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# Two Thousand Million Pounds

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£ *In these two specially contributed articles, readers of "Land & Liberty" explain WHY post-war Governments have deliberately debased the currency and HOW the ever-growing mass of paper pounds is put into circulation. Mr. Baynes is a chartered accountant: Mr. Wickham" is the nom de plume of a senior civil servant.* £

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### Unemployment Kept at Bay

SINCE the end of the second world war, two striking phenomena have dominated the field of economics—one, the ceaseless inflation of our currency; the other, the overall absence of unemployment. Many people detect an obvious connection between the two, though few get beyond the "too-much-money-chasing-too-few-goods" or the "more-jobs-than-men" stage. Most of those who think at all on economic matters are fairly divided over this eternal "chicken-and-egg" argument of which comes first.

Wherever, as in Britain, the system of land tenure enables one man to demand a price before he will allow another access to the resources of the earth, there is a latent tendency towards unemployment. Periodically, when the price demanded jumps too far ahead of productivity or, to put it another way, when speculative rents become too great a burden for industry and commerce to support, this latent unemployment bursts forth, and slump conditions develop.

Since the War there has been little unemployment and no slump. Why? The reason is not difficult to discover.

Rents are normally fixed on a fairly long-term basis. This is more than just convenience—to the business-man it is a necessity for he must be free to plan for a number of years ahead and to know with certainty that a main overhead charge is fixed. In prosperous times rents are fixed not at the current economic level but at some higher figure. This speculative element in rents arises from the land owner's very natural desire to participate in the anticipated future prosperity. The business-man accepts the risk that over-high rent entails: business has been increasing, why should it not continue to increase?

But progress is not all smooth, and a pause which, but for the excessive fixed rent would occasion no harm, may spell ruin for some business-men. This effect, heightened by the sensitivity caused by high standing charges, spreads rapidly.

Let us forget prosperity and ever-increasing wealth. What happens during an inflationary period? In money terms prices and profits rise year by year. But rents remain fixed. Thus without any real boom or greater real wealth, inflation can reduce the excessive overhead to reasonable proportions. And, should a slump threaten, a touch more inflation can avert the crisis.

One does not deny that there has been an increase in wealth since the war. It would be a scandal if there had not. But it is a fact that successive post-war governments, whether or not aware of the economics of the situation, have relied on inflation to keep unemployment at bay. In this way they have kept the whole economy precariously balanced on a knife edge. They have precipitated industrial disputes and, most serious of all, by debasing the currency, they have robbed those who have saved in the past and have demonstrated the futility of saving now for the future. Whatever their motive, their policy in this regard has had disastrous results.

In this complex world simple solutions are usually scorned. Yet here is a problem which can be solved by the application of a simple, but basic, remedy. If, through the medium of land value taxation, the land monopoly were broken, and men were able to enjoy true economic freedom, with rents no longer forced up by speculation to uneconomic heights, latent unemployment would be banished, and the fear of slumps would be but a bad dream. Men could then begin the necessary process of adapting their ways to meet a situation in which a pound today would still be worth a pound tomorrow. In the final analysis, inflation is a palliative which produces its own crop of problems.

KEITH BAYNES.

### The Genesis of Inflation

A REASONABLY accurate description of our monetary set-up is of a base of currency and coin upon which is built up a superstructure of bank credit, one having to the other a minimum ratio of 8 per cent. So long as the size of the base remains fixed, no expansion of the superstructure can occur. But let someone start adding bits on to that currency-base and the superstructure will proceed to mushroom in the proportion of 12 : 1. Who does tamper with the base? None other than that nationalised little industry known as the Bank of England.

To understand how this comes about it will help if one considers the act of an imprest account holder (or perhaps the treasurer of the local slate club) who, being temporarily short of personal funds, borrows from the petty cash, depositing in exchange, his IOU. This may not be strictly ethical, but provided sufficient cash is available when bills have to be paid, no unpleasantness will arise. But what would be our reaction if, on presenting our bill for payment, the account-holder said: "I am sorry, I have only

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this IOU. But if you will wait a moment I'll pop upstairs and run off a few notes on the printing press"?

With this question in mind, let us now move across to the Bank of England. In this august establishment the "IOU" is a Government Security—a bond, a Treasury Bill or perhaps a little number known as a "Ways and Means Advance." This document, unlike our "slate club" IOU, has not replaced cash, but supports the creation of a credit in the account of the Paymaster-General. From this credit, payments are made to Government contractors, civil servants, etc., normally by transferring sums to their accounts in the commercial banks. The "bills" which arrive for payment are the cheques from these commercial banks who need to pay the civil servants, etc., in cash. Not enough cash in the Bank's till? No trouble at all. The Security is merely transferred to the Issue Department of the Bank which, acting within its statutory rights, prints the appropriate amount. In such simple fashion is the amount of money in circulation increased.

Proof of this? It is there for all to see in the huge and growing wad of Government Securities held by the Issue Department of the Bank of England. In 1914 the figure was a mere £11 million. In 1946 it stood at £1,388 million; on July 17, 1957—£2,046 million.

And let no one imagine that this stream of currency has been "released" by some lofty, benevolent patriarch to satisfy the urgent need of the money-hungry populace. Do people really think that currency is "released" by someone at the Bank throwing up a window and hurling wads of notes to the patient crowds waiting below in Threadneedle Street? The plain fact is that every one of these 2,046,000,000 pound notes has been *spent*. Every single piece of this intrinsically worthless paper has been exchanged for things of real value. In other words, out of that vast pool of money and wealth which forms so to speak, the "market," successive Governments of this country have taken out goods and services to the value of £2,046 million and poured in a mass of worthless paper. Could there be any clearer exposition of the origin of that state of affairs defined as "too much money chasing too few goods"?

W. WICKHAM.

(Continued from page 109.)

Act of 1934 in the Weimar Republic of Germany, which gave the Reichstag the power to assess taxes on land values according to the laws of each of the Weimar States.

In Spain, an attempt to tax the benefited land to pay the cost of land reclamation projects, was disallowed by the Supreme Court, as reported in June 14, 1934, *Christian Science Monitor* in a cable from Madrid.

It is now conceded by Chiang Kai Shek in his recent book, that it was a mistake to allow the big landed war

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lords to flout the laws taxing land, as they did. He did not uphold the basic politico-economic principles urged by President Sun Yat-sen with regard to the taxation of land values.

As we reflect on the economic consequences of imposing all taxation on capital and labour, and exempting the holding of valuable land from taxation, in nation after nation making up the so-called "Free World," the importance of the Public Revenue principles supported by Henry George gets clearer.

The money issued by any government that is robbing its producers by confiscatory taxation of the fruit of their industry, soon loses its value. We know it is possible for governments to raise all necessary revenue without using sales, licence, income or tariff taxes.

Denmark has made more use of the principles supported by Henry George than perhaps any other nation. The Danish Small-holders are world famous. They have much in common with the California Small-holders, who also got their opportunity to enjoy "Life, Liberty and Property" by virtue of laws enacted under the leadership of Henry George, his friends and admirers. In Denmark and California the efficacy of the "Single-tax" principle has been tested and proven. Also in Australia, New Zealand and elsewhere.

The Marxist idea of taxing incomes, whether earned or unearned, according to "ability to pay" has been employed by many nations, whose money became worthless since World War I. Thomas Jefferson, long before Henry George, advocated taxation in proportion to "Benefits received," measured by the value of land. Neither of them supported the "Ability to Pay" idea.

Little did I dream when leaving San Francisco in 1949 to attend the International Union for Land Value Taxation and Free Trade Conference at Swanwick, England, that I would be offered the privilege and honour of serving as president. On arrival, I was invited to act as chairman of the Platform or Resolutions Committee, composed of nine members, not all of whom spoke English. We forged the Human Rights Platform, without a dissenting vote. This great Declaration was re-affirmed at the 1952 Conference in Denmark, with minor editorial amendments, and has been published in many languages, and circulated among top leaders in many nations by members and friends of the International Union. Copies are obtainable from headquarters in London (4 Great Smith St.). The most effective way is to write a personal letter to outstanding leaders, enclosing one of these Declarations in the language of the recipient. Personal letters carry influence that no form letter from any organisation carries.

The splendid work done by members circulating this document during my two terms as president is deeply appreciated.

Now that the Karl Marx "star" is fading in nation after nation, is surely the opportunity that admirers of Henry George have hoped for.