

The Danish Government

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Report to the Tenth International Conference on Land-Value Taxation and Free Trade

THIS is a short report. Some Georgeists will perhaps be interested in hearing something about what is happening under the new Government in Denmark, because it is still rather unusual that Georgeists take an active part as members of a government.

The ideas of land value taxation and free trade are old in Denmark. Therefore, the philosophy of Henry George is popular in Denmark. It is blood of our blood.

Denmark has only one chamber in its Parliament with 179 seats. Of these "Danmarks Retsforbund"—what you call the Justice Party or The Danish Georgeists—had only 6 before the election in 1957. There are 6 parties represented in the House, and some representatives for Greenland, the Faeroe Islands and Slesvig. In the election of May 14, 1957 the Social Democrats went down from 75 to 70, and the Socialist minority government resigned. The Liberals (Venstre) gained 3 seats and rose from 43 to 46. The Conservatives got 30, unchanged, and the Radical Liberals 14, unchanged. The Communists were reduced from 8 to 6.

The Georgeists, in spite of the Gallup predictions and prophecies of annihilation, gained 3 seats and rose from 6 to 9, an improvement of 50 per cent in representation, and 60 per cent in votes. Even if 9 seats in a house of 179 is not everything, it is something, and the result of the election gave the vested capital interested in the preservation of monopolies a shock.

The victors of the election were the Georgeists and the Liberals, both of whom had gained 3 seats. There were some negotiations between the two parties with a view to forming a liberalisation-government, but the Liberals' plans were not liberal and in any case the combined strength of the two parties was too small. If the Conservatives had joined such a government, a coalition government would have been a possibility, but the Conservatives are not liberal, but protectionists, even if they are against socialism.

The Radicals proposed a strong majority-government, consisting of the four biggest parties, and nobody can deny that 160 seats would be a majority in a house of 179, but neither the Socialists, nor the Liberals, nor the Conservatives wanted to enter such a government—and then the majority was gone.

From 1950 till 1953 the Liberals and the Conservatives had formed a minority coalition government, and now they proposed to try again. But both the Radicals and the Socialists declared that they would vote against such a government, and the Georgeists would not support it, but preferred to wait and see. Thus this plan failed.

The Radicals then proposed that the Liberals alone should form a minority-government and negotiate for support from the other parties; but the Liberal leader, the former Prime Minister Mr. Erik Eriksen, would not consent to this out of loyalty to the Conservatives, with whom he had been in close co-operation between 1950 and 1953. He hoped for renewed co-operation in the future.

It is believed that had the Conservatives suggested that Erik Eriksen should form a Liberal government, he would have done so. But they did not. In this way the Conservatives made a Liberal government impossible—and the new government possible.

It was in this situation that the Georgeists suggested forming a majority-government consisting of the Social Democrats, the Radicals and the Georgeists with land value taxation as its foundation and uniting cement. All three parties, to a greater or less extent, support land value taxation.

THE PRESS WAS OUTRAGED

Most of the Danish newspapers are owned by the wealthy Conservatives and Liberals, and they grinned at this curious idea of a government which included such queer people as the Georgeists. They firmly believed that the negotiations would break down, and then, after all, a Liberal-Conservative government would be the happy ending. But, in spite of the newspapers, the negotiations succeeded, and the new government was formed. The newspapers flew into a rage and attacked the Georgeists, charging them with everything short of murder: They had deceived the electors! They had broken their promises! They would ruin the country!

Had the Georgeists refused to join the government, I am sure, the papers also would have accused them of breaking their promises, saying: "The Georgeists have been demanding further land value taxation for years, and now when they can have it, they do not dare—what silly cowards!"

Some people believe that the vested interests behind the land monopoly have said to be the two old parties: "What an awful mess you have made. You have allowed the Georgeists to play the ball right up to the goal mouth. The only way to prevent them from scoring is to attack the Georgeists with all means available so that they break down." And they tried it — without success — using a barrage of articles, pamphlets, cartoons, backbiting and anonymous letters. In a way it is a compliment because few people use their elephant-guns against small game.

The newspapers prophesied that everything would go wrong. The price of bonds and stocks would fall, interest

rates would rise, the balance of foreign currency would shoot down, production would stop, savings and investment would shrink, unemployment would swell to enormous proportions and the younger generation would emigrate.

And what happened? The opposite! The deficit in the budget was made good. The great deficit in foreign currency of a quarter of a billion kroner was changed to a surplus of one and a quarter billion kroner, the greatest surplus in many, many years. The price of bonds and stocks rose, so that half of the loss due to depreciation has been regained, and people can borrow money to build and buy more cheaply. The effective interest on bonds has fallen one and a half per cent—a great help to the building industry. The discount of the National Bank has fallen one per cent—a great benefit to trade and enterprise. Savings have risen enormously because people have more confidence in the value of Danish currency. Investments have risen. Exports of industrial goods rose 10 per cent last year. Construction of buildings for industry and trade rose by 35 per cent during the same period. Unemployment is at its lowest level for many years, and emigration has dwindled to less than a third of what it was. The whole economic atmosphere and temperature has changed in two years.

Where is the explanation? Some of it is due to international conditions with falling import-prices on raw materials, but the export-prices for Danish agricultural products have not been good, due to protectionism, restrictions and state-subsidies in other countries. Some of it is due to the new government, not to the Georgeists alone, but to the co-operation between the three parties in power.

Inflation is a scourge in most countries. Before the election in 1957 there was a whisper of a new devaluation of the Danish currency. But, when the new government was formed, confidence, which is very precious thing, was regained, and people began to save and invest. The energetic balancing of the budget is another factor.

It is evident that, when three different parties join in a coalition, compromise is necessary. The Georgeists are for land value taxation and free trade, and against inflation and taxation on labour and buildings but they cannot expect all their wishes fulfilled at once. They will have to vote for many things that they are against, but which would have been carried through in any case under other governments—in order to gain results that would not have been gained under other governments. A small party of 9 has too little power in Parliament, but in a government it has influence.

In the cabinet the Social Democrats have nine members including Mr. H. C. Hansen as Prime Minister. The Radicals have four members, and the Georgeists three, one being the Minister of internal affairs, one Minister of Fisheries, and one a political Minister without portfolio. As this is the first time that the Georgeists have held office, it is important to stress that the country is run by a three-party government, and not by a Socialist government with participation of others.

LAND VALUE INCREMENT TAXATION INCREASED

Last year the government passed an act improving the law governing the taxation of increments in land values. This taxation is now 4 per cent of all unearned increments since 1958 with the exception of general rises due to conjecture or inflation. The Georgeists are against such an exemption, but have not yet been able to convince their partners.

Post-war rent control of old flats in the towns led to a great disparity in the rents charged. The Coalition government restored a free market in rented accommodation with the result that these artificial differences have disappeared. Higher house rents would have conferred great benefits on the owners of real estate. Therefore, in the towns the municipal land value tax has been more than doubled—increased from 1.2 per cent of the assessed capital value by 1.4 per cent to 2.6 per cent. This is a permanent land value tax which the municipalities are not allowed to reduce.

CLEAR TAX SHIFT FROM LABOUR TO LAND

To this was added a temporary tax on the capital value of old buildings—the new are tax free—in order to equalise the conditions, and because the owners now were able to obtain a higher rent. It is 1.4 per cent, but in the coming years it will be gradually reduced, so that after 40 years all buildings will be tax-free. Together these taxes will yield an annual revenue of 140 million kroner to the municipalities, most of it deriving from land and some of it from old buildings. This revenue is used to reduce the local income tax—a clear tax shift from labour to land.

Of course, the Conservatives were very upset, and claimed all the advantages for the owners of real estate. They were so upset that they blurted out that but for these laws the land-owners would have gained a capital sum of 2,800 million kroner. It was prevented. Not a bad result.

These laws also provide for a gradual elimination of the state-financing of the building industry with a shift to private finance and private initiative.

THE NEXT STEP

Inside the government the next step is investigated: How to devise a system to effect a voluntary transfer from private mortgaging of land values to a land value taxation with a ground-rent arrangement, especially when real estate is transferred. It is intended to be a further evolution of the special Danish laws of October 4th, 1919, under which young people can obtain land with full ownership, but without paying any purchase price for the land. We have in Denmark under the old law 10,000 such small ground-rent-holdings, and now we will try to develop this system. If it can be brought about the landholders concerned will then have to pay the full land value taxes

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—the economic rent—due to the periodical assessments. Details are not yet available.

TAX-FREE INVESTMENT AND FREER TRADE

Two new laws which have made a very important contribution to the improvement in the Danish economy are those giving tax-freedom for investment funds—monies earned by companies which are re-invested in the firm—and for the right of writing off machines in the balance sheet.

Although the government has not promised liberalisation of trade—the Georgeists, of course, are for it—some progress in this direction has been made. Some restrictions have been removed, import licenses have been made more freely available, and the range of commodities which may be imported from the Dollar Area free from licence has been raised from 55 per cent to 88 per cent.

Many other problems have been dealt with, but cannot be explained here, because they are only of interest for the

Danes. The cost of living has risen, but only half as much as in other European countries. The most important results of the new government in its first two years are improvements in practically all spheres of economic life, progress in the taxation of land values, and a hard braking of inflation. Of course, land prices are still rising, but land-speculation as such has practically stopped.

Every step forward will be encouraging for Georgeists. We have seen that it is possible to gain influence, whereas 30 years ago few would have believed that a government could be formed with land value taxation as one of its main objects. Even if this world—and especially Europe—is badly hurt by protection and restrictions, it is encouraging to see that today liberalisation is earnestly discussed in all the different market plans.

The experiment of taking responsibility in a government has been justified. No experience has occurred that could prove that the ideas of Georgeism are wrong. On the contrary: Righteousness will always be right.

HANOVER
CONFERENCE

Irrigation and Land Values In California

By J. RUPERT MASON

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CALIFORNIA has been my home State for more than half a century. For many years my chief activity was in helping Irrigation Districts borrow money to build dams and hydro-electric power plants, canals, drainage systems, etc. This was always done pursuant to State laws which provide that payment of the bonds issued to finance these projects must be made by holders of the land benefited, by means of a direct, annual ad valorem tax on the land. Originally the law required buildings and improvements also to be taxed. But in 1909 it was amended to permit their exemption and all the Districts soon took advantage of this. In 1917 the law was further amended to tax land values and prohibit any tax on buildings or other improvements, including, for instance, planted orchards, vineyards and crops.

An almost miraculous community development followed when money was borrowed to pay for the irrigation systems. Absentee landlords either prepared the land to make use of the water, or soon sought buyers willing and able to make good use of the land. The direct, annual ad valorem tax increased the amount of land offered for sale, and gave homeseekers an opportunity to buy good land at prices they could afford. It also made land in many huge Spanish Grants accessible to small holders.

Since 1909 this California Irrigation District Law has employed the principle of taxation advocated by Henry George, in *Progress and Poverty* and his other works. I did not become aware of this fact until after my retirement in 1927. Unfortunately taxpayers in the California Irrigation Districts still suffer the same onerous taxes imposed

by federal, state, county, city and school district authorities as in other States. In my opinion this makes the beneficial effect of even the mild application of "single-tax" principle all the more convincing.

Much is rightly heard about George's influence in Denmark, Australia, New Zealand, Canada and elsewhere, but one should not underestimate his influence in California, where *Progress and Poverty* was written. Our California Irrigation Districts contain about 5,000,000 acres of rural, orchard, vineyard and urban land. That is about the size of Denmark.

The progress we have made, has not been easy. Absentee landlords implacably opposed and attacked land-value taxation even calling it "communism and confiscation under guise of law". That was said in 1895 in a test case before the U.S. Supreme Court, reported in 164 U.S. 112. The lower federal court agreed with the landlords that the law was unconstitutional. This is reported in 68 Federal 948.

Two great constitutional authorities, Judge John F. Dillon and Mr. Choate, were interested in the case by friends of Henry George. They took an appeal to the Supreme Court, which reversed the lower Court's decision and rendered a sweeping approval of the law in the historic case of Fallbrook Irrigation District vs Bradley, 164 U.S. 112 (1895). But the speculators and absentee landlords were not ready to quit. They kept attacking the law in countless ways, and never stopped trying to kill it. The miracle is that the law has survived.

In 1929 there came the big panic and smash which closed all the banks for a time, and many of them permanently.