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The Cause of Inflation

by SIEBE SEVENSTER

ECONOMISTS are thinking about scarcity of products but they ignore scarcity of land and the fact that we are not able to make any more of it.

As Georgists we are concerned with the circumstances of today's affluent society, still exhibiting much economic and social damage. The critical point just now is inflation. How can we correlate inflation with the major economic fault as we see it—the private collecting of the rent of land.

Economists deem it necessary to allow for some unemployment in order to keep inflation on a "real" level (1 to 2 percent), as if a little stealing is all right—more is not allowed. The director of our central bank tells us however that the inflation of today is the unemployment of tomorrow.

To compare different points of view we must begin with the Keynesian idea as accepted today, that people save too much and for all these savings there is no employment. The needs of the people, it seems, do not absorb the capacity of production, so it is the duty of the government to print more money in order to enable people to buy more products. We see that this works but not always in the right way. The director of the international banking service in Washington suggests that under inflation "righteousness" can be approached only partially by "an excessive and intricate system of welfare."

Where is the flaw in the Keynes statement? Why are people who receive normal wages not buying enough and leaving many products unsold? The answer is that the wages may be all right but taxes take a share of them. If the farm worker's wages for one hour were equal to the price of one kilogram of sugar he ought to be able to buy one

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Henry George was still thinking in terms of "revolution" but this took the form of well planned addresses, courteous letters and published writings in fine English prose. His manner, being controlled, was effective, and doubly so when challenged by hecklers, for he had power in reserve and his energy and logical reasoning were impressive. Along with most League members he disavowed crime and violence as being the acts of "small men lifted into importance."

Though he was poor in money he was rich in decorum, principles, fealty and friends. A gift of \$300 received just at that time made it possible to order copies of *Progress and Poverty* in a shortened form to be distributed throughout England. Some 2,000 were sent free to all newspapers and members of Parliament and 10,000 were sold at 6 pence each. Another large edition was soon to come with 1300 copies going to Australia and 300 to New Zealand. At the same time 5,000 copies of *The Irish Land Question* were released in Britain at 3 pence each.

Progress and Poverty, which had met with early rebuffs from publishers, was becoming world famous. A record three million volumes were sold in a few years, and it was translated into German, French, Swedish, Danish, Norwegian, Spanish, Italian, Dutch, Hungarian, Russian and Chinese. The author's name became synonymous with land and remains so to the present.



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kg of sugar for that money. But if the government puts a 33 percent tax on it the worker can buy only 0.75 kg. So 0.25 kg of sugar is left over. We call this overproduction but it is a lack of consumption through taxes.

Now in accordance with the Keynesian view more money is released and overproduction is thought to be eliminated. Governments, though knowing quite well that it is not the right way, print still more money. There is no realistic measure and no terminal point.

Keynes is seen to be quite wrong on his issue that people are buying too little and leaving too much for investment. People cannot buy as much as they wish to and ought to according to their "righteousness share" of the production because the tax they have to pay is a reduction of their wages. The decision of a government to circulate more money than is realistic in relation to available goods and services is called "sticking to inflation." But while money is a medium of exchange it is also a medium of economic manipulation.

Knud Tolstrupⁱ in reporting on the prices of land in Denmark shows how inflation fluctuates in direct relation to land prices. Before 1957 the cost of land in Denmark went up and the inflation was 4 to 5 percent per annum. Between 1957 and 1961, through Georgist influence the tax on land values was raised and the inflation was only 1 percent per annum. After that period the tax on land values was abolished and land prices went up sharply as the inflation again became 5 percent per annum or more.

Halfdan Hansenⁱⁱ estimates the overall rise of land value in Denmark over the period 1960-78 to be from 16 to 67 billion crowns. The inflation in the same period was + 50 percent, so the "comparable" figure for 1970 is 33 billion. Hansen states, "As it is, the mortgaging of this increase gives rise to an enormous purchasing power which can only be financed by billions of paper money—this being the chief inflation problem which experts have been trying in vain to solve."

Here we surely have hit the direct cause of inflation with its unrealistic economic growth. This growth is unrealistic in relation to the distribution of wealth as it exists now between labor, capital and land-owners. By a Georgist solution, where rent of all land would go to the community, the economic growth would be regular—there would be no need for inflation and no fear of critical unemployment. So much for the Danish views.

Similarly, as long ago as 1925, the Dutch farmer Arjen Sevenster gave a mathematical analysis based on capitalization of the rent of land. Assuming a 5 percent capital interest, the capital value of land is the twenty-fold of the rent. From this value only one-twentieth of the rent is backed by goods or services, and nineteen-twentieths of it is not. The latter part, the bulk of the capital value, entails inflation. It is not backed by goods and so represents only paper money.

Here we see the government making the best (or as we take it, the worst) of it by printing more and more money—the Keynesian way. On the other hand we see the real cause of inflation—money not backed by products. This is the answer to Keynes and the economists, to the political and trade union leader, to the government, and to all of us. It means that Keynes is wrong and Georgists are right. Right in the sense that the cause of inflation is the same as that of crises and unemployment. This cause is the unearned income from the rent of land combined with taxes on wages and capital.

i) Knud Tolstrup, "Why Put Up With Inflation?"

ii) Halfdan Hansen, "A Practical Proposal" IW Newsletter No. 15 April 1971

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