

A Novel Theory

By B. W. B.

WHY PUT UP WITH INFLATION? written and published by Knud Tholstrup, Copenhagen, 1961



WHAT economists found to write about before we had inflation is probably one of the mysteries of the age. From being a process of straightforward — but underhand — simplicity, it has become, in the mind of the “modern” economist, a mechanism so involved as to place the electronic computer in the category of a primitive abacus. Book after book is published. The subject is taken apart, dissected, analysed. The microscope reveals (we are solemnly informed) the cost-push, the demand-pull, wage inflation, re-inflation, semi-inflation, absolute inflation — and much besides. Yet apparently the potential for theory and argument has hardly been touched. Many more learned essays, profound and perplexing, will see the light of day during the next decade. Some day, perhaps, someone will nail inflation in the way that Henry George nailed poverty, but until that happy day we can only accept each offering as it is served up and see what contribution it makes.

One does not need to read many pages of *Why Put up with Inflation?* to perceive that the author’s ideas on the subject are highly individual and yet strangely simple. Not for Mr. Tholstrup the airy flights of fancy into the realm of economic jargon and abstruse formulae, although he does make one concession to the current conventional wisdom by declaring, early on, that inflation is *not* simply a matter of printing too many banknotes. In fact, he says, increasing the note-issue is a perfectly normal function of government, necessitated by increased economic activity. It is true, he concedes, that the German inflation of 1923 resulted from the slap-happy use of the printing press, but this is not the cause of “inflation in general” which goes on in most countries today and causes the value of money to melt away by a small percentage each year.

Who then causes “inflation in general”? What malignant agency is responsible for the process that robs the pensioner of his savings, gives the worker the task of negotiating new wage-rates every year, and makes last year’s price-list about as useful as last month’s season-ticket? None other, says Mr. Tholstrup, than speculation in land. And the remedy is the 100 per cent. taxation of land values with, for good measure, free trade.

The root of this Danish Georgeist’s theory lies in his concept of money. Money, he asserts, embraces not only notes and coin and bank credit but all “ownership certificates” such as Government bonds, share certificates,

title deeds to property, etc. Between the sum total of real wealth (“not including furniture and personal articles”) and the total amount of this “money,” he sees an exact balance. If production of real wealth increases, the Government issues additional notes to balance it — result happiness. But if there is a rise in mere values — particularly land values — then there will be an increase in the total value of “ownership certificates” not balanced by increases in real wealth. Result — inflation. In short, says Mr. Tholstrup, solve the Land Question and you solve inflation.

Attractive though the author’s theory may appear to a Land Reformer, too many objections scream out from all sides for us to accept it very easily. Land values have been rising steadily since the first man walked the Earth, yet “inflation in general” has been with us for less than thirty years. Land speculation was rife during Victorian times and up to 1914, yet sterling, during this period, remained as firm as the Rock of Gibraltar.

And what can be said for this novel definition of money? Title deeds, share certificates etc., can doubtless be used as money, but if they *are* money as Mr. Tholstrup asserts, then they must react to monetary circumstances in the same way as notes and coin. Alas, the reaction is completely different. The value of notes and coin is continually being eroded by inflation. What title deed or share certificate has ever lost value through this process? On the contrary, the ownership of shares or real estate is the finest “hedge” against inflation that money can buy.

There is doubtless more to inflation than the printing of banknotes but Mr. Tholstrup dismisses this too readily from his considerations. Most European countries today, he asserts, have balanced Budgets “generally speaking.” This presumably includes the United Kingdom where the last five Budgets have yielded overall deficits totalling over £1,300 million and where, since 1955, the amount of cash in circulation has been stepped up by £550 million — or over 30 per cent. Moreover, since the amount of cash held in 1955 by the banks (on which they build their superstructure of credit) was about this figure, sufficient new money has been created in these seven short years to build a new banking system, duplicating the original. Whether speaking generally or specifically, these facts cannot be ignored in a serious study of inflation.

The author is right to deplore the private appropriation of land rent but in blaming this for inflation he indulges in a witch-hunt. Land, works of art, antique furniture, rare stamps, Government bonds — all these can appreciate in value and command increased sums of money (or amounts of wealth) in an exchange. But this has no more effect on the value of money than the weekly football results. Like the football results, it merely makes some people richer at the expense of others.

It is a matter for considerable regret that a book as pleasantly written as this fails to contribute to the understanding of inflation. This is primarily because the author fails to grasp the nature of money in the post-Keynesian world. Unbacked by real wealth, at the mercy of every increase in the fiduciary issue, its value (in contrast to that of title deeds) depends on how much there is of it. Mr. Tholstrup fails to appreciate, too, the change that came over the monetary scene in the 1930's when, under the wing of Keynes' General Theory, governments all over the world unhitched their monetary units from gold. They did not do this in blind response to the siren call of a new doctrine. They did it to give themselves freedom to manipulate the value of their currencies and, through inflation, to shorten their dole queues.

They were sincere but they were mistaken. Tampering with the currency is not the answer to unemployment; there is a far, far better way that Mr. Tholstrup and his Justice Party know all about. But let us be clear. Land speculation is an evil that must be ended, but it is no more responsible for inflation than a fit of the blues is responsible for marijuana poisoning.

BOOK REVIEW

Reasoning In A Circle

By REG SMITH

NUTRITION AND WORKING EFFICIENCY F.A.O.

Published by H.M.S.O. Price 2s. 6d.

THE publication by the F.A.O. is the fifth in a series of studies supporting the Freedom from Hunger Campaign. The studies cover a wide range and include, for example, the possibilities of increasing world food production, the part marketing can play in increasing productivity, education and training in nutrition, animal diseases and human health, economic development through food, population and food supplies, malnutrition and disease, and weather and food.

In other words, an extremely worth-while campaign, but one which unfortunately concentrates on effects and not causes. This inability to make a fundamental approach to the basic problems of hunger can clearly be seen in the following quotation, taken from the preface of this publication:

"Almost half of the world's population today is suf-

fering from serious undernutrition and malnutrition, with little hope of a quick remedy. In many countries, food consumption is still limited by the capacity to produce foodstuffs and by low purchasing power. In vast areas of the world, such as the overpopulated countries of Asia, as well as in Africa and in Latin America, the development of agriculture and industry, which alone would ensure a regular and adequate food supply, is hampered by lack of suitable equipment, of funds and trained personnel. Lastly, not the least cause of this situation is the human factor, namely the low working efficiency of the people, which in turn is partly due to undernutrition and malnutrition. Here is a vicious circle that has to be broken: lack of suitable food — undernutrition and malnutrition — low working efficiency — low production of food."

The last sentence of this quotation seems to narrow the problem down to a question of diet. There is not much point here in discussing at length the contents of *Nutrition and Working Efficiency*, concerned as it is with dietary requirements, working efficiency, food canteens and international assistance, although one or two naive statements are worthy of comment.

Under the heading of economic factors the following statements are made:

"Low wages often do not allow the acquisition of sufficient food . . . Since no one will spend all his earnings on food, even under the worst conditions, wages should allow for a fair percentage of expenses other than for food . . . When economic factors prevail over others as the cause of an inadequate diet, measures aiming at a general increase in purchasing power will often require radical changes in the economic and social structure of a country, and as such cannot be considered immediately effective in breaking the vicious circle of poverty, malnutrition and low production."

This seems to verge on the absurd. How can a study of hunger be made in isolation? And what fundamental progress can be made unless the economic and social structure of a country is taken into consideration?

In advocating the setting up of non-profit food stores and workers' canteens comparisons are made with countries such as the United States, Britain, France, etc., pointing out that experience has shown the value of these arrangements to both employers and employed. But, surely, subsidised canteens are a part of wages, and short of political intervention wages, in the underdeveloped areas, will not be raised.

The highest praise that can be given concerning this type of innovation is that it may produce marginal benefits and generally these will only be introduced with the help of government assistance and foreign aid.

It would be churlish to dismiss all the suggestions made by the F.A.O. as useless, but there is a danger that in alleviating the most obvious signs of hunger and malnutrition the long-term necessities, such as land reform, will be delayed if not completely overlooked.