

The real State of Denmark

DENMARK'S system of taxation is advocated with approval by reformers who believe that major benefits would flow from a system of land value taxation (LVT). Is it really rosy in Denmark? Or should we heed Hamlet's caution, that there is "something rotten" in this Scandinavian state?

Denmark adopted LVT 70 years ago, largely at the behest of armers. Today, more than 1.7m parcels of land are valued separately from capital improvements, and the data is published annually by Danmarks Statistik, the Government's central statistical office.

Additional information is published in the annual abstract of statistics (*Statistik arbog*), the

FRED HARRISON visited Copenhagen to appraise the tax policies of an "enlightened" country: heaven or hell?

annual review of sales of real property (called *Ejendomssalg*), and a monthly review of statistics (*Statistik Manesoversigt*) which lists the price of land in its various uses.

For property tax purposes, each house is valued on a dual basis: the property's total (improved) value, and the site's value as if it were not improved. The

information is available to the public in the town hall of each commune, although for 35 of the 200-odd communes there is a more accessible source: their telephone directories – see below.

Thus, a homeowner can compare the value of his property with his neighbour's, for appeal purposes; and prospective purchasers can test the sale price of a house against the official valuations for other properties in the neighbourhood.

The published data on plot

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ENGAGING NUMBERS

DANES use telephone numbers when they talk about their land values. But that's not to say their prices are necessarily astronomically high. Homeowners look up the telephone pages to discover the value of their neighbour's property!

Mostrup, a Copenhagen-based subsidiary company of Thompson's, the British publishers of *Yellow Pages*, includes the assessed values of properties in their direc-

tories. Over 1.6m copies of *Vejviseren* are circulated free to householders. Tucked alongside the number of the house and the name of the street are two numbers: the total taxable value, and the value of the site under the house.

Why include this information? According to Leif Milwertz, the marketing director: "People want the property values published for several reasons. If they are thinking of buying a holiday home or cottage by the sea, they can pick up the telephone directory for the area and see what the general prices are, without going there."

"When a house is offered for sale, its price is usually higher than the assessed value. By looking up our directories, the buyer can compare the asking price with the assessed values for that area. Some people like to read the information so that they can see what their neighbours property is worth. You can gossip about it."

In a period of rapidly rising prices the assessed values can be 10 months out of date: so buyers cannot use the telephone numbers as infallible guides to market prices.

Some communes, responding to the wishes of their residents, have asked Mostrup not to publish the assessed values. Says Lise Saxild, the Editor of the directories: "We are entitled to have this information, which is public knowledge. But if an individual property owner asks to be left out, we will agree."

Poll Tax : the alternatives

TORY Cabinet Ministers, defending their Poll Tax legislation, insist that Opposition parties have no credible alternative to offer, writes Ian Barron.

But now the Association of London Authorities has announced plans that could form the basis of Labour Party proposals at the next election.

The ALA suggests that rates (the local property tax) should be retained but reformed. It is exploring two alternatives to the present method of basing valuations on the rental value

of properties: either

- assess the composite value of land and buildings on the basis of capital values, for which there is plenty of open market data available; or
- switch to a site value tax.

"In either case there is a workable solution to the technical problem of undertaking a revaluation," says the ALA, which welcomes comments. Their address: 36 Old Queen Street, London SW1H 9JF.

TABLE I: DENMARK: VALUE OF REAL PROPERTY

	Number of assessed properties (millions)	Total property value	Land Value		Total value
			Agriculture & Forestry	Other	
		Krone, millions			
1920	0.49	12,049	2,795	2,197	4,992
1950	0.84	29,478	3,789	5,479	9,268
1960	0.98	68,419	5,812	11,363	17,175
1969	1.33	242,908	12,196	55,223	67,419
1977	1.66	769,515	39,077	155,197	194,274
1981	1.78	1,115,142	41,800	277,896	319,696
1984	1.80	1,076,576	35,751	232,137	267,888

TABLE III: INDEX OF THE INCREASE IN PRICES: 1965 = 100

	Farms: ha		Single family houses	week-end cabins	building plots (under 2,000 m ²)
	5-15	15-60			
1982	426	337	409	617	815
1983	508	420	496	715	859
1984	587	470	573	829	962
1985	691	581	670	947	1210

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prices, the number of transactions, the tax rates, etc., is impressive. Table I gives the value for all Denmark.

In 1920 the value of land comprised 41% of total property values. This proportion dropped to 31% in 1950, and was down to 25% by 1960.

NATIONAL REVENUE

Scandinavian countries are notorious for their high income taxes. Denmark is no exception. The Government takes HALF of GDP to spend through the public sector (Table II). The contribution of real property to the exchequer consisted of 2% (1986) of total net payments. Wages and salaries contributed 44%.

In 1936, the average municipal land tax was 1.2% of capital values. The highest rate was levied by Copenhagen: 4.7%.

Price/assessment ratios

Housing Denmark's assessors, originally using land values maps and now with the aid of computers, achieve a close correspondence between their estimates of values, and market prices. With prices rising at an annual rate of

DENMARK: Population: 5.1m. Employees: 2m Unemployment (1987) 9%. Families receiving social security payments: 131,000+

between 10% and 18% in the residential market, the average percentage of price to assessed value was 96% (1982) and 108% (1983). The assessors were more accurate when dealing with single-dwelling properties than with properties made up of multiple units.

Agriculture The assessments were about 5% out, except for the very large farms, for which the figure was out by around 7-10%. Significantly, during this period, the price of 10-100 ha farms doubled in the years 1981-1984, whereas they "only" increased by between 66% and 80% for land in smaller holdings.

Land speculation?

There is no doubt about which

THE TAXES (Kroner m.)
on real property: 6,376
wages/salaries: 142,795
total payments: 323,509
£1 = 11.20 krone



TABLE II: TOTAL TAXATION

1983	1984	1985	
1	2	3	
mill. krone			
131,024	151,175	171,340	Income taxes
			Of which:
			Personal income taxes
124,007	133,856	151,567	Corporation tax
6,994	14,125	14,533	Compulsory fees, fines and penalties
560	732	883	Labour market contributions
9,196	11,764	13,794	Taxes on wealth, real property, etc.
12,711	10,369	11,558	Taxes on goods and services
84,737	94,747	104,925	Of which:
			VAT
50,237	55,318	61,552	Other production duties
476	676	977	
%			
46.6	48.1	49.5	Tax incidence total, in % of GDP:
17.8	18.3	18.6	Indirect taxes
26.7	27.6	28.7	Direct taxes
2.1	2.2	2.2	Other taxes



part of a residential property is appreciating fastest in price in Denmark. Table III compares bare land prices with the rate of price increase for developed properties. The sharp up-turn in the price of building land in 1984-5 was associated with a drop in the number of new dwellings completed: from 26,863 (1984) to 22,867 (1985). There was no equivalent sharp increase in labour and material costs.

But there was an extraordinarily high increase in the number of mortgages registered in 1985 (so there was no shortage of demand). This indicates an "over-heated" market: people were speculating in the rising price of land.

According to the theory of LVT, a tax on land values deters anti-social speculation which, when rampant, forces up land prices and reduces employment opportunities. What does the evidence from Denmark reveal?

Poul Uffe Dam, the statistician in charge of ADAM, the government's economic forecasting model, told *Land & Liberty* that there was no withholding of land

from construction because this was deterred by the tax on site values — what he described as a “Henry George effect”, referring to the American social reformer who advocated a shift in the tax burden from labour and capital onto land.

But we have already noted one boom in residential land prices, during the mid-1980s. The conclusion, then, is that the tax rate was not high enough to eliminate all the incentives to speculate in land.

But in addition to the direct disruption to the economy, as a result of withholding land from use, damage also arises from a maldistribution of income. This can be seen at work in Denmark's agricultural sector. In the short period of four years, between 1975 and 1979, the price of farm holdings nearly doubled!

Most of this is explained by the payment of subsidies under Europe's Common Agricultural Policy. The spending and investment power was shifted in favour of agriculture, which had all kinds of consequences for the economy.

Again, the tax rate on land values was not high enough to neutralise this effect. The government could have tapped the extra rental revenue being pumped into agriculture, which would have enabled it to reduce taxes on people's earned incomes — if it had wanted to do so.

These are powerful reservations about the Danish experience: many taxpayers would certainly say that there was something rotten about the burden of their income taxes! The sociological evidence also suggests that the paternalistic welfare state, which is built on the enormous public sector tax-take, is nurturing a system that is rotting at its core (see above).

Nonetheless, Denmark's fiscal system *does* teach us some valuable lessons.

'Best country in the world'

DENMARK is the best country in the world in which to live, according to a University of Pennsylvania computer study.

Data from 124 countries was compared, which revealed that Denmark has the highest standard of living and a welfare system second to none.

Violence, poverty, mass unemployment, class division, racialism, inner-city decay and political extremism are virtually unknown. Education is first-rate, and *joie de vivre* is high.

So the survey concluded that Danes are content with life.

They are also killing them-

selves in record numbers. The suicide rate, which places Denmark at the top of the west European suicide league, is three times higher than Britain's.

1,600 people kill themselves each year, while 15,000 more attempt it. Danes are twice as likely to commit suicide as die in a traffic accident, and one in four who die in their 20s does so through suicide.

Various explanations are

offered.

• Danes, beneath a veneer of happiness, have a gloomy outlook.

• The society has become so secular that people believe they have the right to kill themselves.

• The welfare state institutionalises people, who therefore are incapable of solving problems. Psychiatrist Jytte Willadsen says: "People find the state cannot cater for their feelings."

- The accuracy with which government assessors can measure the market value of land is vital in countering the argument advanced by a few eminent land economists — such as Donald Denman, Emeritus Professor of Land Economy at Cambridge University — that it is not possible to separate the value of land from the total value of a property.

Denmark's assessors execute this exercise routinely, and property users are not known to have taken up arms against the results!

- Reformers who propose that the property tax should fall exclusively on the value of land (because a tax on capital improvements restrains investment) need to be sure that assessors can avoid over-estimating the market value of sites. The evidence from Denmark inspires confidence in this ability.

Danmarks Statistik is based at Sejrogaade 11, Postbox 2550, 2100 Copenhagen 0.

- The equations in ADAM are under continual revision. Danish economists do not have closed minds, so they could experiment with a path-breaking approach to economic forecasting. This would mean modifying ADAM. Radical changes are overdue. According to Poul Uffe Dam, when they tried to persuade ADAM to explain the trends in house prices, it “blew up”. Probably because there was a missing equation; one that gave due weight to the land variables?

Work on these equations, which are missing from the econometric models used by every government Treasury in the world, has already begun at the Department of Economics at San Diego University, California.

- Countries such as England treat information relating to property transactions as state secrets, which makes it difficult for scholars to understand exactly what is going on in the land market. Denmark's open approach demonstrates that economic anarchy is not a consequence of disclosure!