

### Inflation

We have inflation when prices in general are rising.

Rising prices are the result of the demand being larger than the supply of goods. But as real purchasing power comes from production, there must be balance between supply and demand, unless there are other sources of purchasing power than those originating from production. There are indeed, and the most important is land value rising. If there is a shortage of cocoa, copper, gold, not to speak of oil, prices will go up to the advantage of the holders of such goods, and these holders will get a surplus purchasing power at the expense of people, who need cocoa - copper - gold and oil. But the rise will only increase to a certain point, as the users of those items stop buying them or will change over to the use of other kinds of goods.

There is only one highly demanded commodity that cannot be replaced, and that is land. Land is also the most important item. When value-rising of goods runs into hundreds of millions, land value-rising runs into ten thousands of millions. In Denmark it amounts to at least 10 billions of Kroner - in Britain presumably 10 billions of Pounds per year.

This enormous increase in wealth for rather few people is giving those an overwhelming purchasing power without their giving anything in return. That is the reason why inflation is now so high.

In my paper I explain this phenomena more thoroughly, giving figures of the experiences made in Denmark, which might be called a laboratory for studying inflation and its follower, the high interest.

25 years ago two new economical problems occurred - deficit in the balance of payment towards the foreign countries, and that of inflation. As a free trader I knew that all trade is exchange of goods.

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Unless you were able to borrow the money, you could not buy more than you could pay for. As a Georgist I wondered where the surplus

of purchasing power came from to disturb the balance.

It had to be a great source, as the inflation ran into billions - this year 8%, made more, of the G.N.P. of almost 200 billions Danish Kroner, or 1 billion Pound; leaving the hands of everybody into the hands of the few fortunate - in Great Britain presumably 10-12 billions Pounds this year. This means that every Briton this year pays 200 Pounds as a V.A.T. to some unknown private people on top of the V.A.T. to the government.

Being only 3,7% of the <sup>Danish</sup> G.N.P., the amount of the bank notes could not be responsible - a much greater source had to be found.

Georgists are used to distinguish between values created by work and values created through the social developments made by the community as a whole.

Here was a matter where the latter came in - the enormous unearned income going into the wrong pockets, preferably those of the big landowners, was the only source of importance.

One of my sentences is: "When somebody obtains income without work, others must get too little for their work." And that is the unpleasant picture of inflation. My conclusion was: If we could stop the gains, we would stop the losses.

When I started writing about my observations 25 years ago in 1948 the problem of inflation was not so acute as it is today, and very few even cared. It seemed that only very few understood my theory.

As a matter of fact, very few people in the world are thinking along the lines where I myself felt at home, that is: substitute market economy for state directed economy, private enterprises for socialized production, free trade for protectionism, land rent to the community for land rent into private pockets, single tax for income taxes and V.A.T., and so forth.

What was absolutely clear to me was Latin to others, but the understanding is now growing.

In 1957 I got a chance to prove my theories. At the election the Justice Party had grown from 6 to 9 seats and found itself in a key position. I took the initiative to build a coalition govern-

ment with the "Social Democrats" (labour) and the "Radicals" (Liberals). Both parties had "grundskyld" in their program, and they promised to pay full attention to it, and we agreed to issue a law of collecting the increment from land value rising. The positive outcome has been explained in my paper.

The inflation is accelerating, and to my mind it will accelerate even more in the years to come, if we do nothing about it.

But first of all we people with the Henry George understanding of the laws of economy must tell the politicians, what causes the inflation, so that they know where to intervene. It seems, however, as if we first of all have to convince many of our own H.G. people of the matter.

But I think that the experiences made in Denmark prove my theory clearly enough to leave no doubt behind.

Gentlemen: Are you aware that we have very little time, as the present acceleration of the inflation will reduce the purchasing power of money to one tenth of the present value the next 12 years.

I calculate with an acceleration of 2% per year, 8% this year, 10% next year and so forth.

Everybody will borrow all the money he can without asking what the interest will be, in order to buy land to secure himself. That is the main reason for the high interest at present.

With the high income taxes we have in Denmark the wages will have to rise more than 20% if people shall retain their real income. With 10% inflation the salary rise should be 25%. I do not know for how long the enterprises will be able to pay.

I hope we can live up to our responsibility.

1973-09-20  
kth-ghj

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Verbal Comments. Isle of Man Meeting 10th-12th September 1973

Statesmen all over the world consider inflation the most important economic problem and threat to our community, but they do not know how to prevent us from it. I think we Georgists could tell them how.

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This enormous increase in wealth for rather few people is giving those an overwhelming purchasing power without their giving anything in return. That is the reason why inflation is now so high.

In my paper I explain the phenomena more thoroughly, giving figures of the experiences made in Denmark, which might be called a laboratory for studying inflation and its follower, the high interest, which is doing a lot of harm to business.

25 years ago two new economic problems occurred - deficit in the balance of payment toward the foreign countries, and that of inflation. As a free trader I knew that all trade is exchange of goods.

Unless you were able to borrow the money, you could not buy more than you could pay for. As a Georgist I wondered where the surplus of purchasing power came from to disturb the balance. It had to be a great source, as the inflation ran into billions - this year 8%, maybe more, of the G.N.P. of almost 200 billions Danish kroner or 1 billion £, leaving the hands of everybody into the hands of the few fortunate - in Great Britain presumably 10 billion £ this year. This means that every Briton this year pays 200 £ as a V.A.T. to some unknown private people on top of the V.A.T. to the government, or 700 £ for an average family.

Being only 3,7% of the Danish G.N.P., the amount of the bank notes could not be responsible - a much greater source had to be found. Georgists are used to distinguish between values created by work and values created through the social developments made by the society as a whole.

Here was a matter where the latter came in - the enormous unearned income going into the wrong pockets, preferably those of the big landowners, was the only source of importance.

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That is the main reason for the high interest at present.

With the high income taxes we have in Denmark, the wages this year will have to rise more than 20% if people shall retain their real income. With 10% inflation the salary rise should be 25%. I do not know for how long the enterprises will be able to pay. I hope we Georgists can live up to our responsibility.

1973-09-20  
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### Land Value Taxation in Denmark

Mr. B. wrote to me on May 4 and asked if I could give some figures about the general situation in Denmark relating to land reform and the position of political parties.

Political parties are divided into two groups with a majority of only one seat to Labour and People's Democracy. The other group is divided into three liberal conservative parties. None of the groups is particularly interested in land problems.

In principle the Socialists want to socialize land, but they know that they would lose a referendum if they try to!

The situation in 1957 was that Justice Party had a growth from 6 to 9 seats and had a majority together with Labour and the Radical Liberals, who both had "grundskyld" (land tax) in their program, and we from Justice Party offered our support, if they would actualize their official program of "grundskyld". On this basis the new government was built with the promise of collecting the full rent of land value increase. The effect hereof has been reported in my paper and in appendix I in Economic Liberalism.

Today there is very little progress in land value taxation. In the years 1961/1962 the total revenue from land taxation was 5% of the total taxes. Today it is only 3½%. Maybe it will rise to 4% this year, but then it will cease to rise during the next 4 years. Due to the new valuation of land, which took place this summer, the revenue is estimated to increase from 2200 mill. kroner to a little more than 3000 mill. kroner or 200 mill. E out of a total taxation of 75 billion kroner or 5 billion E. The land value is estimated to rise by 50% from 67 billion kroner in 1969 to 100 billion kroner in 1973 equal to 7½ billion E or 6 times the value in 1960. In the same period the price index has doubled. This means that land is rising 5 times as fast as prices. If you take the lower value of the coin into consideration the land value is today 3 times as high as it was in 1960. But this is not the full truth. The land valuation is not fully following the



law which says that land shall be valued at its market value. But as a whole, land is sold at an about 20% higher price and this means that land value is rising by 4 times when it comes to real or stable values, and the growth is 6 times faster than that of the prices.

The collection of "grundskyld" in the various municipalities varies from  $\frac{1}{8}\%$  up to  $8\frac{1}{8}\%$ . Hereto comes an addition of 2% for the counties, which means that the highest collection today is  $10\frac{1}{8}\%$  in one single municipality, where the income tax, of course, is equivalently lower.

In Denmark interests paid can be deducted from your income before taxation. Included in your income is 3 or 4% of the value of your house, in which you live.

I am sorry to add that there is no evidence of improvements as to the rising of the collections of land rent - as a matter of fact there is a rising resistance against land value taxation.

On the other hand the newest Gallup poll shows that 'Justice Party' has a good chance of coming in again on next election in 1975 if not before - and this time there is a complete programme for collecting the land rent in a practical and just way.

P.S.

During the meeting it was found that the revenue from land taxes in the U.S.A. is about 3% and in the U.K. 6% of the total taxes.

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September, 1973

Understanding growing.

In my introduction I said, that the understanding of my theories is growing:

In Newsletter, February, 1972, Mr. Blundell answers Mr. Sevenster. I take the liberty of quoting:

"Where production takes place on a piece of land, rent represents a share of the wealth produced. If the rent is a speculative rent, and thus takes more than is due, then this can only be at the expense of the returns to labour and capital. This may put up the cost of living to the producers but it lowers it for the land-owner."

I fully agree with this, as it is a clear picture of how landowners benefit from the cost of labor and capital: I would like to repeat: "Then this can only be at the expense of the returns to labour and capital. This may put up the cost of living to the producers but it lowers it for the land-owner."

I think, Mr. Blundell should have stopped here because his conclusion: "There is no inflation here" is wrong. As a matter of fact Mr. Blundell has given an excellent explanation of, what inflation is, as quoted above. Inflation means that producers get less for the money, they have earned by production, than the real value of their work because land-owners are getting a good share of it, without taking part in the production. They are paid for nothing. It is a matter of fact, that Mr. Blundell and I are not far from each other, when we come to the essence of the explanation of the inflation.

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In Good Government, December, 1972, Mr. H.T.A. McGahan writes:

"Inflation is the problem that is foremost in the people's minds today and I think we should get on that band wagon. I fully agree with Podger that we should blame the Government for the mess we're in - not the land speculator. The Government is the agent of the community. An agent should collect his principal's revenues in full. Our governments fail there. Inflation arises from the taxing of goods for government revenue; the remedy is to untax goods."

In Land and Liberty, Jan. & Feb., 1973, Mr. G.C. Moyne writes:

"Argumenting the long-run unearned increment to land which arises from the activities of the community, purchasing power is diverted from workers and enterprises to owners."

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In Good Government, June issue, 1973, Mr. L.W. Brown, Melbourne writes:

"The major single factor in inflation at present is the escalating price of land. Inflation has been defined as too many money tokens chasing too few goods. The remedy for this situation is the adoption of policies which encourage people to spend money in producing goods instead of the sterile investment of funds in land as a hedge against inflation."

Indirect taxes (such as the sales tax) are among the most inflationary taxes of all, since they bear heaviest on the people of lower incomes least able to bear them. They directly increase the prices of goods of daily use and necessity by those pensions and fixed incomes, and knock the value out of the dollar. The A.L.P. would have within its power to change this by abolishing the sales tax and replacing it with a land value tax."

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In ESSRA Magazine, summer 1973, nr. 2, Mr. Anthony Carter is quoted for his conclusion about inflation:

"With an impressive analysis, which strongly suggests, that the cause of Britain's troubles is closely connected with our system of land tenure."

Quotations from FORTUNE July 1973

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Article

Land: The Boom That  
Really Hurts  
by Max Ways

page 104

In the last fifteen years the average price of land in the U.S. has risen at a rate of about 7 percent a year. Over the same period the consumer price index rose at an average rate of 2.7 percent.

In downtown Atlanta, land that went for \$ 20 a square foot ten years ago, when the city was already booming, has now risen to \$ 120 a square foot. In Chicago, land for industrial development has risen at about 10 or 12 percent a year. In southern Florida, suburban land has gone up 600 percent in ten years: in the last eighteen months alone prices have doubled.

page 105

When the hedge fuels the furnace

As people all over the world talk about such examples, they often solemnly aver that land is the best hedge against inflation. An so, for a generation, it has been. But hedges can be cut and dried and used as fuel. The land boom itself is one of the main causes of the inflation that bedevils almost every country on earth.

Undue union power to raise wages is also blamed for inflation. The U.S. public is justifiably indignant at what building-trade unions have done to construction costs. But in many parts of the U.S. over the last fifteen years, prices of housing sites have risen faster than the cost of on-site labor. Inflation occurs in

Britain, where unions are strong, and in Japan, where unions are less inclined to drive wages up by prolonged strikes.

Heading:

One Man's \$ 44,1  
Million Windfall  
and Another's  
\$ 10-Million  
Demolition

page 108

Great Britain. Average land prices have doubled since 1970, tripled since 1967.

In a market sense, land is in short supply because use of much of it is subject to government restrictions. Moreover, unimproved land in Britain bears no tax whatever, so owners are under no pressure to sell.

Viscount Wimborne, now thirty-two, inherited 600 acres at Poole on the south coast from his father in 1967. The tract was then worth \$ 480.000. In 1969 he got official planning permission for residential development. Early this year he sold the tract to the Tory-controlled Poole County Council for \$ 63,7 million, paying \$ 19,6 million in capital-gains taxes, keeping \$ 44,1 million. Socialists - and others - are not happy about Wimborne's windfall.

Japan. The Japan Real Estate Institute says that the urban-land price index is now nineteen times as high as in 1954. Big-city prices have multiplied by twenty-six.

page 108

Brazil. Industrial land in the Greater São Paulo area is going for around \$ 5.50 a square foot. The most expensive land in the country is along the Ipanema beach strip of Rio de Janeiro, where builders pay up to \$ 55 a square foot.

page 109

Everybody knows you can't lose money in land, and the local taxes are peanuts.

page 168.

Manvel's study had estimated that between 1956 and 1966 nonpublic land in the U.S. rose in value from \$ 269 billion to \$ 523 billion. Douglas and his three colleagues commented: " The owners of the land received these enormous gains without strain or effort on their part .... The progress of society created these values; the owners of the land received them .... Someone once classified incomes into three divisions: earnings, findings and stealings. This enormous increase in land values is most certainly not a stealing, and we want to make it crystal clear that we do not regard it as such. Men of the purest character have shared in these gains without loss of virtue. But if these gains are not a stealing, they are also most certainly not an earning. They are instead almost a pure finding."

Be cautious in buying new machines, for the more productive they are the more you will give up in taxes. Instead, buy land. Hold land.

Coming down to the essence, the cause of inflation is that Government do not collect the land rent.

My recipe for solving the problem of inflation by collecting the land rent is backed up by a very well-known economist. I quote:

"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. "

This is not a new statement. Is was written almost 100 years ago, and the mans's name was Henry George.

September, 1973

Succession in the course of inflation:

Inflation is not caused by rising wages and costs.

When the amount of money grows faster than the amount of goods, we have inflation.

Production and purchasing power gets out of balance.

The surplus money must come from non-productive sources.

The concept "money" includes all means of payment, mortgage deeds and all kinds of I.O.U.

The balance between money and goods is established by price rising and then comes the wage-rising, but the money with which to pay must be available first.

The succession is as follows and nothing can change this succession:

- I Purchasing power (money) arises partly from production and partly from rising of exist goods especially real estate.
- II The demand exceeds the amount of goods
- III Prices will rise until balance is established
- IV Not until then wages can be increased
- V But new value rising is already on its way
  - a. Prospective value of land brings about new land value rising and sales are concluded with promises of later payments.
  - b. Promises of later payments can be immediately liquefied and take part in the demand for goods in line with money made from production.
  - c. Expected inflation encourages people to secure their savings by investments in real estate
  - d. Inflation accelerates.