

THE DAVID HUME INSTITUTE



**A FLEXIBLE HOUSING SYSTEM  
FOR THE GLOBAL MARKET**

**Sir James Mellon KCMG**

**The Hume Lecture 1994  
30 November 1994**

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**Sir James Mellon KCMG** is Chairman of Scottish Homes. Though he is deeply grateful for many helpful discussions with colleagues in Scottish Homes in the preparation of this Hume Lecture, nonetheless, the views expressed in this Hume Lecture are his own.

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## FOREWORD

This is the text of the Hume Lecture 1994, which was given by Sir James Mellon KCMG on 30 November 1994 in the Wellcome Theatre of the Royal Society of Edinburgh before a large and distinguished audience. Sir James' themes are of vital importance in a fast-changing world, and The David Hume Institute is pleased to provide a vehicle for their wider circulation in the present paper.

It is customary and necessary to note that the views expressed in the publications of The David Hume Institute are those of the authors alone; the Institute, as a charity and non-political organisation, has no collective view or standpoint on any of the issues ventilated in its output.

*Hector L. MacQueen  
Executive Director  
November 1994*

## The Mistakes of the Past

Scottish Homes is the National Housing Agency. What has a Scottish housing agency got to do with Global Markets? The Global Market is far beyond the reach of a Scottish Quango set up and generously funded by the Scottish Secretary of State to improve housing in Scotland. Housing is local. What has housing got to do with Global Markets?

The answers lie in the mistakes made in the past and in the need in future for a housing system which matches the requirement to be competitive in the Global Market. Over the last century, Scotland has produced a remarkably inflexible housing system which could not respond to, or relate to, the overall context in which housing operates - the context of jobs, education, social welfare. Today's overall context is the Global Market. That is the new context for our jobs, education and social welfare. We need a housing system that can respond flexibly to the requirements of that new context.

In the past, our housing system neglected the overall context. Just producing houses was what mattered. This has involved grievous costs. Building and then, not much later, having to improve social housing, has led to high life-costs for the buildings alone. 552 houses in the Hutchesontown complex in Glasgow built in 1965 and partly refurbished in the 1980s, have so far cost £34M at 1994 prices (£62,000 per flat): we plan to spend a further £25M in a full refurbishment by 1998 bringing the cost per flat up to £108,000 at 1994 prices. These figures can only be orders of magnitude, but I have been told that if you take account of the social costs, the cost to public funds over the twenty years before the present Partnership was formed in Ferguslie Park in Paisley, has been of the order of £100,000 "per person". We are dealing with a housing system which has regularly produced very expensive failures. Of course some experiments in social housing like the Skarne blocks in Whitfield, Dundee, are obviously ugly and unfriendly, but in general the size, form, shape of housing would not be the issue so long as it satisfied the consumer. The main reason for public sector failures is that they took little account of the context of jobs, education and social welfare. Put starkly, the housing problems of the 1990s will not be



solved by allocating people to nice semi-detached houses if the housing does not relate to their requirements for jobs, education and social welfare.

One possible short history of the last hundred years of housing in Scotland could be that industrial migration into the towns was so quick, so huge that the housing system in the towns was swamped. Glasgow - a little Heidelberg of the north in 1830 - became, within seventy years, the fourth largest city in Europe; the second city of the British Empire; and had one-seventh of the population of Scotland within two miles of the Tron.

My own grandparents lived in the Cowcaddens. I can remember the house, and I have to say - in memory of my grandmother - that it was scrupulously clean. In my mind is a picture of the scrubbed wood beside the jaw-box. (A sink with a water-tap). She and my grandfather raised a family of nine in two dark rooms with a shared toilet on the stair. These were the good houses. But people in this audience can still remember what the rest of the housing in the Cowcaddens was like as late as 1950, or some of the housing in Dundee, or in Edinburgh when I lived in a slum in the High Street in 1955. The reaction to this squalor - in Glasgow, Edinburgh, Dundee - was to say "This is not acceptable. We must replace it".

Replacement meant building nice new houses outside the city on green fields, but this solution to the housing problem of the inner city was insufficient. It dealt only with houses. It was based on head-counts, not demand. It produced continuous, uniform, mono-tenure housing, which was then allocated by "need" at low rents. There was little sense of how the people in the new houses would want, over their lifetime, to relate to jobs, transport, education, social life. By the 1980s it was clear that the problem of bad housing was not being solved by providing "good housing" - indeed, that "housing" was not the solution to housing problems. A much more complex, coherent approach was needed.

But the legacy of this history is that we still have in Scotland, a high percentage of our population housed in an inflexible housing system - a system that isn't capable of responding accurately to their requirements, but remains fixed in the past judgements of others as to what their needs will be. Professor Duncan Maclennan has

demonstrated<sup>1</sup> that one-quarter of those in public housing want to move to something smaller, and one quarter - that's 150,000 households in Scotland - want to move to something bigger. Effective mechanisms for exercising choice are not available. The system is not consumer-led. There is very little "consumer money" involved; consumers cannot trade within the system against their other expectations. Houses in Knightswood in Glasgow - four-apartment semis - purchased by sitting tenants, resell at £54,000, in Drumchapel a four-apartment flat at £29,000 - 54% of the Knightswood semi. The Council's rents throughout the system are, respectively £191 and £161 per month, a 15% difference. Rents are low with little distinction between the rents for a "preferred" house, and what is euphemistically called "hard to let".

It is also a matter of general concern that the Housing Benefit system is expensive (£10 billion in the U.K. in the current year). It should be a matter of greater concern that Housing Benefit is impervious to consumer preference. This does nothing to reduce the expense. Moreover, it further reduces the housing system's flexibility.

This public sector rental system does not allow the consumer to exercise choice in terms of money. There are, of course, other currencies. Unfortunately, these operate to reduce even further the flexibility of the system. People have either awareness and can play the system, or they have political power, or they have a job, economic power. If they have any of these, they will put themselves into what they regard as their preferred situation. Some estates are categorised as "good estates". They will try to get there. "Bad estates" they will try to avoid. But it is obvious that there will be a prioritising of schemes or even streets. Some areas in the allocation sector will be regarded as "better"; there has to be at least one which is regarded as "least desirable".

Before I turn to the effects of this, let's look at additional rigidity that comes from a series of legislative actions over the past century. In other parts of the housing system they are important. The decline of the "off the shelf" rented sector which we can call market rents, has

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<sup>1</sup>Moving On, Crossing Divides, a Report on tenant movement in local authorities and housing associations in England (Draft Report to DOE).



been very noticeable. We have gone well below the typical level for a Western European industrial nation.

#### Tenure structure of housing in various countries (%)

Country	Owner occupation	Social renting	Private renting
Germany w (1987)	38	15	43
Denmark (1990)	52	17	18
France (1988)	54	17	20
Netherlands (1990)	45	36	17
UK (1992)	66	24	9
Scotland (1992)	54	40	6

*Social renting includes public sector + Housing Associations or equivalent.  
Estimated from various sources and rounded to nearest per cent  
Figures for tenure categories other than those above have been excluded.*

The fair rents legislation has been withdrawn for much of the new stock that comes onto the market but it still holds sway in popular imagination, not least in the minds of Fund Managers who characterise the private rent sector as subject to "political risk". This has relevance for mobility of labour - and for home ownership too. The availability of a comfortable effective "off the shelf" rented sector is very helpful to those who eventually will wish to exercise their choice to become home owners. The decline in market rented housing is not to the advantage of those who seek to promote home ownership, as the Council for Mortgage Lenders will willingly tell you.

Again, tax breaks are a distortion; they are meant to be a distortion. There can be no doubt that tax breaks for home ownership have changed the pattern of Scottish housing for the better. I thoroughly accept the need to improve the balance of home ownership in Scotland, which was below 40% less than two decades ago. "Right to Buy" which has been even more successful in Scotland than in England has also prevented more widespread deterioration of Scottish public sector estates. There is still scope for expansion of home ownership in Scotland, indeed I would like to retain some gentle encouragement towards the first step into home ownership. But access to home ownership has, in the past, been promoted by the blanket use of tax breaks which, in the end, have created strains for

the control of consumer spending and of the economy.<sup>2</sup> I am hopeful that through the discipline imposed by the Global Market we will have seen the end of huge general and house price inflation and therefore of house purchase as a form of inflation hedge. Subject to a preference for some encouragement to new entrants to the home ownership market, I am content to see the present tax system developing as it is, satisfied that MIRAS will disappear, like the Cheshire cat, leaving only the smile behind.

These rigidities have important effects on the efficiency of the housing system as a whole. But I will concentrate on the rigidities in the public sector in Scotland, where the social costs of failure to respond flexibly to the new context will be heaviest and where there is the greatest potential benefit from a well-tuned response to the new context of jobs, education and social welfare.

The Scottish House Condition Survey of 1991 showed that social housing in Scotland is not, on the whole, intrinsically bad in its physical form. The uniformity, monotony, isolation and poor attraction for the consumer that is common, flow from the fact that public sector housing provision does not respond directly to the consumer.

Whether you are in the system and where you are within it, depends on someone's estimate of your housing need. Your place in the system may be influenced by your knowledge of how the system operates or, in the past, by political influence, or indeed by your ability to opt out of the system, if you have a job and can buy a house. Those who don't get what they want out of the system and have the power to leave the system can leave it. Those who can move within the system can move to their preferred area. Those who do not have any power will be left in areas which are "least preferred". It is an isolating as well as an inflexible system. Local management, tenant control, variety of tenure can all alleviate the effects of the allocation system. I have no doubt that in Scotland the community-based, Co-operatives and Housing Associations have shown a valid improvement on the performance of large-scale

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<sup>2</sup> Duncan MacLennan "A Competitive U.K. Economy - The Challenge for a Housing Policy" Rowntree 1994.

municipal estates. Nonetheless, that there will be some areas which will be judged to be "least desirable" and which people with power will then avoid, is inherent in the allocation system and cannot be wholly eradicated by housing management. It is the preponderance of the allocation system in Scotland that is the basis of the cycle of multiple deprivation.

For the avoidance of doubt, let me say clearly that examples of deprivation due to loss of industries can be found in Scotland, in rural as well as urban areas. But most of our deprivation is housing-led. Moreover, given the present housing system, a national increase in wealth and employment would not be enough to remove the blight of deprivation.

The costs of multiple deprivation are high. The costs of curing situations that produce multiple deprivation are very high, but it can be done. We are nearly there in Whitfield in Dundee, where we have refurbished or rebuilt 585 houses with £23 Million grant. Enormous amounts of money are required from public funds in order to redeem the mistakes of the past, particularly those of uniformity and planning which paid little account to the real requirements of the economy or of the consumer. But the cures for deprivation which call for large amounts of public money are already obsolete - not just because money is short and existing methods are expensive, nor even because there simply is not enough money for those methods to be applied coherently and consistently to all estates at once. That is still not the fundamental objection. The damaging fact is that there is no guarantee if, as we will, we cure Whitfield, or Castlemilk, or Easterhouse, that there will not be another area which comes into focus as being the "least desirable" and then becomes the most "hard to let". Dealing with the "worst first" in housing is not in any sense a permanent cure for the ills of multiple deprivation which follow from the allocation system. You cannot take away from people their right to refuse.

There was a "peripheral" estate six years ago in the middle of the most attractive town in the U.K. - Perth. It was the "least preferred" - Hunters Crescent - a blot on the lives of those who lived there till some very brave and good women got going. It is now called Fairfield, and is a balanced, much improved community, a credit to the Cooperative and Housing Association movement which has

done so much in Scotland to empower communities and redeem areas like this. We have good results from the extra £45,000 per house spent there. But another estate, I am told, is showing signs of now being "least preferred" - Hunters Crescent is being recreated. You cannot take away people's right to refuse - if they can.

The housing problem which Scotland faces is not an output problem. The days are gone when we could consider that building more houses, or rehabilitating more houses to put into the allocation system, was all that is required. I will give you examples of two kinds.

Three years ago, 4,000 houses of all tenures were vacant in Dundee, of which 1,700 were Council stock - 700 of which were available for letting. There was a waiting list of 4,000. This is not a situation that can be explained on the basis that "housing" was all that was needed to deal with housing problems. Even in a local housing system where there is "surplus", people still try to exercise their preferences by refusing housing "on offer". Dundee has grasped the implications of this imbalance and now gives a shining example to the rest of Scotland of strategic thinking in the housing field.

In Aberdeen, again three years ago, I was told by the Housing Committee that there were 15,000 people on the waiting list. The number was perhaps a treble count. Today's figure is nearer 5,000. Rents today as then for the 35% of Aberdeen's housing stock represented by Council houses are about £22 a week. Unemployment in Aberdeen is 4%. The inference is strong. You could build 5,000 houses tomorrow for those on the waiting list, but there would be every incentive for another 5,000 to appear and put themselves down on the list for a house that costs £50,000 to build and buy, but only £22 a week to rent, while you are waiting to buy it at a discounted value after 5 years. Aberdeen knows that its problems, the problems of success, are not going to be solved by massive increases in the public sector stock.

Much the same applies to attractive areas like, say, East Lothian. I am told there are 8,500 people on the waiting list for East Lothian. Can we solve their problems by increasing the stock of Council houses? If Planning Permission could be obtained, it would cost £450m to build another 8,500 houses in East Lothian. Provided they



were not built in a disastrous way and the ambience remained unspoiled, the waiting list for East Lothian would soon revive to levels of perceivable pressure.

It's not easy. Nationally, as well as locally, the problem of Scottish housing is not a simple output problem of "how many houses do we need? And how fast can we build them?" In 1992 we still had 104,000 more houses than households; and we calculated that 62,000 of these were genuinely "surplus" stock. The problem of Scotland's housing is a systems problem. The solution is a flexible housing system that will allow us to respond to the needs of the new context that is arising.

## **A Flexible Housing System**

Now what is a flexible housing system? Here's a definition that we worked out in Scottish Homes.

### **A flexible housing system is where:**

There is sufficient supply and variety of housing to respond to consumer requirements.

Housing provision is market oriented, and highly responsive to changing housing requirements.

People can choose and access for themselves the location and type of housing that suits their requirements best,

- all have freedom of choice and access between owning and renting, subject to their means
- those requiring adapted dwellings because of special needs have no difficulty finding them
- there is a fair and effective system of income support for those who need it.

It's the long term vision that we put at the beginning of our Strategic Plan. I don't ask you to believe that it can't be refined. What I stress today is the need to find a system which will give flexibility, i.e. a housing system which will allow us to relate continuously to jobs,



education, social welfare in the context of the world we have to live in. It *has* to be a real context, because we have learned that housing which is not related to people's real needs for employment, for education, for social intercourse, for enjoyment, for security, will soon produce elements of deprivation.

## The Global Market

The old order is changing and a new order is coming in. When I was at University in the late 1940s, I watched with fascination the Beveridge Report being brought into legislation and practice. We didn't know what would happen - but we knew big change was on the way and we had to respond to it. I have the feeling today that change on the same scale is now taking place in the context in which our own society operates. Housing policy after the Second World War was framed and executed in the context of a drive towards a full employment, national insurance, welfare state. Today's context is already different. Tomorrow's context will be very different. If major change, as dramatic as we saw after the Second World War, is occurring now, then I believe it is necessary to set housing policy into this new context of jobs, education and social welfare.

What is that new context? We have signed on for the single market in the European Union where goods, services, workers, investment can flow freely. Despite all the present imperfections, the trend is strongly towards a market throughout the European Union and beyond which in some degree matches the efficiency of the internal market in the United States. But this single market is only a more intense, a local variety of the Global Market. Goods are already exported round the world. Distance is of little object. Transport costs have become less of a restriction for services as well as manufactures. We are well used to cars from Japan or Malaysia, but nowadays we have computer work done overnight in Bangalore. Most important, investment moves freely and cannot be confined.

The Enterprise Agencies, Scottish Enterprise and Highlands and Islands Enterprise, have already taken this on board. Scottish Enterprise's strategy for its network is now based on their business being business - not "jobs", but "business" - profitable activities. It's a high-tech, high skilled, high wages world that we compete in. Our

Enterprise Agencies want to make Scotland competitive with the world outside in the Global Market. In the same context of the Global Market, Scottish Homes could say its "business is communities" - the creation, the maintenance, the development of vibrant, viable communities which will be competitive and maintain themselves in the Global Market. Of course Scottish Homes is also in the business of retrieving the failures of the past, but it's not in the business of giving old answers to the old questions in this new context. It's about creating the communities which will be viable and vibrant in the new context of the Global Market.

Now there are a number of inferences from our participation in the Global Market.

First for jobs. If you are competitive, you get good returns. This is a good feature. If you have high skills, which are competitive, you get high wages. This is why Scottish Enterprise and H.I.E. put so much emphasis on training. But the downside is that if your skills are not competitive, you won't get high wages; the "lower skill" job you could do may have been exported to another part of the world. You may not attain a wage that is acceptable to society. You may then be on Benefit. I already see in Europe a routine 10% unemployment rate, some of which I attribute to the downside of the high skills / high wage economy.

We may soon have an employment system, brought to us by the Global Market, which effectively segregates out those regarded as not skilled enough to compete in the labour market. Given that we already have a housing system which crudely and cruelly segregates out those whom society credits with less power and therefore with being less successful, the Global Market and our housing system together produce a dreadful possibility of a permanent underclass.

The second inference concerns investors. The Global Market, particularly inside the Single Market, is a market in which investment can flow freely. There is no doubt that the perception of higher taxes influences investors' decisions. This is true not just for the incoming investor, but also for the investor who is already there - in Scotland's case, the Scottish investor as well as the Japanese investor.

In 1991, the Comptroller in New York City found that for every \$100,000,000 of increased local taxes, 10,800 private sector jobs were driven out. In the simplest terms, higher taxes in New York meant that jobs migrated to say, New Jersey. We may not find as precise a law for Scotland as seems to have been found for New York City, but now, for the first time, the Single Market, the Global Market, introduces the thought that Governments are not the sole masters of their level of taxation; it is no longer a simple political decision for the voters of a country as to how much tax revenue they will produce; some of that decision is also taken by potential tax-payers - investors. If investors are not there, the tax base will reduce. It's a complicated situation which is hard to define, but easy to recognise, which will set some limits to the abilities of Government to tax. Now if there is an upper limit, whatever it is, to taxation and therefore to Government expenditure, has it relevance for housing? Yes - a trend towards a tax limit is not favourable to high expenditure cures for local deprivation, especially if, through the high-skill/high wage, low skill/no wage tendency of the Global Market, these cases are becoming more numerous.

A third inference. If there is a ceiling to tax revenue, then there will be a reassessment of social and infrastructure expenditure according to its contribution to the economy. We are already aware in the field of housing expenditure of a move away from a "grants" regime to an "investment" regime, i.e. the questions asked before expenditure is incurred are not so much "what do we need to spend?" but "what return will we see from this housing expenditure?" But the change in priorities will be more profound; it will intensify competition between policy areas. Education will, I expect, move up the league. In some years' time, housing may not figure as highly in the list of priorities that society draws up for public expenditure.

These three inferences have, of course, wider implications. My own view is that our Welfare State, based on general taxation to provide a generous safety net for individual necessity, reached its peak of effectiveness in the 1960s in a felicitous conjunction of low expectations and firmly rising incomes, at a time when control of investment by national Governments was still a practical possibility. I do not see these conditions operating now. I believe that we have to find a new and better welfare ecology inside our part of the Global



/Single Market - certainly a better one than has been achieved inside the Single Market of the United States. The moral case is compelling. But new methods have to be found. That is the larger problem and these are the wider effects of the inferences I presented. But let me stick to housing.

My contention is that the public expenditure we have seen deployed in housing over the last ten years may not be available over the next decade. The trend is against it. New methods which do not rely on high levels of public funding will have to be found if we are to remove bad housing conditions and multiple deprivation.

### **The Way Forward**

One further effect of the Single Market is already being felt in Scotland. Competition acts throughout the whole of the market. Gearing yourself for competition has to be in terms of attracting investment and jobs against all the potential suppliers in the European Union and even beyond. Livingston's new jobs were won against competition from California. Hoover jobs came to Scotland from Dijon. It was unfair for French newspapers to say that this was a matter of lower wages. It was much more complex, for new investment inevitably requires track records, good environments, skilled labour forces, the ability to get the precise labour force together that is eventually going to be needed by the investor.

Housing is only one part of your competitive strategy. Before you start on the individual parts of that strategy, you need a sense of where you are going. It is no use asking for "better housing" unless you know what that housing is for. It's no use saying "I want better housing in Castlemilk" unless you know what Castlemilk is going to do. It's no use asking for better housing for Castlemilk, unless you know why Glasgow needs Castlemilk and therefore what Glasgow is going to be like, and what Glasgow is for. Councillor Pat Lally has concluded that he has to have a "Vision for Glasgow". He is right. There are a dozen Councils in Scotland who are already talking to us of their requirements for their housing in terms of their idea of where they are going to be in the next 10 years and beyond. The question is not "How many new houses do we need" but "How do

we generate new communities which will be able to meet the requirements of the future”.

It's not all doom and gloom. The good news is that a lot of people in Scotland are already thinking about the Global Market. It's there. It's to be lived in. And not only can we live in it but we can live in it happily and competitively. If we do that, we can redress the mistakes that we have made in the past, and avoid them in the future.

Stirling has its vision for the Stirling Partnership. Dundee realises that its problem is to get its middle class back into Dundee, into the centre of Dundee, bringing back the people who commute from Perth or Broughty Ferry. Hamilton doesn't want to be a suburb of Glasgow. It's not going to compete with Motherwell for the light industry that's around. It'll take it if it comes, but it sees itself as the County Town for the old Lanarkshire. And now a Partnership is working to bring back life into the town centre - people, young people living above the shops, the pizza parlours, pubs, restaurants, all the things that will make an attractive County Town. Motherwell has its own vision - which includes an "Urban Village" on the site of the Ravenscraig Steel Plant. Moray and Nairn held a Conference to try to work out where their housing fitted into their vision for their future, and 200 came from far and near to learn. There will be some difficult choices. Aberdeen has already a successful vision for its Town Centre Partnership. It is aware that it has to create a full range of housing provision and its most urgent need looks like being for "off the shelf" market rents which would lessen the pressure on social renting and help those with better cause to be on the waiting list. Glasgow is well on the way. The work of drafting a "City Vision" for Glasgow's future in Europe has been formally launched. Over the next six months we will all work to help put flesh on the bones. Is Glasgow going to grow back to say 800,000? How will its strategy cover the peripheral estates which were built when Glasgow was nearer 1 million inhabitants? Would all the existing peripheral estates in their current form have a place in the future Glasgow? Inverclyde and Paisley and Renfrew have made great starts on visions for their peripheral estates and hopefully for their whole approach to its future.



We are working with these Councils to get a coherent strategy for their jobs, for their education, for their social life, for their attractiveness to investors, for their ability to hold onto good labour, to motivate and encourage the people who are born and have their lives in their area. Without this, to deal with housing alone, is a waste of resources - an insufficient solution. Once you know where you are going, you need to know where you are. We already have our Scottish Homes staff fully trained in applying the principles of Local Housing System Analysis. It requires these principles to be brought into the production and execution of local strategies by Councils, for our skills and the public resources that we bring with them, to be fully effective. This year we are beginning to use these methods in the tripartite discussions - Councils, Scottish Office, Scottish Homes - on Local Housing Plans. Then you have to decide how you're going to get from today's reality to tomorrow's vision. We need partnership for coherent strategies - partnership with Councils, L.E.Cs, the Private Sector. We all have to accept that single agency solutions have been too expensive in the past. In future we are not going to have the money to contemplate less efficient solutions.

We are moving into a new context, for employment and welfare, far removed from the Fifties and Sixties. We are going to see radical change in the amount and application of public expenditure. We have to introduce a housing system at the national level that is flexible enough to adapt to these changes and to bring in the resources, private as well as public, to help Scotland to adapt to these changes. We then have to encourage valid, flexible, local strategies for the villages, towns, cities of Scotland. Whether the community be rural or urban, you have to have some vision, some consensus as to what sort of community we hope or expect to find, and how it's going to be maintained. On that basis, we try to bring in the right housing to maintain and develop that society. It's already widely accepted that housing in itself is not the solution for housing problems. Solutions for housing problems have to be found in a change of system at the national level and local strategies which relate to jobs, education and society's good.

The larger Global Economy in which we now operate will bring enormous benefits. Our task will be to "think global" and "act local"

so as to make those benefits available to all. It is clear that if the inflexible housing system persists, it will deprive more and more people of the chance to participate in the wealth and benefits created by the world economy. Left as it is, it will segregate and exclude them from the rest of society. For the sake of a just society, the aim has to be to produce a flexible housing system for Scotland in the Global Market.

## The David Hume Institute

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