

You Can Stop Inflation

by KNUD THOLSTRUP

LAND speculation and its follower, inflation, are the biggest economic problems of our time. Land speculation creates inflation, knocking the economy in most countries out of balance.

Henry George stated clearly (see *Progress and Poverty*, pp. 39, 225, 266, 411) that land value taxation as single tax can stop the increase of prices. Undoubtedly that means that it can stop inflation.

Inflation is harmful to many small savers who have to be compensated by social measures. This causes new taxes, and high taxes kill initiative. Yet the root of the evil remains undisturbed while the effects are attacked by means of restrictions which only create new trouble.

England once had the highest living standards in Europe. She taught the rest of the world how to drain and fertilize the land. She introduced new strains within all kinds of crops, and brought forth new breeds of livestock, which today are fundamental to stock breeding all over the world. Also within industry she was ahead of everybody, but since the first world war she has been surpassed by several other countries. I feel certain that the reason for this is to be found in England's extraordinarily high income tax, which goes up to 95 percent. Who will take the responsibility of management and run economic risk for only 5 percent after taxes are paid?

Today the way to get rich is not through hard work but by having a good nose for where land values are going to rise. The safest investment is in land. Land prices are going up fastest in countries with full employment where an ever higher part of the increasing production benefits the few who own the land. The laborers lose

Knud Tholstrup, a business man of Copenhagen, engaged in a shipping enterprise, was the guest speaker at a faculty meeting at the New York Henry George School on March 9th. This is a shortened version of his address. He was elected to the Danish Parliament in 1946 and remains an active member of the Justice party. His booklet "Why Put Up With Inflation?" is available at 25 cents from The Henry George News, 50 East 69th Street, New York, N. Y. 10021.

most of their rise in wages through the declining value of the money. They know that inflation is their enemy but they do not know "who" or what inflation is, and they cannot read about it in any textbook on economy.

Economists who have dealt with this problem have mostly tackled the period between the two wars where we had low employment and economic crises. Although there must be a balance between gain and loss—gain for the few and loss for the many through inflation—only the debit side is investigated. The economists do not see that if you stop the possibility of making a profit from rising land values there would be no loss for others to share. I have not been able to convince them, although no economist can tell me where inflation comes from if not from the source I have outlined.

Land speculation hits all young farmers who want to buy land and start farming, but it benefits the farmers who sell and leave. The present system is against those who have to live by their farming. Inflation hits them for all they have to buy, and higher interest has to be paid on all their loans.

Inflation is mostly caused by lack of confidence in the value of the current money, and by the opposite—strong confidence in the solid and rising value of real estate. Therefore people want to buy land and houses with the low-

est possible down payment. They trust that the interest and repayment will become easier. This is the real incentive to land speculation.

Where land is more plentiful prices are not rising so fast, inflation is not so serious. Compare western Europe with the United States, and although the U.S. is still far ahead, the rate of productivity has grown faster in Europe since the war.

In 1946 I was as a Georgist elected to the Danish Parliament. At that time Denmark had great difficulties in getting sufficient foreign exchange, and I had to go deep into the problem in order to take part in the work as spokesman for my party in commercial and political questions.

I could not understand how a deficit in foreign currency could occur, as I believe in balance between import and export. If you import you have to pay for the import with export. The foreign sellers will only sell if they get their payment, and you only have the export goods as payment. As a free trader I say if you want to increase your export you can just open up for free import. There is no risk. You will never get more than you can pay for.

The question was then, how do other forms of purchasing power develop? I believed I had found the answer to the deficit in foreign currency when I became aware of the unearned profits from the rise in land price. Where did they go?

It was clear to me that the amount of money grew faster than the production, and I first thought that the surplus of money from land prices was the reason. But that was wrong. Of course the new money that was "created" had the same purchasing power as the money coming from production. But put together they did not increase the total purchasing power. They could only increase the total amount of money; so they could only disturb the balance between goods (production)

and means of purchasing power. Through this study I found myself on the track of the source of inflation,

Be Your Own Banker!

To understand my theory about the connection between rising land rent and inflation please accept the fact, for the present, that money is not limited to bank notes and bank deposits, but that it includes all certificates for goods and real estate, yes, for everything you own or need.

The \$100 in your wallet is your certificate to the dress in the shop. Your \$2,000 in the bank is your certificate to a new Ford if you don't prefer a Chevrolet. The bonds and mortgage deeds you have are certificates to a house, and if you need more, the transfer will be made without using one single bank note. If you have \$40,000 and buy a house for \$60,000 you will just issue a mortgage deed for the remaining \$20,000. In that way you "issue" your own money. The total amount of money is the balance of the total amount of goods and real estate. The circulation of bank notes in Denmark is approximately 20 percent lower than it was ten years ago, and we have much inflation, I can tell you!

If a country increases the capital goods by two billion this year in new building or other activities it is 2 percent richer than last year, and probably the equivalent of two billion dollars in new certificates has been issued. But as the same country has a fast rising land value, perhaps another two billion dollars in certificates in newly created land value might also have been issued.

This means that the wealth has grown by only 2 percent, but the amount of money has grown by 4 percent, and as the new certificates for rising land value are being blended with all the others, it has the same effect as if you added 2 percent of water to milk. The quantity of milk will be

increased by 2 percent, but it will be thinner milk. The country will have an inflation of 2 percent.

Of course when you have inflation it is not only land that rises in value. If it costs more to build new houses, old houses as well will rise in price, so inflation generates new inflation by itself. There are other ways in which inflation can occur, but it all starts with money from the rising land prices going into the wrong pockets.

While my small political [Justice] party was growing, it got more and more influence on the government policy, and when, after gaining three more seats for a total of nine, it joined two other parties in 1957, everyone expected higher land value taxation. As a result, land speculation slowed down at once. People were no longer sure that land was the best investment. Up to 1957 the price index rose by 4 to 5 percent annually. During the next four years it rose only 1½ percent, and except for the higher export prices of farm products (in 1959-60) it would only have risen 1 percent annually.

In 1959 a new 4 percent land increment value tax act was passed, and in the 1960 election we lost half of our votes when this unpopular act was fought with a huge campaign fund which our small party could not meet. From that moment the inflation started up right away.

This development in Denmark during the last 12 to 14 years indicates the correctness of my theory—4 to 5 percent inflation to 1957—then 4 years with only 1 percent because of expected higher land value taxation—and then again 5 percent inflation when this act was called off with a rise to 8.6 percent the first year after the act was finally abolished.

Also during our party's four year participation in the government the bank interest went down from 5½ to 5 percent. The average of the bank rate today is 6½ percent, but it is artificially held down and would have been 7.7 percent in a free money market. This alone causes more than 50 percent higher rent in the houses now being built.

Observations of what actually happened during that period provide an arranged experiment for a study of inflation. Economists from all countries ought to study this material.

Proportionately as the laborer gets higher wages the purchasing power of his money is being watered down, because the rising land rent swallows all or most of the profit which progress in general provides. This creates antagonism between employers and employees who use against each other their costly weapons—strikes and lockouts, instead of sitting down to find what is stealing from both of them so they could join forces to kill the dragon, inflation.

The increase in land value accelerates much faster than production. Thus the purchasing power coming from rising land values is getting more and more ahead of production of goods and the purchasing power coming from production. To establish the balance between available goods and purchasing power, the value of the production has to catch up with purchasing power through increased prices for goods.

Today only a lucky minority profits from the progress in general. Most people are paying high land rent to private owners and high taxes to the state. And progress in wealth through unearned increment of land bears the seed of a later depression.

●
"We may never cure poverty," says comedian Joey Adams. "But, with prices and taxes the way they are, we're sure going to cure wealth."

—From Reader's Digest