



**The Pathfinder Economic Alert**

## **Land**

### **Dead or Buried Capital or a Factor of Production?**

The issue of state-owned land being offered to foreign and local investors on freehold or long-term leases, for establishing commercial projects, has been the subject of much debate both in Parliament and the media. The public debate is focused mostly on prime land in Colombo city. However, the arguments for and against the sale of state land also apply to transactions in other parts of the country. One extreme argument is that none of the government owned-land should be divested to any local or foreign investors but allowed to remain with the state, whether productively used, under-utilised or completely unused. The opposite of this argument is that the state should not own any land other than for security, environmental or other such reasons, while allowing any enterprise to utilize other land for producing goods and services thereby generating employment and increasing incomes.

#### **Feudalism to Modernity**

Why has the ownership of land been traditionally considered a symbol of power, authority and even sovereignty, irrespective of its under-utilization in economic or commercial terms?

Historically, the ownership of land has been vested with the ruler and the ruling classes. Often the King himself owned all the land. Therefore, state or public ownership is a primitive institution, commencing from the time of slavery and persisting through the feudalism of the middle ages. Only during the past two centuries has the private ownership of land found wide acceptance.

In Sri Lanka 80 per cent (including forests, reservoirs and the like) of land is State-owned, making the government the largest single land-owner in the country. Under feudalism, ownership of the land was associated with power and wealth as well as the number of serfs over whom a specific Lord had control. With the emergence of mercantilism and subsequently industrialization, land-ownership itself lost much of its relevance to power, authority or wealth of an individual or a country. This process was accelerated in the West, as well as in some countries in the East such as Japan. From the second half of the last century, land ownership has

lost much of its importance, as well as its symbolic value, in almost all countries in the world. Even in Sri Lanka, post-independence developments particularly the emergence of a national bourgeoisie and industrial capital diminished the value of the ownership of land, unless such land was utilized in much more productive activity than during the decadent feudal era. The individuals or families from a feudalistic background, who could not transform their large extents of land into productive economic units through introduction of at least modern day agriculture, have ended up as only historical legacies. Similarly, the countries, where the state or a small feudal clan owned the land but did not utilize it as productive and economic units, would never have progressed or benefited from international trade and globalization.

### **Land in Creating Wealth and Employment**

It is noteworthy that very basic economic theory text books refer to land as a factor of production, together with labour, capital and entrepreneurship. Land can only become a factor of production if it is, or it can be, utilized for production or value addition for goods or services.

So in Sri Lanka the land, whether it is owned by the State or any other individual, can only be productive, if it is translated into capital in the sense of generating more wealth, income and employment. Taking this reality into consideration, successive governments have transferred state-owned properties to the local or foreign private sector for undertaking various commercial enterprises. In today's Colombo city, many of the landmark buildings – hotels, shopping and office complexes and apartments- are the result of such investment decisions by governments. In some of these cases, state- owned has been given to the private sector on a freehold basis while in other cases on long term (33 – 99 year) leases. If this land had remained as state-owned bare land, obviously today's Colombo skyline, as well as commercial activity, would have been unimaginably different. Therefore, in the modern world, a government just holding land without promoting commercially viable activity will only slow down economic development while keeping the entire nation backward and regressive in the global context.

### **From the Centre to the Periphery**

The need for proper disposal or divesting of government-owned land to the local or foreign private sector for viable projects should, of course, be extended to all parts of the country. The government has already made attempts to attract investors by releasing plots of land in the East, North West and South.

It is remarkable that the de jure ownership of very large portions of land (reported to be up to 80%) in the entire Anuradhapura district lies with the State. When the Pathfinder Foundation commissioned a study, in 2007, and held a public seminar (Sanvada) on the need for land titling

in Anuradhapura, small and medium-scale entrepreneurs stated emphatically that the major constraint in the district for commencing and expanding their businesses was the lack of titles for their land. One businessman claimed that it takes 15 – 20 years to work through the bureaucratic processes of the provincial and national administrations to obtain freehold land titles. Similar cases are reported in many other provinces. Most affected are, as usual, the entrepreneurs. Properly titled land is a crucial prerequisite for releasing value that can underpin rapid expansion of economic activity through growth of large, medium and micro enterprises.

### **Healing Long Lasting Wounds from the Conflict**

There is also urgent need for regularizing land titling and other related issues in the conflict-affected areas, particularly in the Northern Province. Internal displacements, dislocations, abandoning of land by those who have left the country amid turmoil and acquisition of land by the state due to security related reasons have affected many acres of arable and industrial land in the Northern Province. As the current administration wishes to promote foreign and local investment and develop SMEs in the area, rectification of this situation is a necessary condition. Proper titling of both privately and state-owned lands is a prerequisite for medium-term sustainable development and any form of reconciliation.

### **Let's Do Walk the Talk**

It is unfortunate that a few Colombo-based critics have taken up the issue of land in the Capital being sold or leased to local and foreign investors for income and employment generating commercially viable ventures without addressing the substance of the problem and possible solutions which have far-reaching implications for the development of districts, such as Anuradhapura, Hambantota, Jaffna, Moneragala, Polonnaruwa and Vavuniya. The Pathfinder Foundation recommends the sale or lease of state-owned land for large-scale local and foreign investment projects as well as for SMEs through a speedy, transparent and accountable process in all parts of Sri Lanka. Secondly, the government should take early action to provide freehold titles instead of the so-called permits, licenses and other legal documents. Thirdly, action should be initiated in the conflict-affected areas to address land-related issues through a transparent and consultative approach so that an investor-friendly environment is created and concerns of the affected parties are addressed.

This is the Thirteenth in the series of Economic Alerts issued by the Pathfinder Foundation.

Readers' comments via email to [pm@pathfinderfoundation.org](mailto:pm@pathfinderfoundation.org) are welcome.