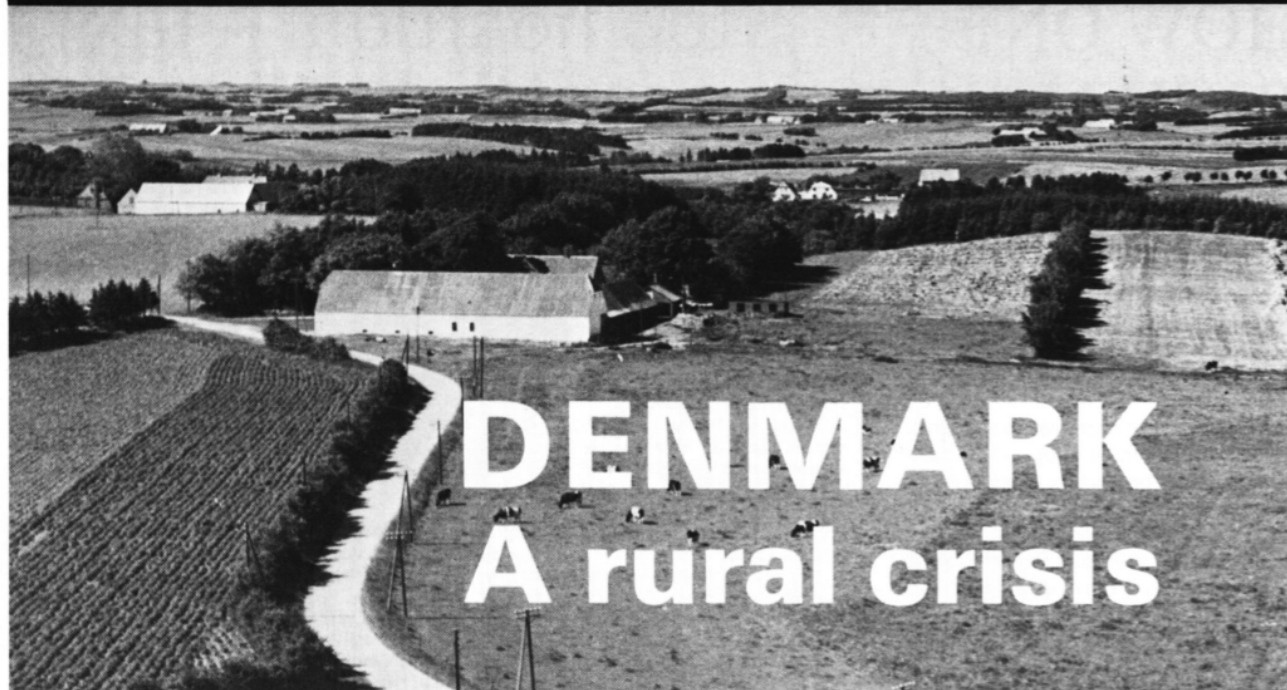


# INSITE investigates . . .



**D**ENMARK's political and budgetary crises are related and they stem directly from the boom in agricultural land prices between 1970 and 1978.

Blame for the current social and economic difficulties is popularly attributed to high interest rates. This is based on a superficial analysis, as a result of which, faulty solutions are being proposed.

The twin problems facing Prime Minister Anker Joergensen's minority Social Democrat government are high unemployment and a rural crisis in which a growing number of farmers face bankruptcy. The government proposes two courses of action, which in the past year have caused political difficulties with Joergensen's coalition partners:

- Increased spending on make-work projects for the unemployed; and

- The creation of a Land Bank to channel aid into agriculture. The government proposes to finance its schemes through increased taxes on consumers and financial institutions.

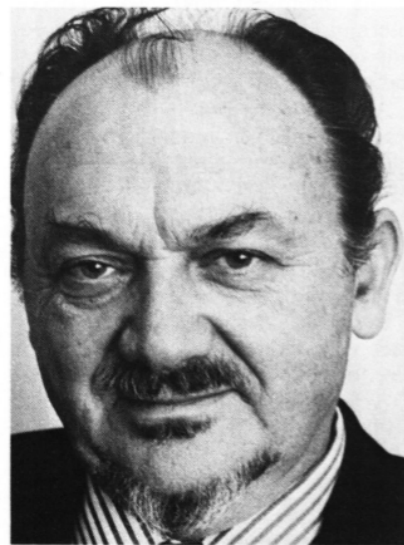
**A**RE Denmark's economic problems the result of high interest rates?

Farmers claim that high mortgage payments are crippling them. About 10,000 of them were unable to meet their half yearly repayments in June, and 2,000 face immediate foreclosure.

The government proposed that a Land Bank could lend up to Kr 10 bn at interest rates of under 5 per cent against security in the value of the property.

This debt reconstruction would probably secure the future of over half the 8,000 farmers threatened next year. It is currently estimated that 15,000-20,000 of the 54,000 full-time farms will be foreclosed over the next two or three years unless the government comes to the rescue.

Most farmers appear not to like the government's plan, which ties the value of the mortgage to the value of the land.



● Anker Jorgensen

- The government claims that its aid must not lead to a capital gain for farmers.

- The farmers fear that the plan would lead to creeping nationalisation of their land.

Mr. H. O. A. Kjeldsen, President of the Agricultural Council (the umbrella organisation for all farmers' organisations) has demanded an alternative plan.

He says that the government should reduce land taxes and the wealth tax, and refinance the debts of the hardest hit farmers at subsidised rates of interest.

**T**O WHOM – or what – do we attribute the farm sector's problems?

The current crisis is the culmination of an incredible boom in land prices that goes back to the beginning of the 1970s.

In 1966, just 7 per cent of all agricultural land was farmed by tenants. Then, in the peak period for land speculation (1970-74), 49 per cent of all farm sales were to non-farmers. This increased the area of tenanted land to 14 per cent of the total, and triggered off the escalation in rents and land values that continued up till 1978 (when just 24 per cent of farms sold on the open market were bought by non-farmers).

Working farmers were forced to compete with urban speculators. Small-holders suffered the steepest

competition; land values rose faster in the 1-5 hectare range than for land on larger farms (see table). The officially assessed value of agricultural holdings doubled between 1973 and 1977, rising from Kr. 19.9m to Kr. 38m.

In 1978, only 26 per cent of farms were bought for cash. Most prospective farmers – or those wishing to expand their operations – had to borrow heavily. Thus, already deeply in debt because of the price of land, the rise in interest rates in the past two years was the last straw that now threatens to break the business backs of a large number of farmers.

**F**OLLOWING the speculative fever of 1970-74 came the boom as a direct result of the Common Agricultural Policy.

Farmers were told that, by agreeing to go into the Common Market in 1973, they would prosper. The agricultural correspondent for the *Financial Times* was present during the national debate on entry into the EEC. In an article which discussed the debts of the rural sector, he asked:

"What happened to this thrifty hardworking farming people? Why have they cast aside their natural caution and charged like lemmings into such a sea of debt? It began with Common Market membership. Among the inducements being held out to farmers was that their market prices would at least double by the end of transition, which they did."

Food prices doubled as a result of the restrictions placed on the supply of produce, and these were consequently capitalised into higher land values. The process did not stop until 1979, when the government imposed a special 0.7 per cent land tax to cream off the benefits which the farmers would otherwise have gained from a 5 per cent devaluation of the krone. Land prices levelled off in 1979, and dropped about 40 per cent over the past two years.

There has undoubtedly been a squeeze on incomes over the past two years, and the rise in interest rates has

become an *additional* burden. In Canada last year, farmers brandished shotguns as their way of warning bankers what would happen if attempts were made to bankrupt them.

But interest rates are a short-run phenomenon. In the long run, agriculture requires a programme for deterring the rapid rise in land values of the sort that confronted farmers throughout the 1970s.

**D**ENMARK ought to be able to provide herself with a viable programme of reform. Seventy years ago the vast majority of farmers passed a number of resolutions demanding the use of land value taxation as a means of deterring speculation.

Land value taxation, they said, would make land cheaper to obtain for farmers, and would enable the government to reduce taxes on labour and its products.<sup>2</sup>

The farmers' representatives, then, ought to be re-examining the benefits of a higher – not a lower – tax on land values. The existing tax does not discourage speculators from buying land as a long-term investment rather than for its productive capacity.

Mr. Joergensen's proposals, however, are designed to support existing levels of land values by reducing family living standards and re-routing institutional funds away from productive investment.

Current fiscal plans, then, would undermine any success that the government may achieve in its job-creation projects. It is uncertain how long the present government can last in power. The next election ought to provide the political parties with an opportunity for thoroughly re-examining Denmark's economic policies.

#### REFERENCES

1. John Cherrington, 'Charging into a sea of debt', *Financial Times*, 30 10 80.
2. Max Hirsch, *Land Values Taxation in Practice*, Melbourne: Renwick, Pride, Nuttal, n.d. (1910), p.116.

#### DENMARK: Agricultural land values 1970-1978

	Rent per <sup>1</sup> ha : D.kr.	Land values (1960-1964 = 100) <sup>2</sup>		
		1-5 ha	5-10 ha	10-100 ha
1972/3	490	—	—	—
1973/4	628	326	310	277
1974/5	703	—	—	—
1975/6	853	759	691	544
1976/7	997	964	864	672
1977/8	1,121	1,147	1,061	837

1. Official rent statistics are not available. Rental data derived from accounts collated by the Federation of Danish Farmers' Unions. Rent is gross, excluding land tax and insurance of buildings.
2. *Statistics on Danish Agriculture 1979*, Federation of Danish Farmers' Union, 1979, p.76, Table 102. Data for Jutland open market sales.

## KENYA

# LAND TAX – A TABOO NO LONGER

KENYANS are discussing the possibility of introducing a tax on land as a way of dealing with its demographic problems, writes Paul Knight.

With a population of 17m, Kenya has the highest growth rate (4 per cent per annum) in the world.

Only 17 per cent of Kenya's land is suitable for cultivation. Eighty per cent of the people live off the land, and at present growth rates there should be 34m people in the country by the end of the century.

According to Victoria Brittain: "Today there is talk of ceilings on land holdings and a land tax which were previously taboo subjects."

A Land Commission is to be set up, but the prospects of rational change in the land tenure and fiscal systems are jeopardised by the current political turmoil. In June, Kenya officially became a one-party state under the ruling African National Union (Kanu).

This follows a crack-down on dissenters ordered by President Daniel Arap Moi. Six opponents were detained. The army successfully foiled the recent coup attempt.

A re-examination of Kenya land tenure is made urgent by a number of recent developments.

Land that had been sold by the Nandi, a tribe of pastoralists, to a tribe of farmers, the Luhya, is now the source of friction. The Luhya's success on this land has encouraged the Nandi to withhold additional land. This will reduce the output of food and create inter-tribal tensions as the population grows.

There have been mass protests at the size of some commercial farms – an emotive issue in a land-starved country. It is in this context that the redistributive effects of land value taxation should be examined. It remains to be seen, however, whether rational debate will be allowed to flourish within the one-party political system.

\*Victoria Brittain, 'Africa's crisis catches up with Kenya', *The Guardian*, 7.5.82.

## GREECE

# TAXED OUT OF A JOB

GREEK Finance Minister Emmanuel Drettakis has resigned. No official reason was given, but news agencies reporting from Athens suggest that he stepped down because of a decision to cancel a proposed property tax.

Mr. Drettakis stirred up controversy in February when he invited the public to telephone his ministry and denounce tax dodgers.