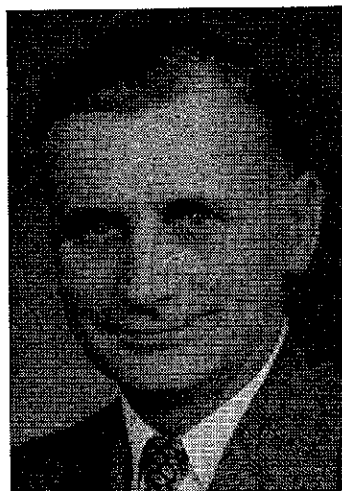

KNUD THOLSTRUP

WHY PUT UP WITH
INFLATION?

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KNUD THOLSTRUP (56) was a farmer in his youth. His interest in politics was aroused by observing the effect of the unjust system of taxation, which penalized energy and ability through the progressivity of income tax. In the community in which he lived, for instance, a certain capable and industrious smallholder with 6 hectares of sandy soil paid more in taxes than several farmers with 40 hectares of good arable land, and the largest farmer in the parish, farming 80 hectares inefficiently, paid no income tax for several years, which might be regarded as a reward of passivity.

Later Knud Tholstrup entered business, and in 1946 he was elected to parliament, in which he represented the Justice Party (*Rettsforbundet*) for 12 years. He is an outspoken individualist and liberal.

In the course of time, the pressure of work became too great and he was forced to choose between parliament and business. He decided to concentrate his energies on managing the family enterprise, A/S Kosangas, where more and more important work awaited him. This, including the building-up of a prosperous shipping company, demanded his full attention.

Nevertheless, the fact that Knud Tholstrup withdrew from parliament did not in any way lessen his interest in social, economic and political questions. He is a member of the presidency of the Justice Party, and still takes part with great interest in debates on questions of public interest.

Knud Tholstrup played a prominent part in organizing the coalition government which came into power in 1957, and in planning the methods for economic stabilization which were put into force immediately after the formation of that government.

One of the conditions for the co-operation of his party in the government was a balanced budget, and it was stipulated that serious efforts should now be made to settle the question of the taxation of land.

J. A.

PREFACE

This little book is the result of a study of the problem of inflation, its causes, effects and prevention. Although the views set forth are new, I hope they will tempt the reader to a more extensive study of the problem.

I am convinced that there is an exact balance between the sum total of real values and the total amount of money, and that a point of balance is reached between yearly production and total yearly purchasing power.

If the balance is disturbed because of the intrusion of purchasing power which is not, either directly or indirectly, earned by previous production, this has the effect of producing 'false' money -- money which cannot be distinguished from 'real' money.

Through the value increase and appreciation of existing property, unearned purchasing power (money) accumulates. A surplus of money in relation to production, thus brought about, gets purchasing power since the total quantity of goods is distributed over the total amount of available money. This happens automatically.

Thus the purchasing power of each individual krone or dollar is diminished in exact ratio to the extent to which 'false' money is absorbed into the amount of 'real' money. This is the essence of inflation.

Inflation can only be stopped by preventing the creation of false capital or false purchasing power.

Knud Tholstrup.

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Inflation can be stopped

The only way to maintain the purchasing power of wages and savings

It is an old English saying that everybody talks about the weather, but nobody does anything about it.

The same might be said about inflation, with this difference, that we have to accept the weather as it is, but there is no need for us to put up with inflation.

In certain tropical and sub-tropical countries man's initiative and desire to work are restricted by the ravages of certain parasites. In some cases these parasites are so small that they cannot be seen, at any rate not without the help of a microscope; but the effects are terrible. All energy is sucked out of the body, man becomes apathetic and lives in misery and poverty in spite of otherwise favourable living conditions and a fertile climate. For centuries we have known the effects without being able to ascertain the causes, and it is only in recent years that we are able to counteract the parasites.

If we wish to put a stop to the evils of inflation, we must in the same way try to diagnose the causes of the evil and remove them.

Why is inflation harmful and destructive, and why are its effects negative?

Because it strikes at positive and thrifty citizens in an unfair way; this offends one's sense of justice and has a bad effect on production.

The fact that money is worth less, i. e., has a lower purchasing power this year than it had last year, discourages people from saving. The will to save is a necessary condition if banks and savings-banks are to be assured, through savings, of a steady stream of money for investment at a reasonable rate of interest.

The money deposited in banks and savings-banks, instead of being spent on day-to-day purchases, is essential for amassing the capital to build up the reserves of the community.

It is a well-known fact that money spent via banks and savings-banks is usually employed seriously in constructive enterprise and development.

Saving is, therefore, essential to enable young, capable people to set up in business and thus bring new impulses into commerce and industry with resulting increases in overall production. It is especially from youth with responsibility that new initiative can be expected.

Inflation increases consumption

During a period of inflation there is a more marked tendency to increase consumption and to spend money on finished products than in periods when the value of money is stable. It is a question of getting something for your money while it is still worth something. In some countries inflation has gone so far that the normal rate of interest paid in the savings-banks does not compensate for the decline in value of the money thus deposited. In countries with high inflation there is often a high rate of interest; savers try to obtain compensation for their losses caused by inflation by means of a higher rate of interest on the money which everybody is only too anxious to borrow. And borrowers are willing to pay a higher rate of interest, since it will be easier to pay the money back, as it will have less value.

All the same, you will find that people put their money into banks and savings-banks, even in countries where the depreciation is greater than the interest earned. This illustrates that the purpose of saving is not always to earn interest (or hire for your money, if you like), but that people save chiefly to put aside money for investment or for later use, principally security for their old age. You save, even though you know that the money will be worth less when you take it out than when you put it in.

Dealing with this problem I disregard extreme cases, in which money becomes almost worthless compared with the original value, as was the case with Danish kroner after the Napoleonic wars, German marks after the first world war and French francs after both the first and the second world war.

To stop inflation would have a positive effect

There is no doubt that people would save more if they could be sure that their money would be worth as much when they withdrew it as when they paid it in. And the urge to save would be much greater if they knew for

certain that the money would not only maintain its purchasing power but also multiply and increase in value because of the interest earned. Even a low rate of interest would be satisfactory. Borrowers on the other hand would no longer be willing to pay almost any rate of interest without the advantage of being able to repay their debts with money worth less than when it was borrowed. It should, therefore, be obvious that without inflation there would be considerably larger amounts of money available for investment and at a reasonable rate of interest – not only for new and better homes, but also for new and better buildings used in production, such as factories and farm buildings, and for modern machinery and means of transport.

Again, a steadily improved up-to-date apparatus of production is essential for a higher standard of living for all in the community.

The harm done by inflation can be seen from the unpleasant government restrictions aimed at diverting the demand from direct consumption to more lasting benefits. Governments tell people that they must save; then customs and excise duties are increased. The government thus obtains funds for state financing of building etc., which was coming to a standstill because of insufficient saving, with unemployment as a result, such as was the case in Denmark in 1957. Import regulations are introduced, thus restricting or entirely preventing the import of so-called luxury goods. To prevent an excessive demand for necessities, ceiling prices are introduced, causing a vicious circle of bureaucracy and well-meaning planned economy – but all in vain. Things go from bad to worse. The work provided by the state causes unavoidable unemployment and reduced activity in other fields, often to a still greater extent, and money becomes still less valuable. This accelerates the tendency to spend money quickly while it is still worth something, thus speeding up inflation.

Only the well-to-do are able to maintain the value of their capital by purchase or ownership of real estate. On the other hand, they miss the chance of progress when production stagnates and unemployment is rife.

The results of inflation cannot be avoided. Impositions and restrictions, expensive in themselves, can only transfer consumption, but cannot prevent people from growing unhappy and bitter. The result may be upheavals in the body politic, harmful to everybody.

Caracas, the capital of Venezuela, is an example. Thanks to the enormous oil dues received by the Venezuelan state, Caracas is being built as a modern capital. Universities, schools, hospitals, laboratories and administrative buildings, together with a well-developed system of roads, are being built with government money. People are pouring into the city, and hotels, office blocks and private dwellings are being erected at a tremendous rate.

Caracas has its oil millionaires, people who have had nothing whatever to do with getting the oil out of the ground hundreds of kilometers away. They have not even owned the land from which the oil is being pumped. They are chiefly people who had sufficient capital to buy land before the building boom set in. There are many millionaires in Caracas, but only a few have earned their wealth by their own productive efforts.

Rents are enormous – three or four times higher than in Copenhagen, both for shops and housing – with the result that the price level is about twice as high as in Copenhagen.

In other words, a violent inflation is taking place. The huge oil riches are not benefiting the people as a whole. Much too large a share has filled, or is still filling, the pockets of speculators who happened to be owners of the land. There is perpetual unrest in the country.

If the people of Venezuela understood the reason, the government could easily bring about just conditions, which would give stability to the country and save large sums now spent on police and military.

What is inflation?

Briefly stated: a progressive reduction in the value of money in relation to goods.

That is to say, the increase in the quantity of goods available does not keep pace with the ever-increasing amount of money. The price of goods must therefore automatically rise in order to balance the greatly increased amount of money – an inevitable economic law of nature. Otherwise there will not be any goods left to buy with the last supply of money (the new, false money), which cannot be distinguished from the genuine money.

If new money is pumped into circulation without a corresponding rise in production, it is like pouring water into milk.

Let us take an example:

A farmer has four calves and a certain quantity of skimmed milk for them. One day a new calf arrives, and the farmer wants to quench its thirst also. It can't live on water alone, so the farmer pours sufficient water into the milk to feed all five calves.

In this way the farmer admittedly gets more milk, but it is now of a lower dry-matter content and nourishment value. It is thus a case of "inflation" in milk – the calves do not grow so fast, their living conditions have been lowered.

New addition of money, which is not the result of previous production and, therefore, arises without corresponding increase of real values, has the same effect as adding water to milk, and results in a lowering of the value of the money as a whole.

If this is not true, then the making of counterfeit money does not harm the community either!

So why not stop printing so many bank notes?

Let me repeat that I am not interested in reviewing here the problems which throughout history have arisen as a result of indiscriminate printing of bank notes, examples of which from Denmark, Germany and France have already been mentioned; I am talking only of inflation in general, where the value of money falls by a small percentage annually.

In countries with a sound monetary system, the treasury normally does not issue more notes than are necessary to satisfy the daily turnover. Such sound countries collect exactly enough in tax (possibly supplemented by loans) to cover public expense. But in periods of crisis or in especially difficult circumstances a considerable, though often only temporary, deficit in the budget has not been unusual – especially in cases where parliament could not be made to show the same enthusiasm for voting in favour of revenue, taxes, as for expenditure, such as popular welfare legislation. The result of such an irresponsible policy is always high inflation.

History can show a couple of interesting examples of parliament's reluctance to levy sufficient taxes. In one instance from Switzerland it was the people as a whole that rejected the necessary supplies; the result was that the act involving extra expenditure had to be repealed. A plebiscite had shown that a large majority was in favour of extra defence measures, but a subsequent plebiscite to vote the taxes necessary for carrying these out rejected them by just as large a majority.

In 1956 a law was passed in Denmark by a large majority – Moderate Liberals, Conservatives, Social-Democrats, Radical Liberals and Communists (though not the Justice Party and Thorkil Kristensen) – in favour of a people's pension, which it was estimated would cost 3–400 million kroner more annually. In the debate the spokesmen of all the parties in favour of the bill stated that the necessary money should be raised (partly through saving). A coming general election caused the unpopular supply bills to be postponed. In the last month of the election campaign the Conservative party in its fishing for votes even went so far as to advocate a considerable reduction of taxes, which would have more than doubled the budget deficit and provoked increased inflation, which at that time was characterized by the big currency deficit, caused by a lack of confidence in the Danish krone and consequently an unwillingness on the part of the people to save.

When the new parliament elected in 1957 was faced with the large unpaid bill, the supply bills could only be passed by a narrow majority, inasmuch as the two conservative parties, Moderate Liberals and Conservatives, now discovered that it was not nearly as popular to vote for supplies to the state as it had been a year earlier to vote for the people's pension, which would be of benefit to a large number of their electors.

The new government succeeded in balancing the budget. This resulted in greater confidence in the Danish krone, and the will to save was again aroused. The currency deficit became a large surplus, and the speed of inflation was reduced to one third of what it had been previously. During the period 1947 to 1957 the value of the krone fell by about 4 % yearly; this annual fall in the value of the krone has, since 1957, become less and less, and in 1960 it was only about 1 %.

Most European countries today have balanced budgets, generally speaking, without misusing the printing press. Yet inflation continues in all countries.

One should not however become hypnotized by the increased output of bank notes, for this is only one of the effects, not one of the causes, of inflation.

A larger number of bank notes can simply be caused by increased activity – greater production and therefore an increase in turnover. More people than before earn money. In Denmark there are perhaps 100,000 more persons employed in 1960 than there were in 1958.

The balance between production and purchasing power

We must not, however, spend too much time considering the effects of inflation, but try to ascertain the reasons for it, or in any case the impulses which set it going. The general price level could not rise if we were all able to obtain purchasing power only by taking an active part, in one way or another, in production, thus increasing the quantity of goods available. For in that case there would all the time be an exact balance between purchasing power and the quantity of goods produced. The danger of a foreign currency deficit would disappear. We must assume that inflation is stopped if a balance can be established between production and purchasing power.

Real purchasing power arises only as a result of production or for services rendered. This purchasing power can, either through the state or by private initiative, be handed on to those who are unable to take part in the work of production, if those who produce, either of their own free will or under compulsion, forgo some portion of their own purchasing power.

Furthermore, there is today no law to forbid private persons to appropriate an unfair share of purchasing power by means of monopolies and privileges.

What is necessary is to prevent the development of purchasing power that is not the result of preceding production; otherwise the balance will be disturbed. If the balance is disturbed, it can be regained only through a general rise in the price of goods, so that the sum total of money available corresponds again to the sum total of goods for sale. This happens automatically. I repeat this because it is of cardinal importance to bear this point in mind, if the whole position is to be clear.

What do we understand by money?

We cannot avoid discussing whether we know what we mean by money. Is money only coins and bank notes?

In olden days gold coins were the means of payment. China, however, was on the silver standard. Other metals, such as copper, have also been used. In primitive countries the currency is amber, for instance, or other rare products. In Rome cattle – *pecunia* – were used for payment, whence the word “pecuniary”.

As a matter of fact, in the beginning gold was not considered as money but as a commodity in great demand whose value was relatively constant.

Even if it is held that money is only gold money, it is not enough in reality to reckon only with coined gold. Most of the gold cover in the Danish National Bank is in the form of gold bars, and if on the other hand one maintains strictly that only coined gold and notes are money, then gold bars are no longer money, but goods.

Other people are of the opinion that notes are not real money, but only a practical substitute for gold, used so as to save it from wear and tear, and because notes are lighter and more handy. Here the money really starts substituting the merchandise gold, as notes today in reality substitute all kinds of merchandise. At first notes were issued only in quantities corresponding to the gold deposit, and on the old notes it was written that they were exchangeable for gold on demand. At that time a krone was worth a definite amount of gold. Gold had the advantage that its price varied very slightly. When experience showed that people did not demand gold, it was discovered that one could put more notes into circulation, and one began to operate with 50 % or even 30 % gold cover. One could then satisfy the few that suddenly wished to exchange their notes for gold. If there was a sudden panic, restrictions were sometimes necessary. Today very few care about the gold value of a note; all that matters is the purchasing power of a note in terms of daily necessities. One fine day banking people and ministers of finance will realize that we can do just as well without any gold in the banks and leave that wonderful metal to the dentists and jewellers.

Many people have become confused over the term "number of notes in circulation"; and when they discover that the amount of notes is several times greater than it was before the war, they make the mistake of thinking that this is the source of inflation (thereby confusing cause and effect). This is especially true of older people, who cling to the concept of "gold cover".

Actually, gold would no longer be a good measure of value, since this metal is steadily falling in value compared with the general average of goods which make up the cost of living index. Whereas the purchasing power of a dollar in the U.S.A. has fallen to 47 % of its pre-war value as compared with other goods, in respect of gold it is unchanged. During the last 25 years the price of gold has circled round the figure 113 dollar cents per gram. In other words, gold is not worth even half as much as before the war. In practice, our standard today is a goods standard, and the value of the krone or the dollar can be read in the cost of living index.

Gradually people will realize that credit balances in banks or savings-banks, which can be withdrawn on demand, are also a form of money. Indeed, we say that we have money in the bank. In principle there is no difference between a cheque and a note of the same face value. Payment by means of cheques or postal cheques is now much more common than payment by notes.

There is one type of cheque with which the payer himself determines the amount, subject only to the limit of his credit at the bank. There is another type, especially used for travelling, on which the amount payable is fixed at, for example, 5, 10, 20, 50 or 100 dollars. The use of these cheques lessens the need for bank notes, and an increased use of them would result in a corresponding reduction in the number of notes in circulation; but this would have no effect whatever on the price of goods, or on the value of the krone and dollar.

Another example may be given which proves that the quantity of notes in circulation in the case of a balanced budget has nothing to do with inflation. Suppose there was a sudden epidemic, and the authorities decided that bank notes were the source of contagion, so that the public was urged through the press and the radio to get rid of notes and to use cheques instead. All this would have no effect whatever on the price of goods, even

though such a request was carried out. People would pay their notes into a bank and receive a cheque-book. The number of notes in circulation would be reduced to a fraction. It might cause a little more trouble, especially in the case of small amounts, but apart from that it would have no influence on either turnover or prices. The quantity of notes in circulation would be minimal; but the ratio between the people's purchasing power and the quantity of goods would remain unchanged.

We must therefore make it clear that the term "money", as evidence of purchasing power or property, covers all proofs of ownership.

A ten-kroner or a dollar note is a very convenient property certificate, which can immediately be used to obtain small necessities. A few hundred-kroner notes will easily prove to be a property certificate covering the cost of a suit of clothes. Such property certificates, not limited to any particular goods, are very convenient. In many large transactions one uses share certificates, bonds or mortgages instead of notes as a means of payment, and if one has not enough of these securities, then one may agree to issue new mortgage deeds as security for the missing money, so that the transaction can be completed.

For example: A man buys property to the value of 100,000 kroner. As a means of payment he has 10,000 kroner in the bank, bonds for a further 10,000 kroner, some shares quoted on the stock-exchange at a value of 10,000 kroner, and a mortgage deed on his brother's property at a current value of 20,000 kroner. He hands over all this money and these certificates to the seller, and for the remaining 50,000 kroner he issues a mortgage deed with security in the purchased property, and the seller has now received *all his money*. Fundamentally there is no difference between the value of these forms of payment in relation to one another.

Balance between goods and money

It is interesting to note that there is always a balance, and that the balance is continuously created, between all forms of ownership certificates, money and on the other hand articles of value themselves, just like the above-named balance between new production and new purchasing power. The only thing that can disturb the picture is an increase in the amount of money, if this takes place without a corresponding increase of real values.

This is where the national economists and politicians of the future must step in.

If one estimates the Danish national assets (not including furniture and personal articles) at 100,000 million kroner real value, then there will also be ownership certificates for 100,000 million kroner in the form of deeds, mortgages, bonds, stocks and shares, in postal cheque accounts and in bank and savings-bank deposits, and in notes-of-hand and notes. In short: money.

If the hard-working and thrifty people of the country in the course of a year produce and save real values to the amount of 2,000 million kroner in excess of consumption and in excess of what is destroyed by wear and tear and other depreciation, the country will be 2 % richer at the end of the year. The amount of real values will have risen to 102,000 million.

A corresponding quantity of notes or other ownership certificates will exactly balance the new acquisition of real values. Up to this point there is nothing that could have diminished the purchasing power of the money — nothing to start inflation going. But if land during the same year because of demand increases in value by 1,000 million kroner (not reckoning improvement values), then this new value will also be balanced by new ownership certificates, so that the amount of money reaches a total of 103,000 million kroner. The unfortunate thing about this is that real values only increased by 2,000 million to 102,000 million; the last thousand million, which arose from land increment, did increase the amount of money, but this money acquires purchasing power only when the 103,000 million are distributed over the 102,000 million of real value, which automatically takes place. (The milk has been watered.)

The result is that the value of the money has fallen by 1 %, or an inflation of 1 % has come about, arising from the land value increment of 1,000 million kroner.

What causes inflation?

Price agreements and cartels as sources of inflation

Anything which hinders the free fixing of prices by means of free competition makes goods dearer or diminishes the purchasing power of money. This applies to monopolies, price agreements between producers – agreements which exclude new competitors through a system of fines or boycott – or simply agreements as to the division of markets. Price control has little effect on this, so it is better to have a strict prohibition of price-fixing agreements, as in U.S.A. (The Sherman Act). But first and foremost a free commercial and industrial life is necessary.

When a bicycle is produced, a certain amount is paid in wages, a certain amount for materials, some of which perhaps have been imported. So much is set aside for interest on capital and for depreciation of machinery, and the manufacturer will calculate with a gross profit to cover costs of administration, sales costs and net profits. The bicycles are manufactured in keen competition with other makes of bicycles, and indeed with other types of goods. There is always the possibility that attractive advertisements may tempt the customer to choose a new dress instead of a bicycle, a gas cooker instead of a television set, or a refrigerator instead of new furniture for the living-room.

It is obvious that under conditions of free competition a business must be wide awake if it is to make good. The result is cheaper and better goods.

Money is more valuable when trade is free.

The planned-economy methods, such as duties and restrictions, as sources of inflation

As mentioned, all production of goods takes place under competitive conditions, so that no manufacturer is able to obtain more than normal good payment for his goods, unless he happens to have a monopoly of an indispensable article. Such monopolies do exist, and can even be created by the community, in cases where a high tariff wall protects a nationally produced article, or through import restrictions which have the same protective effect. Indeed, a few years ago a Danish minister of commerce, hard-

pressed, was compelled to admit that restrictions in force at that time served no other purpose than protectionism – to guard against cheaper and better import goods. The minister had thereby admitted that these restrictions had not been in the interests of the community as a whole, but first and foremost for the benefit of the firms producing the goods in question and to maintain employment in them – in the same way that customs barriers work today.

In such cases the price of the goods is higher and the manufacturer's profit presumably also higher than would have been the case under free competitive conditions – in any case per unit. One can therefore say that this protection helps to hollow out the unit of measurement of money, the value of the krone, and it would be beneficial if we supported the advocates of free trade in their demand for the abolition of customs barriers. Not only do duties make goods more expensive, as is generally known, but they undermine the value of money as a whole, a fact to which too little attention has been paid.

However, apart from such special privileges, the manufacture and distribution of goods do not create any form of money or income that is not the result of previous production; and to avoid any misunderstanding, I include such expenses as the salaries of policemen and school-teachers, all of whom in their way encourage production by keeping order and educating young people. These and other officials receive in payment through their salaries a share of the production in proportion to their contribution, and do not therefore disturb the picture.

Money is more valuable when we have free trade.

Too many public employees as a source of inflation

If, however, there are more civil servants than strictly necessary to perform such or similar tasks, these are unproductive, and tend to diminish the share to be distributed among the direct producers. Through taxes the latter have to pay for the consumption of those whose contribution to production is indirect. There are too many to share the cake in proportion to the direct producers.

It may therefore be important in the struggle against inflation to insist that the number of those employed in the public services is cut down to the

absolute minimum, and, to ensure this, to insist on at least the same rationalization in public services as is necessary in private enterprises if these are to be competitive. State and municipal services often enjoy a form of monopoly, and are therefore not subjected to the same price fixing through competition as in the case of private enterprise, but can use their privileged position to take things easy. Technical progress and the latest methods of rationalization are seldom favoured in public offices and state- or municipal-controlled enterprises. The field in question is large: state railways, postal and telegraph services, state carriers, harbour services and the department of forestry. So, also, concessionary enterprises, including electricity works, telephone services, sugar, alcohol and potato-flour factories, municipal gas and water supplies, trams and buses, workshops, public building, road making and maintenance and many others.

State, municipal and concessionary enterprises should also be subjected to the same demand for the best possible utilization of labour.

Money is worth more when a larger proportion of the population is directly engaged in productive work.

The main source of inflation

In Denmark the population is increasing by 50,000 a year. 50,000 extra mouths to be filled! But then there are twice as many hands to do a job, so this need not disturb the picture. Balance should be automatically re-established.

But the 50,000 new people need room, and must have 50,000 new beds to lie in. This means that some 25,000 new houses or flats will be required, which again means 25,000 new building-sites, as well as the building-sites for the many new workshops, factories, etc.

In agriculture new working possibilities can only be attained by greater parcelling out or more intensive cultivation. During recent years the trend has been in the opposite direction. The growth of the towns has resulted in a decrease rather than an increase in the number of farms. Many large farms no longer have livestock, and have thus become more extensive, while others are run on more intensive lines with the help of machinery, and what is more, have been able to reduce the number of labourers employed, so that there is a flight from the country to the towns.

Thus the enterprises in the towns have to absorb, not only the increase of 50,000 in the population every year, but also the many thousand who migrate from the rural districts. The number of those occupied all the year round in agriculture in Denmark has fallen from 475,000 in 1938 to 320,000 in 1958. This has brought about an enormous increase in demand for building sites in the towns for dwelling-houses and places of work (business premises).

As the sum total of land available is limited, this means that we have to move closer together.

Land is the only form of property which cannot be increased, and is therefore dependent on other economic laws than those which apply to machinery, houses and goods, which can at any time be produced in increasing quantities, or be replaced, so that they meet the increasing need.

When land is sold at these higher prices, new property certificates are issued in the form of mortgage deeds etc. But this is money without production behind it, that is to say the sum total of money increases, but there is no corresponding increase of goods or of real values. This new money has the same effect as the water poured into the milk. Money, like the milk, becomes "thinner". Inflation has set in.

Some people will perhaps argue that the fact that a purchaser gives more for land because it has risen in price does not result in inflation for anyone but himself, as he is compelled to reduce his consumption in other respects by a corresponding amount; he is thus not able immediately to cover his increased expenditure by means of higher wages or higher prices. But this argument is too shortsighted.

We must remember that it is a question of 50,000 new individuals a year. If those of them who are going to be manufacturers or merchants could come into the market under the same favourable conditions as those who already own factories or businesses, obtained when building-sites were cheaper, they would be better able to compete than they are now. Their youth and initiative would, perhaps, on the whole result in more competitive prices for goods in their field of activity, as is always the case with fresh blood. But as things are, when their enterprise is burdened with higher rents for building-sites or houses, they find it hard to meet these charges, and are prevented from influencing prices in the right direction.

Older businesses with higher running costs will therefore be able to carry on with unrationalized operation owing to cheaper rents, not being compelled to rationalize through competition from new and younger enterprises.

The higher rent demanded for the new houses is registered every year in a cost of living index on a higher scale, which again causes a rise of wages. In many wage agreements with single individuals the amount of rent the employee has to pay is taken into consideration in fixing the amount of wages. In both cases there is an increase in wages without a corresponding increase in production.

Added to this, there is a tendency for houses built in an earlier period at a lower price level to become more expensive in order to rise to the price level of newer property – in any case so long as there is a housing shortage and a need for more shops.

In other words: the higher land prices influence not only the new houses which are built but also the old ones. Increased land values result in higher rents both in new and in existing buildings, which has an unavoidable influence on the price of goods in general. *Money loses value.*

Money would on the other hand be worth more if the community as a whole received the interest on the land increment values created by the community, so that taxes on income earned by labour or production could be reduced by a corresponding amount.

Which section of the population suffers most?

Are there certain sections of the population that suffer loss and others that enjoy extra profits? If so, this must rest on an unjust basis. As already pointed out, there must be a fundamental balance between production and purchasing power, and between the total amount of real values and the total amount of property certificates, money. Balance will always be established. What is profit for some is loss for others, so that these two factors, profit and loss, completely balance each other.

Small savers and those who provide for their own pensions

Those who suffer are in the first place people who have to live on saved-up capital, for which they have worked hard, often doing without many things they would have liked. Is this just? It is thanks to their economical way of life that there has been money available for the investments that have been made up to now.

First these hard-working and thrifty people play their part in creating the necessary conditions for building, investing and other progressive enterprise for the borrowers of the money they have put into the bank. And all the thanks they get is devalued kroner back.

And the reverse: borrowers can not only obtain capital, from those who save, to enable them to carry through their plans and grow rich, but also they can later pay back their debts with kroner which have depreciated, perhaps to half their former value.

Such injustice cries to heaven. And one of the objects of this booklet is to help to put a stop to it.

Also the fact that a few persons because of the rise in land values can enrich themselves at the cost of the many others is an expensive business for the taxpayer. It is this injustice which had to be especially remedied by the very expensive people's pension act. If it had not been possible for the few very fortunate to make large profits on land increment values, then the money saved up by people for their old age would have gone much further, and then the old law for old-age pensions for the needy, which was much cheaper for the taxpayer, would still have been able to meet the necessity.

Many more of those in a better financial position would have been able to afford to supplement this pension with their private life- or old-age insurance.

If the government is to help people, it must first collect the necessary money in the form of taxes or purchase tax, which increase the price of goods and lower the value of money.

Wage earners

It is not increase in wages that starts inflation

There is a still larger section of the community that suffers from inflation, although to a lesser degree. Not only has this group, like savers and self-pensioners, had the value of its savings cut in half, but also by reason of increased prices it has not hitherto received the full amount of wages for its work. In this connection I am thinking of all the wage earners and employees who, just to preserve the purchasing power of their wages, must, through wage agreements, fight for each improvement in their wages in order to compensate for price rises which have already taken place. Between the agreements come the agreed cost of living index adjustments, but always after prices have already risen. Previous wage-earners, now living on a pension, feel the effects of inflation in the same way.

If one thinks in terms of a curve on a graph, prices will show a constant rise during the last twenty years, indicated by a straight line from the bottom left-hand corner to the top right-hand corner. If one then plots the wage rises on this curve, this line will appear as a "staircase", which more or less follows the price curve. The vertical lines will reach the price curve every time a new adjustment has taken place, but the line will then continue horizontally until the point of new adjustment. If one were to add up all the triangles which lie below the straight price curve, one would see how the wage earner has received too little as compared with the rise in prices.

It has often been claimed -- and not refuted -- that wage rises are the cause of inflation. This is incorrect. No employer can pay more in wages than the work is worth. Individual groups can fight their way to temporary

advantages, but as a whole workmen and office staff cannot collectively obtain higher wages and salaries until higher production justifies it.

**The wage level is determined
more by market levels than by organized effort**

A stable wage level is usual when there is some unemployment and labour is therefore easily obtainable.

It is only when we approach full employment and it is easy to obtain work that it becomes possible for the worker to secure appreciable rises in wages, especially because enterprises in full operation find it easier to pay higher wages, since they can take greater advantage of the capital invested in their plant and machinery without increasing overhead expenses to any marked extent.

The higher wages will therefore have a sound background in a solid increase of production and need not cause a general increase of prices – that is to say, they will not cause inflation.

In reality it is important that wages, and therefore the wage earners' purchasing power, rise exactly in accordance with the rise in production. Not only must goods be produced, they must also be sold.

Agriculture loses through inflation

Not only small savers, self-pensioners and wage earners lose through inflation, but also farmers.

Whereas industry and trade are usually able, by demanding a higher price for goods and services, to avoid the effects of inflation – the higher price level – and whereas wage earners by means of wage agreements obtain compensation, though at a later date, Danish agriculture has no possibility of making up for the increased costs resulting from inflation. The Danish farmer is dependent on prices for his export products in the world markets, and can do nothing himself to improve the export price, except to the extent that advertising and better sales efforts can help him in competition with farmers and exporting merchants in other countries. For the Danish farmer the important thing is to keep down costs. A complete stop to inflation – with consequent stability and perhaps a lower level of interest – is

one of the ways of keeping down costs. It is only in this way that the agriculturist can hope to obtain some share of the benefits of technical progress.

On the other hand there is a good chance of a favourable trend of prices for Danish farmers if the land valuation tax legislation which has now been initiated and which will gradually transfer increment values to the public coffers, to replace taxes, is soon increased in scope and made more effective and more just. It should correspond to the profit-making possibilities in the various parts of the country – proportionately rising rapidly in town districts, to which people are moving, and proportionately falling rapidly in country districts, from which people are moving away. If we thereby stop inflation in Denmark, while it continues in other countries, which do not immediately benefit by this new doctrine, we shall be able to keep the Danish farmers' costs down, whereas the general level of prices, and therefore the price of food-stuffs, will continue to rise in other countries.

Our present unjust taxation system, like inflation, seriously affects agriculture.

It can thus be taken as a fact that inflation harms the majority of the population. To a corresponding degree, advantages of exactly the same size are gained unfairly, though quite legally, by a minority without any contribution to the general good.

Let us take an example:

A. buys a farm to the value of 150,000 kroner. He pays the whole of the purchase price cash down – that is to say either in notes, shares, bonds or mortgage deeds on other people's property, but without issuing any mortgage on his new property.

In the course of time the value of the krone is reduced by half, and this farm will have risen to a value of 300,000 kroner (plus the value of improvements), whereupon he sells it. A. has, however, not kept more than his assets, since the 300,000 kroner now have only the same value as the 150,000 kroner had twenty years ago.

B. also buys a farm for 150,000 kroner, pays 50,000 kroner down, and pays the residue of the purchase price by obtaining a loan of 100,000 kroner from a savings-bank on the security of the property. This loan consists of

money paid into the savings-bank by, perhaps, 100 small savers, mostly from the wage-earning classes.

At the end of 20 years B. also sells his farm for 300,000 kroner. The first thing he does is to repay the loan of the 100,000 kroner to the savings-bank, and he does this, let us say, when the 100 small savers want to draw out their savings in order to spend them. Meanwhile the 100,000 kroner have become 100,000 half-kroner (that is to say, have halved in value). The 100 small savers have thus lost half of their capital. The seller has 200,000 kroner left, that is to say four times as much as he himself originally invested in the farm.

These 200,000 kroner have also depreciated by 50 %, so their value is now only 100,000 kroner in terms of values twenty years ago. Yet B. has doubled his capital, at the expense of the 100 small savers!

Profit and loss balance one another exactly in this example. In the same way profit and loss as a result of inflation always strike a balance. The amount lost corresponds to the amount won.

Here we see the essence of inflation: that the few can enrich themselves at the expense of the many. In this example I have completely disregarded any access of land increment values, which others, particularly lucky, acquire in addition to the above-mentioned doubling in twenty years. We have examples of increment values, where the value of land has doubled in a very short time. In July 1960 we read in the newspapers that Victor Borge's property, which he bought in 1957 for $1\frac{1}{4}$ million kroner, was sold for $2\frac{1}{2}$ million kroner – a profit of 100 %. During the same period the cost of living price index rose by only approximately 5 %.

In this case the property appreciated in value 20 times as much as the prices, and the land much more, since the buildings, which comprised perhaps half the value in 1957, scarcely rose by more than 20–25 %. If the land increment value in this particular case could be ascertained it would probably show a rise of 300 %, or 60 times as much as the general price rise during the same three years.

Near Roskilde 30 hectares of agricultural land were sold in the spring of 1960 for 900,000 kroner. A few weeks later this piece of land was sold again, this time for 1,800,000 kroner. Used for agricultural purposes the

property would be only worth about 100,000 kroner. These are but two out of many thousands of examples. The new high price will have to be paid in the form of rent by the tenants or house owners who will live on the area in question. Does anybody believe that the creation of such fortunes, which might amount to over 1,000 million kroner in one single year, can take place without seriously disturbing the value of money as a whole?

The increases in the value of land – the most violent we have ever experienced in Denmark – are undoubtedly due to the boom in commerce and in industry with resultant full employment, as well as to the migration of large numbers from rural districts to the towns.

This underlines more than anything else the chief theme in Henry George's book "Progress and Poverty", that progress in itself contains the germ of poverty, i. e. such progress as results in extension of production with a corresponding increased demand for land benefits the few, but causes corresponding harm to the many, who have to pay a higher initial price for the land on which they are to work and live.

It is often claimed that rises in the value of land are only a book-keeping posting of land values in relation to the depreciation of money. This is absolutely incorrect. During the few years before the last land valuation (October, 1956), the value of land increased by twice as much as the krone fell, and during the four years after 1956 it will undoubtedly prove that the value of land in Denmark rose by at least 5 times as much as the krone fell in value.

All of this shows that it is first and foremost increase in the value of land which causes inflation.

Which way then shall we lead land increment values?

Increase in land values cannot be stopped

It must be obvious that the demand for land will not diminish in the years to come, although it will come and go in waves. The steady increase in population will cause a constant demand for land on which to work and to live, but it will be the duty of politicians to prevent this from happening at the expense of certain sections of the community, while other sections actually reap an advantage from it.

The simplest way is to prevent anyone from gaining advantage at the expense of his neighbour. The inevitable economic laws of nature in respect of balance will then ensure that there are no losers, because, as stated, steps have been taken to prevent there being any winners. When no one is able to obtain unearned profit and purchasing power, then no one will suffer undeserved loss – for the reason that there is an exact balance between the sum total of real values and property certificates, i. e. money, and between the sum total of production and the sum total of purchasing power.

In Denmark the Justice Party worked for many years to ensure that the total increment in land values should benefit the community as a whole, since the community will collect the land rent.

Henry George stressed that land, which has always existed, as a matter of principle cannot belong to any one individual, but must belong to all of us collectively, both present and future generations. In Denmark this point of view has been emphasized by outstanding personalities such as Reventlow, Anders Sandøe Ørsted and Grundtvig. No human being has created the land. The right of property is only justified when the values are created by the owner. Those values that are not created by the work of the individual, but are due to nature or the community, must as a matter of principle belong to the community. It is the task of the politician to transfer in a just and reasonable way the right of ownership of land values

or land rent back to the community without interfering with the right of the owner to enjoy the use of the property.

The first steps have been taken

In Denmark we are on the way toward this goal. Steps have been taken in the right direction, especially with the act of 5th July 1960, regarding the valuation and taxation of real estate.

In accordance with this act 4 % of all increment is collected *yearly*, after 55 % (for agricultural land 65 %) has been added to the valuation which was made at the tenth ordinary valuation of 1st October 1950. Houses occupied by one or two families are, however, exempted from paying increment value tax on the first 7,000 kroner increase.

It is the intention of the act that all future rise in values after the 12th ordinary valuation, 1st September 1960, shall be taxable at the rate of 4 % p. a. The above-mentioned exceptions ensure that no payments shall be made for the moderate rise in values affecting ordinary houses and agricultural land during the last ten years, from 1950 to 1960. The act, on the other hand, will come into force immediately in the case of land which, when changing over from agricultural land to building land, has risen enormously in value (over 65 %).

We must, however, reach the point at which all interest on land gradually goes into the state coffers. If we consider the question solely from the point of view of stopping inflation, then at any rate the whole increase of value without deduction must be collected in future. The legitimate income of the community from this source will make possible a reduction of taxes, customs and other duties by a corresponding amount. In this way future increment will not benefit some specially fortunate individuals, but, through a reduction of taxation, all citizens on an equal footing. The plague of inflation and its drawbacks will disappear. And that is what everything hinges on.

This, however, involves the necessity of still more frequent valuations – at least once a year in urban districts, where the great increases in value take place. A valuation every fourth year will probably suffice in rural districts, if these are not immediately adjacent to urban districts, since in these rural

districts the rise in values will be very moderate, though there will probably be a tendency to assess on a more uniform basis of valuation according to the possibilities of earning a living in the rural districts in question. The good, rich soil will thus increase in valuation more than the lighter soil. It is probable that the very light soils and outlying areas, such as the smaller islands, will decrease very much in value, corresponding to the lower profit-making possibilities there.

Valuation must be brought up to the full commercial value, but it will probably be found more expedient to change over to direct valuation of the annual land rent. The present disadvantages of increased value, now resulting in higher taxable capital and higher taxable house-rent value, would thus be avoided.

The annual land rent which shall accrue to the community must be so high that future deals in land can only be based on the original valuation from before the land increment value tax act of 5th July 1960, plus the improvements carried out by the seller; in agriculture, for instance, the extra value of well cultivated land as compared with the poorest cultivated land. In urban districts it is only the position that counts.

With these new laws we are on the way to correcting the defects. It will therefore be wise already now to be prepared for the fact that money is becoming more valuable.

Summary

A healthy balance between production and purchasing power can be brought about if the causes of inflation are removed.

The disadvantages of inflation are so numerous and so obvious, and the injustice so unreasonable, that it must be the duty of every national economist and politician to help abolish this injustice and thereby the disadvantages.

Thus it is in the power of legislators to stop inflation or to let it continue more or less unchecked.

In this booklet the causes of inflation have been pointed out. It is true that the harm suffered by the great number of individuals is in direct proportion to the benefits which certain especially fortunate individuals enjoy as a result of inflation. But the indirect effects of inflation are harmful to the community as a whole, without anyone enjoying any benefits in return.

The hollowing out of the krone will continue so long as we allow land increment values created by the community to go into the pockets of the fortunate few.

Everybody, consciously or unconsciously, is interested in stopping inflation. Inflation has a deterrent effect on saving, and therefore on procuring the means for investment, which again means that rationalization and modernizing of the apparatus of production is postponed, and that Denmark does not strengthen its ability to compete in world markets.

In other words: the whole community could become richer if inflation were stopped. The remedy is that everything that can hinder free competition must be removed, and that equal right to the land – also for the young people of Denmark – is made possible, so that everybody can have equal opportunities of earning a living.

No one must be able to make profits – income – without working for them. All money earned will then exactly balance the work performed and thereby the production brought about.

I hope that this book may have thrown new light on the problems of inflation and pointed out ways to abolish this calamity.

Knud Tholstrup.