has an equal right to the land resource that provides those necessities. Land reform must be about giving practical expression to this and restoring equal land rights.

Nevertheless, we should not expect the Government to achieve this by seizing or buying the land from current titleholders and reapportioning it equally (or arbitrarily) among the population. With the current pattern of distribution as a starting point we can, through the fiscal system, achieve fairness by balancing the privilege of land ownership with a corresponding financial obligation on the owner to the rest of society. We do not need to divide up the land physically; we do not need land nationalisation; we simply need to socialise the *rental value* of all land.

The case for land reform was greatly advanced in the 1990s by the series of McEwen Lectures. In the 1996 lecture, Prof. John Bryden repeatedly urged a fiscal approach. He noted:

> ***"We need to capture for society realised incremental rents arising from sources other than investment by landowners, including those arising from general social and economic changes, public investments, public subsidies and regulations."***

and:

> ***"We need to reverse the situation which has given to landowners the "residual power" in land, and which enables them to capture many of these incremental rents for private benefit."***[9]

Prof. Bryden was the external assessor to the LRPG, and it is a great shame that these ideas were not further explored and developed. It is only a short step to realising that if we are to capture future incremental rents for society, we should also apply the principle to existing land values, as these are simply the aggregate of past increments, generated by

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[7] LRPG – "Identifying the Problems" (February 1998) P.1
[8] LRPG – "Identifying the Problems" (February 1998) P. 3
[9] John Bryden – "Land tenure & Rural Development in Scotland" McEwen Lecture 27th Sept. 1996 (P.33-34)

the same processes of social and economic changes and public investment. For all practical purposes the supply of land is fixed and finite. Land has no production cost; its value is purely a measure of the level of public demand for particular locations, further enhanced and sustained by the provision of publicly-funded services and infrastructure. These publicly-created values should be returned to the public purse as a prime source of public revenue, with a concomitant reduction of existing punitive and destructive taxation on work and enterprise. The way to achieve this is by the system commonly known as Land Value Taxation, which, encouragingly, is included in the LRRG's list of potential reforms.

Land Value Taxation

Land Value Taxation (LVT) was considered as a possible alternative to the Council Tax/UBR in the second LRPG document, but the analysis was in places somewhat muddled and self-contradictory.[10] In fairness to the LRPG, however, the tax-raising powers of the Parliament-to-be were still not clear, and the limitations of LRPG's remit no doubt made it wary of straying into the realm of fiscal reform.

Land Value Taxation would involve:

- The annual payment of a sum equivalent to the economic rental value of the land. It would include all land parcels, large or small, rural or urban.
- It would be charged on the value of the land alone, and would exclude the value of buildings and other man-made improvements on the land.
- Valuation would be based on optimum permitted use within prevailing planning and environmental constraints.

The implications and effects would be:

- The privilege of holding land would be balanced by a reciprocal obligation to society in direct accordance with the value of the land held.
- It would cancel out the financial advantage of merely owning land *per se*, as rental income to the owner would be equalled by tax payable.
- It would dismantle the power structure of landlordism which is based on the legalised monopoly of our most basic resource.
- The benefits accruing from community-generated land values would flow into the public purse rather than private pockets. Investment in services and infrastructure that drive up land values would be recycled back into the public purse.
- Those who claim to "own" the country would have proportionate financial responsibility for the country's running costs.
- It would apply universally to all land and all landholders, so could not be portrayed as selective, arbitrary, divisive or vindictive.
- It would restore society's stake in the land resource without recourse to nationalisation or physical repossession, and without compromise to the principle of legally-secure tenure.
- It would penalise and therefore discourage the holding of land as an indulgence or as a novelty. Land hoarding would become expensive and pointless, and speculative values would collapse. This would break the cycle of boom-and-bust which is driven by the property market – it is the land that is the volatile element of that market, not the bricks and mortar.
- Inefficient rural estates would begin to break up and the way would be open for a wider pattern of ownership, possibly in smaller parcels.

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[10] LRPG – "Identifying the Solutions" (September 1998) P. 21

- It would penalise and therefore discourage dereliction. Land held deliberately out of its designated use would incur the same charge as if it were in use. Permitted development of available land within existing urban areas would therefore be encouraged, relieving the pressure of sprawl into rural areas.
- Land rendered economically useless through, for example, conservation designations or by virtue of its sheer remoteness, would have zero rental value and therefore zero liability for LVT. Such land would therefore not be a financial burden on the owner.
- The temptation to manipulate the planning system for personal profit would be reduced as the enhanced value from planning permission would be captured for the public purse rather than by landowners/developers.
- Whereas the present tax system is a cheats' charter and a breeding-ground for institutionalised corruption, dodging LVT would be impossible as land cannot be hidden or exported to a tax haven.
- Assessment could be done largely from maps. The skills for valuation (distinguishing the location value of land from the separate value of buildings and improvements) already exist within the surveying/estate agency/valuation professions.
- Crucially, as a huge source of *alternative* rather than additional revenue, it would enable the Government to liberate the economy from the burden of penal taxation on labour and productive enterprise. Massive cuts could be made to our present counter-productive taxes.
- Income taxes on labour and enterprise are unrelated to any direct benefits given to the taxpayer, whereas payment of annual land values is based on the direct benefits enjoyed (just like parking fees).

Land Value Taxation at national level

The LRPG did its work just as Scotland was about to undergo a major constitutional change. The same might be said of the LRRG, albeit with less certainty. Scotland's relationship with the rest of the UK and Europe, and its future tax-raising powers might soon change dramatically. For that reason, the final two bullet points above are of great significance; removing the burden of taxation away from labour and capital and shifting it on to land values would give a huge boost to the Scottish economy. With tedious regularity the independence debate stirs up heated, but inconclusive, arguments about whether Scotland would be economically better off outside the UK. Again, at the start of 2013 there has been another squabble between the SNP and the Westminster coalition, each choosing a different interpretation of the Government Expenditure and Revenue Scotland (GERS) figures regarding North Sea oil.[11]

Yet the real source of public wealth lies not under the North Sea but right under our feet – the land of Scotland. In annual land rental values we have a huge stream of revenue ready to be diverted into the public purse where it belongs, but which is currently being allowed to haemorrhage into private pockets.

In tackling this, the LRRG must have a much broader vision than the LRPG and the remit to include urban land is a good omen - land reform has to be relevant to the whole population. But land reform cannot be dealt with in isolation; the LRRG must

[11] "Row Flares as Treasury blasts SNP oil dividend" Herald 5th Jan 2013

acknowledge the inseparable connection between land reform and fiscal reform and persuade the Government to move the debate on to a new level.

Land Value Taxation at local level

It is clear that implementation of LVT at local level would not have the same macro-economic impact as at national level, as the punitive taxes on production (income tax, corporation tax, VAT etc) would remain. Yet the Scottish Parliament does already have the power to implement it as a replacement for Council Tax and Business Rates, which penalise legitimate development and enterprise while rewarding neglect, under-use and hoarding of land and buildings through exemption provisions. It was, of course, in this local context that the LRPG considered it.

While an internet search on "Land Value Taxation" will yield a wide choice of web-sites dealing with the subject generally, there are some recent studies examining LVT specifically as an option for local government revenue in Scotland. In particular:

Andy Wightman "A Land Value Tax for Scotland"
http://www.andywightman.com/docs/LVTREPORT.pdf
See also Andy Wightman's book "The Poor Had No Lawyers". Chapter 30 is devoted to LVT.

Glasgow City Council Local Taxation Working Group: Consideration and assessment of local taxation model: land value tax (2009).
http://www.andywightman.com/docs/Glasgow_LVT.pdf

Barriers to implementation

The LRRG "Call for Evidence" asks respondents to indicate barriers to attaining their vision. In the case of LVT an undeniable problem is public unfamiliarity with the proposed system. This concern was highlighted by the Burt Committee in its 2006 report[12], which was generally quite positive about LVT but said ***"..we question whether the public would accept the upheaval involved in radical reform of this nature, unless they could clearly understand the nature of the change and the benefits involved".***

This is surely a poor reason for not doing the right thing. If the Government recognises the benefits of a reform it is their job to present the case to the public.

Another concern raised by Burt was the difficulty of valuation, yet this seems to have been much exaggerated. If land and buildings can be valued as a composite asset and building costs are known (as is the case), valuation of land alone cannot be a major hurdle. Bare land is traded as a matter of daily routine where parties must have agreed on the valuation. Insurance companies need to know the split between building costs and site values in the event of total loss through, say, fire damage where the site remains intact. Burt's concerns are in contrast to the Glasgow City Council study referred to above, which confirmed that "databases, systems and controls are in place" and stated "We have therefore not identified any insurmountable problems from a practitioner's perspective in introducing a LVT." (Sections 3.10 & 3.11).

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[12] "A Fairer Way" Report by the Local Government Finance Review Committee (2006) Section 11

Perhaps the greatest barrier to LVT would be the response of the rich landed minority who would see the terminal threat to their wealth and power base through the destruction of land monopoly. As they did in 1909 when the House of Lords wrecked Lloyd George's People's Budget, they would mobilise everything at their disposal to sabotage the proposal. There would undoubtedly be smear campaigns by hostile tabloids, as was the case with the 2003 legislation which was depicted in the Scottish Daily Mail as a Mugabe-style land grab.[13] But if the Government believes in what it is doing it must put its case clearly and honestly.

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[13] Scottish Daily Mail 24th January 2003