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INFLATION AND LAND SPECULATION

By KNUD THOLSTRUP (Copenhagen, Denmark)

For quite a few years, I have been pointing out the connection between progress and poverty and inflation. Inflation has two sides, benefiting a few (landowners) at the cost of the many (labor). This is the picture of progress and poverty. The progress, which should have been to the benefit of all, has mostly been to the benefit of the few. The only way the few are able to lay hand on the yield from the profit is by asking higher prices or rents for the land. If the land rent was publicly collected, and this was balanced by tax reductions, as there would be no element to feed inflation, thus, progress could be shared by everybody.

I therefore maintain that inflation can only be stopped if you stop surplus profits being obtained without giving anything in return, so that everybody has to work for his own progress, not being able to cut wages amd profits coming from production, by collecting the increasing land rent.

The enormous progress since World War II is a background for the high inflation we have experienced since. In the days of Henry George progress was much slower, and the new countries like the U.S. had plenty of land for the land-hungry immigrants. That is probably why Henry George did not talk much about inflation. But in Progress and Poverty (page 413, Schalkenbach edition), he says: "Taxes may be imposed upon the value of land until all rent is taken by the State, without reducing the wages of labor or the reward of capital one iota; without increasing the price of a single commodity, or making production in any way more difficult." George was on the right track before real inflation started up.

In Denmark, during 1957-60, there was practically no inflation (below 1% annually), because a new government promised to issue a law about collecting the total amount of increased land value through a land tax. All land speculation stopped in 1957. A new election in 1960 overturned this government, and land speculation started up again - and so did inflation. Prof. Henry Steele Commager noticed the 1957-60 experience and recommended that other nations might learn from it (in an article in the New York Times, Oct. 2, 1960, "Big Lesson from a Small Nation.") Today, the inflationary amount in the GNP almost exactly balances with the increase in land value.

In Switzerland there was a moderate inflation up to 1970. With the great immigration of foreign workers, building activity was speeded up, which had an enormous effect on land prices, and inflation soared to 11.9%. Then the immigration was stopped because of general cautiousness due to the oil embargo in 1973. Building stopped, land prices leveled off, and inflation in 1977 was only 1.3%.

This occurred in Switzerland in spite of high wages, no unemployment, no deficit in the balance of payments, no increase in taxes and no budget deficit - all four of which in other countries are commonly blamed by economists for causing inflation. Yet they had almost 12% inflation in 1973 and 1.3% in 1977. It must be clear that there is a connection between inflation and increased land values.

I explained this to a German economist and he said that Germany to some extent has had the same experience. In Japan since 1975 they have placed restrictions on the sale of land when it develops from farmland to industrial or urban use, and have increased taxes on profits from the sale of land; and inflation last year fell considerably in Japan.

Economists should give this matter further study.