

## DENMARK

## The Danish Social Democratic Party and Land Value Taxation

By HANS P. ANDERSEN

*(Translation of a special article in SOCIAL DEMOKRATEN, Copenhagen, 29th January.)*

Although the Social Democratic Party does not see the ultimate aim of its efforts attained in the complete collection of land values for public purposes, yet this policy, which in reality means a socialization of the land, has very naturally a foremost place among the objects pursued by the Social Democratic Party. The best indication of this in practical politics is perhaps the standpoint the Party has adopted and the practical action it has taken in connection with legislation on property taxation and other legislation bearing on this subject.

## THE REACTIONARY LEGISLATION OF 1902

At the beginning of the 20th century, when the great constitutional change took place, Danish peasants gained their influence in politics and were interested in promoting a general reform in taxation which, among other things, was directed towards converting the old hard-corn tax \* on country lands and the building taxes in the towns into a general tax on fixed property, applying in town and country alike. But the way in which this was carried through clearly showed the influence of the class interests.

In the first place it meant that, so far as the countryside was concerned, a system of taxation was abandoned (namely, the old hard-corn tax) which, although technically speaking out of date, did have the good feature that it was a burden upon land. It was given up in exchange for a form of taxation that was based upon the objectionable principle of falling upon land and buildings with equal weight. There was to be for the future a periodic valuation of all properties in the country according to their value in the open market, and on the basis of these values all properties were subject to the new property tax.

In the second place, the new assessment brought about a reduction in the taxes levied upon agricultural land; but, more important still, this transference—because, as explained, the taxes were now levied on the value of both land and buildings—resulted in a reduction of taxation for the large land holdings where buildings were few in relation to the area, and where the land had a fairly low value because the cultivation was not intensive. On the other hand, the small holdings, such as those of the housemen or cottars, and the allotment holders, which have a high building or improvement value, relatively speaking, and where the land had a higher value on account of intensive cultivation, were much more heavily hit by the new taxation.

\* The hard-corn tax was based upon the fertility of the land, which was classified into some 24 different grades. It did not take account of improvements made to the land, and was payable whether the land was used or not. It was first established in the 17th century, and was for a long period a very close approximation to a pure land-value tax. It did not, however, include values due to extraneous circumstances, such as access to roads, railways, etc., which in recent times have influenced the value of land. The great development of Danish agriculture and the existence of a numerous class of small holders is largely due to the operation of this tax.—EDITOR, *Land & Liberty*.

The relief which the large land holders got was all the more unfair because the previous hard-corn taxes had long ago become a fixed charge and had been discounted in the selling price of the land. The reduction of taxation, therefore, meant that these properties which had benefited most from the reduction, increased correspondingly in selling price, and it happened that those farmers who were the proprietors of their farms pocketed the advantage.

Purchasers of such land thereby exchanged what was a public mortgage for a private loan, because they had to borrow just so much more before they could acquire the properties at the higher prices. This result, so unreasonable and so unfair, was not compensated by the fact that in the towns a certain amount of progress took place by levying the taxation on land which had formerly been levied on buildings alone.

## OPPOSITION TO THE GENERAL PROPERTY TAX

From the beginning, the Social Democratic Party were definitely opposed to property taxation that was levied upon buildings and demanded in place of it a pure land-value tax and a tax on the increase in land values.\*

When the tax legislation was discussed in Parliament in 1902-3, the Social Democratic leader, Mr Borgbjerg, made the following declaration: "We maintain that periodic valuation should be made every fifth year and we propose that there should be a separate valuation of the land. We will thus succeed in obtaining the basis for a future development in a desired direction. Thus, upon the basis of a five-yearly valuation of the land we could impose an increment tax falling upon the increase in value that has taken place in the previous five years and which is due to the growth of the community. It would be difficult to find a more sensible tax."

In this connection, one must remember that the importance of choosing one or other basis for State taxation on property is not so great as the need for doing the same thing in regard to local taxation, which on the countryside makes up a large part of the local revenues.

The Social Democratic Party in the succeeding years has worked steadily to bring about the abolition of taxes upon buildings, because in the last analysis this is a tax on consumption which, among other things, makes dearer such an elementary necessity of life as a dwelling-place. Instead of this, the Party has pointed to the land as the basis of taxation which ought alone to be used, because this tax could not be shifted upon consumers. Buildings are produced by labour and their value depends on the cost of production. Before the building trade will undertake to build anything, they require in all circumstances a return on the capital invested in buildings. Accordingly, if a tax upon buildings is imposed and if the house rent cannot be increased to the extent of the tax, because for the time being there are not enough dwellings, a brake will be put upon new buildings until house rents rise to the degree that the tax can be met. In this connection the property tax,

\* Wherever reference is made in this article to taxation on increased value or increment, it must be understood that in Denmark this connotes an annual tax levied on the increase in the value of land at any periodical valuation as compared with the value at a previous valuation. It does not mean a tax levied at irregular intervals upon such land as happens to be sold. It is levied in addition to the ordinary tax imposed upon the whole value of the land.—EDITOR, *Land & Liberty*.

as then levied, was specially unfair during and immediately after the war when we had the greatest difficulties in producing buildings at a remunerative price.

Quite different are the circumstances with regard to land, the value of which is not dependent upon any costs of production, but is derived partly from its natural capacities and partly from its situation. Owners of land have no recourse against a tax that takes from them either a part or the whole of the income from land as such by trying to decrease the supply of land and thus send its prices sky-high.

#### THE NATIONAL TAX OF 1922

Eventually there came a reaction against this unsound tax system. When the law of 1922 for the Land and Property Tax was adopted, although taxation of buildings was not abandoned, provision was made for distinguishing between a tax on land values and a tax on improvements, whereby the rate of the land-value tax was made higher than that levied upon improvements, namely, 1.5 per thousand on land values and 1.1 per thousand on the value of improvements apart from the land. Moreover, the law provided that at every periodic valuation there was to be a separate assessment of land values in respect of every separate property, and the land value was defined as "The value of the land in its unimproved condition, having regard to its quality, situation, and the use for which it is adapted." With respect to agricultural land, a special provision is made that the value of a given piece of land of given quality and situation is to be valued in accordance with the prices current in the district for land of similar quality and situation, and on the assumption that the land belongs to a medium-sized farm in an average state of cultivation.

As may be seen from these principles of valuation, the practice is abandoned of levying the same tax upon that part of the value of the property which is created by labour, or is the fruit of special industry or enterprise—which is often the cause of the high selling value of small holdings—as upon that part which is the gift of nature or the result of communal enterprise in roads, railways, and the rest. In these assessments the difference between the value of the property as a whole and the property of the land alone, with a deduction of 2,000 crowns (£100) for each property, gives the amount on which the tax on improvements is levied.

#### LOCAL TAXATION OF LAND VALUES

This change in taxation involved only a transference but no increase in the total amount. The Social Democratic Party gave its support to the legislation because it meant an important step in the right direction. The road was thus paved for a corresponding change in local taxation. This was carried through in 1926 by the first Social Democratic Government, under which local taxation on real estate is assessed in such a way that the rate of the tax on improvements is three-quarters of the rate levied upon the value of land alone. A subsequent alteration has been made so far as the county taxes are concerned, whereby the county tax on improvements is three-fifths of the rate of the tax on land value.

Following the provisions of the State tax, there is a similar tax-free deduction from improvement value before the tax on improvements is levied; but the amount of this rebate is to a certain extent left to the option of the local authorities. Then, again, if application is made, a further rebate is given of 1,000 crowns for every dwelling that a building may contain in excess of one. The proposals that the Government

had introduced went much further. It had been proposed that the tax on improved values should be not more than two-thirds of the rate of the tax on land alone, and the rebate in respect of dwellings should have been 2,000 crowns. Furthermore, it had been proposed for the sake of promoting building that there should be a rebate of 12,000 crowns (£600) for every separate dwelling built after the 18th June, 1916, but this had to be sacrificed in order to get Liberal support for the Bill.

#### THE LEGISLATION OF 1933

Generally speaking, the 1926 reform did not affect the respective amounts of revenue derived from the local income tax and from real estate taxation, but in the law of 1933 a certain change did take place. One of the measures taken for combating the crisis in agriculture was to give a State subsidy or subvention of 20 million crowns for a year to meet the charge of the county tax on land value, and it was also agreed to give an annual subvention of the same amount as a maximum, but varying with the percentage profit derived from agriculture\* and disappearing when this percentage rose to the standard reached in the year 1929-30, which was 4.3 per cent.

The Local Taxation Act of 1926 gave an opportunity, although very modest, for the levy of a local tax on increased land values. At the present moment, while the towns are growing, agriculture is under a cloud and this form of taxation has more particular interest for the towns. The increase in value that attaches to lands in the neighbourhood of towns is by no means gratis. The urban growth demands from the public authority much expenditure in the making of roads, tramways, etc. Accordingly, it is obviously wrong that the effects of such expenditure and the increasing values of land should be appropriated by private speculators.

The Law of 1926 was restricted in only giving the local authorities the option to adopt a tax on increased values, so that its adoption depended upon the political convictions of the various local councils, and this tax could only be applied within very narrow limits.

The provisions of the 1933 Act are a very material advance upon those in the 1926 Act, although even the Act of 1933, because it required the support of the Liberals, is less than the Finance Minister, Mr Bramsnaes, proposed in 1929. According to his proposal the increment tax was to be levied half-yearly at three-quarters of the actually ascertained increase in the value of land not due to any private improvements, and this tax was to be of the same amount as the annual rent payable by the small holders, who obtained their holdings out of the public lands under provisions of the Law of 1919. That is to say, a tax corresponding to the current rate of interest on first mortgages. The proposals of Mr Bramsnaes further required that the increment tax was to be collected by the State and would not require any resolution of a local authority.

The Law passed in 1933 applies to the whole country, but is limited to a contribution each half-year equal to 2 per cent of half of the amount by which the land value of the property is greater than it was at the valuation of January, 1932, taken as the "datum line," but is subject to a provision which reduces the amount of the assessed increment. (Briefly explained, the tax is levied on the amount by which the increase in value of any piece of land exceeds the average increase in the value of the

\* In Denmark an official calculation is made every year which shows the average return earned by capital (not including land value) invested in agriculture.—EDITOR, *Land & Liberty*.

whole of the land in Denmark. It was a concession made to the landed interests during the passage of the Bill.—TRANSLATOR.) But this abatement of the assessed increment is considerably less than the exemptions allowed in the 1926 Act.

#### THE PRESENT POSITION

How far we have got in regard to these taxes on real estate may be illustrated by the following figures. In the financial year 1931-32, altogether 110 million crowns (£5,500,000) of taxation were levied upon fixed property, of which 60 million crowns (£3,000,000) was in the form of land-value taxation. Of the total amount, the State gets 10 million crowns in revenue and the local authorities 100 million crowns. At the same time, the State levies something like 105 million crowns and the local authorities about 170 million crowns in income taxes.

The land valuation of 1927, which is a basis for the taxation above mentioned, shows an aggregate value (land and improvements) for the whole country of 13,200 million crowns (£660,000,000), and of that amount the value of the land alone makes 5,100 million crowns (£255,000,000). Compare the total land value with the amount of land value taxed and it will be seen that this tax amounts to about 1 per cent of the land value. As for the tax on increment values, it is not yet of more than little financial importance.

In conclusion, it is to be remembered that the Social Democratic Party, in an important connection outside the actual question of tax legislation, has worked for establishing a reform in the occupation or possession of agricultural land, which will secure for the community the increase in land value that is due to the activities of the whole community. That was done in connection with the small holdings set up under the Law of 1919 with respect to the alienation of public lands.

This legislation had reference in particular to the holdings established on the land that was surrendered to the State when the feudal and entailed estates were enfranchised, and also on the former glebe lands. On these holdings the holder, after paying an annual rent equivalent to the land value, enjoys, practically speaking, the same right of disposition as a freeholder. He is only precluded from cashing in the increase in land values, and in compensation—which is the actual state of affairs at the moment—he is spared the loss of any fall in land values. Many landholders who in these latter years have felt the curse of their mortgage burdens, must have had their eyes opened to this form of landholding and would gladly see their private debts, which are fixed in amount and interest even if the bonded value vanishes away, converted into public ownership of this sort.

It ought also not to be forgotten that the local authorities, which are often large landowners, have special facilities, by fixing the conditions of sale of building lands, to ensure that future increases in the value of land accrue to the community. In that connection and in Copenhagen the Social Democratic municipality has achieved a great deal.