

Second Step, 2nd Year

Under influence of the paid and coming due, revaluation takes place. Of this new value, exceeding 30,000,- DKK*) per hectare, 2 per cent is to be collected. The collected money is to be a fixed annual payment on top of the first year's payment, and the revenue being used for further reduction of the income tax with the same amount for all tax payers.

Further Steps

according to the second step further steps will be repeated year by year, until all income taxes and personal taxes have been wound-up, whereafter the procedure will continue with the purpose of winding-up consumer-taxes according to a priority, based on relieving the people with the most oppressive taxes.

The ownership of private persons as well as society will be respected fully.



Additional copies are available at:

Henry George Biblioteket (library) . 56 A, Lyngbyvej . DK 2100 Copenhagen Ø . Denmark
Phone No. +45 1 29 65 33

Today's Most Important Political Task

As the inflation is the main cause of all unjustified economic distribution in wealth, disturbance in the society economy, and the unfortunate consequences in form of reduced competitive power (which again will lead to unemployment) plus continued crises, fighting against inflation is to become the most important political issue in all countries.

Knud Tholstrup

*) The only profit obtained from land with a value below 30,000,- DKK per hectare is wages. Therefore there is no room for land rent to be paid. It is especially the case for farmers, who own about 5-6 per cent of Denmark's total land values. In the long term, the total land rent to society will not be less, as the 30,000,- DKK still will be part of the land valuation basis.

The author, Knud Tholstrup (1904), started as a farmer. In 1936 he became an entrepreneur. In 1941 he bought Kosan Gas Co., later Kosan a/s, now successfully run by his son. Kosan a/s is a conglomerate at 10 trading companies and factories, exporting to more than 100 countries. A fleet of 20 L.P. Gas tankers are ploughing the seven seas.

Knud Tholstrup is keenly interested in national economy and social justice. During the past 60 years, he has written countless articles about economics. Member of the Danish Parliament 1946-58 (Justice Party), Tholstrup is known as a relentless fighter against monopolies and a spokesman for unconditional free trade and real free enterprise.

The Inflation

— what it arises from
and
how to avoid it



25/4-80. The banks' golden offers of interest to the savers are met with some scepticism.

— Those two characters always barge in in front of me!

Knud Tholstrup

August 1988

7114

What Does the Word Inflation mean?

Everybody talks about the weather, but nobody does anything about it, Mark Twain said.

Inflation is not inescapable, like the weather.

Inflation can be avoided.

That is what this paper deals with.

First of all we must make clear what inflation means. Normally, we say that we have an inflation of 5 per cent, when the consumer price index increases by 5 per cent.

However, the inflation can actually be 7 per cent, if the price index hides the fact that society has a 2 per cent productivity gain due to technological development, which otherwise would have reduced prices by 2 per cent.

We have inflation when the growth in money supply exceeds the growth of production. This does not necessarily mean that bigger purchasing power is achieved through increased money supply, but that part of the purchasing power (unjustified) is moved from the producer, who does the work, to the landowner, the latter having done nothing to achieve that. When somebody gets more than the work determines, others will receive less than the value of their work.

Purchasing power can only be derived from production and should first and foremost be a benefit to the producers as an incentive to enlarge the total cake, which we all have to share.

Added growth in money supply derives primarily from the added price, a seller

gets from his sale of land due to the value increases on land, created by the society. The interest on this added value is included in the buyer's daily cost and shall therefore be covered either through more work or through a higher price for the work carried out.

Price increases for commodities and services will inevitably be the result. This is what we see today as inflation.

If income could be achieved through work and production only, no additional purchasing power would press up prices, i.e. no inflation.

You cannot blame salary/wages and tax increases for the inflation. They are due to inflation. Since 1960 work pay has increased approx. double as much as prices. That is due, however, to the tax, taking 50 per cent of the increase.

You cannot blame the note printing press for it.

The National Bank does not put more notes in circulation than people wish to have in their pockets or in the cash register.

On the whole, the picture of inflation is the same in all developed countries.

The conditions in Denmark are an example.

Every country can just put in their own figures.

In Denmark, the note issue does only increase as a result of turnover and price development and amounts to 1,5 per cent of the total money supply. The remaining part being bank and saving bank deposits of 25 per cent and bonds of 73,5 per cent. Since 1960, the latter two figures have increased 10 times compared to prices, while the real estate values in Denmark have increased 4 times as much as prices.

The Nature of Inflation

The inflation has two sides - loss and gain, the former caused by the latter.

Inflation does not only mean that you need more money to pay for the goods and services, but more important, it creates disparity between people.

Gain for one group means loss for another. This is also the result when you have artificial inflation, created by the politicians who directly and deliberately devalue (falsify) the currency.

Devaluation hits the less well off hardest, while the owners of real estate have their debt written down for nothing in return.

If a person prints false bank notes, he will be punished. If a farmer pours water in the milk, he will be punished. This law is, however, not in force for governments that falsify (devalue) the currency and neglect to prevent one group of the population to dilute the purchasing power of money - the ongoing inflation as described here.

All consumers are losers due to inflation, when they have to pay 5 per cent more for the goods than the year before.

The owners of real estate values gain through increases in these values which are of the same order magnitude as the total price increases, so that a balance is made between the undeserved gain and loss in the purchasing power of salary/wages.

Owners of major land values and other types of real estate obtain additional gain due to the fact that they can pay interest and principal on their loans with money of less and less value compared to the day on which the loans were obtained.

This happens at the savers' expenses, because their savings are diluted.

The greatest losers are people without real estate, while the biggest gainers are those

with a great amount of real estate. The big group in between i.e. the common house owners do more or less have balance between losses and gains. Even bigger losers are those who lose their job due to the fact that price increases (inflation) ruin the competitive power in business.

The additional purchasing power, obtained by the gainers, does lead to the same reduction in purchasing power by the losers, who therefore demand and obtain compensation in the form of higher salary/wages, but always after the price increases take place.

A great deal of attempts have been made to limit the inflation, but all have been directed towards avoiding the losses. The losses cannot, however, be avoided when the possibilities of gaining are maintained.

We can only limit or remove inflation by removing private person's possibilities of obtaining gains through inflation in land value increases, created by the community. The ongoing increases in real estate prices are inevitable as long as productivity and population increase, because no new land is added to the existing areas.

Ownership to be Respected

If we want to avoid this injustice, we have to respect the principle of ownership in general, private ownership of ones salary/wages/profit from production (made with or without help from outside), and the ownership of the society to the values, created by the society and therefore belonging to the society. In fact, the conditions for maintaining private ownership are respect for the ownership of the society.

The growth of the society combined with the investment of the society in

communication, legal safety etc. make the land more valuable for those who shall live and work on it.

Today, the contribution of the citizens is made through disrespectful income taxes, because the society neglects to collect the land rent, belonging to the society, in a form of an annual rent of the society created real estate values to cover public expenses of a natural character instead of taxes which works as a punishment for an active worklife.

The shortest explanation of inflation is: Inflation is caused by society's neglect to collect payment of the society created land rent and use the revenue to cover expenses of the society instead of taxes on work.

The inflation will cease when private persons no longer can lay hands on the society created increases of real estate value, i.e. the land rent which in a form of workfree gains can put pressure on the price level.

The Source of Envy

Why is it so important to eliminate inflation?

Are such thoughts just an expression for envy towards people who through hard work and ability (in a few cases inherited properties) have become owners of real estate to a greater or smaller extent?

The nature of envy is not to be underestimated, because it is the mother to hatred and destruction and creation of revolutionary groups who through violence will eliminate injustice without really understanding the underlying cause for injustice and what it derives from.

The losses for society are tremendous.

To adhere to unjustified laws requires

much greater costs to the society than to adhere to justified laws, because justice does not create envy.

Among the costs are tax increase and unemployment which, with regular intervals, lead to economic crises world-wide.

In his book from 1954 about the worst historical crises, "The Great Crash 1929", Mr. John Kenneth Galbraith, the Nobel Prize taker, writes that the speculations, leading to the big crash on the American Stock Exchange, started out from speculation in real estate in the new holiday areas in Florida and other wellknown holiday areas in the USA.

Thanks to the automobiles and the positive economic development up to 1929, more and more americans had access to and could afford to buy or rent holiday homes. This led to big speculations in real estate prices.

In 1956 Mr. John R. Fuchs, the wellknown judge from Texas, writes in his book "Constructive Taxation for Free Enterprise" that real estate price inflation is the main cause of all inflation. The same year as I wrote "Why put up with Inflation".

The High Interest Problem

Inflation has very unfortunate side effects and causes directly high interest levels, the consequence of which is unprofitable production, resulting in company closures and unemployment.

Demand for higher salary/wages as compensation only for price increases contributes also.

The high interest is the poor Third World

countries biggest problem as they - apart from being hit by their own inflation - also, through their government loans at high rate of interest, must participate in the industrial countries' suffer from high interest.

High interest is primarily due to real estate speculation in the broadest sense and the financing hereof, the reasons being:

- Purchase of real estate, after price increases has taken place.
- Speculative buying of real estate ahead of expected price increases to enable larger gains on resale.
- Purchase of real estate as a hedge against inflation.

Loans obtained for these purposes very often result in interest increases. This speculative pre-buying takes place of the expense of the buyers', who are in the market to buy real estate for immediate use, where the expected price increases therefore are included in the price and, afterwards, become a burden for production. The big expectation to the EEC-advantages, which everybody was induced to believe, led to big increases of price of farm land followed by increase in the interest level, which nearly doubled from Denmark's entrance in EEC 1972 and up to 1982.

When this speculative element in real estate disappears, part of the real estate price, caused by speculation, will also disappear and thereby create easier conditions for the people who are going to use the real estate for production and housing.

When it is no longer possible to borrow money for speculative based purchase of real estate, balance between ordinary savings and loan demands will be obtained

again, and the interest will come down to a moderate level and be acceptable for the production sectors' capabilities, so that instead of losing jobs we create new ones for the benefit of us all.

When the money's purchasing power is not diluted by inflation, we shall get larger savings which also leads to reduced interest levels.

The influence of interest has been underestimated.

In 1988 prices, a normal workplace costs 5-600,000,- DKK to finance and an average salary/wages amounts to approx. 200,000,- DKK a year.

1 per cent more in salary/wages increases production costs by 2,000,- DKK per employee a year.

1 per cent more in interest increases production costs by 5-6,000,- DKK per employee a year.

When the interest in Denmark is 5 per cent higher than in the countries, with which we compete, this means a 5 per cent reduction in competitive power, equal to 25-30,000,- DKK per workplace, while 5 per cent more in payroll increases the production costs by 10,000,- DKK only.

To this can be added that an increase of 5 per cent in payroll also is under influence of the high interest because of the higher rent, the employees have to pay.

If the interest level had been lower, the payroll increase might have been 3 per cent or 6,000,- DKK only.

Could inflation be limited or avoided fully, the high interest would most likely be reduced considerable as well.

This is not beautiful theories of mine. In Denmark we have experienced practical examples to be followed.

The Positive Experiences

After the election in 1957, where my party was in a key position, and recognizing the economic basic laws, I took the initiative to create a 3-party government, based on collecting land rent, which was well prepared by the leader of the Justice Party, Mr. Viggo Starcke's election speeches containing possible government constellations.

Knowing what land rent could lead to I said - speaking for my party (in the Parliament): "With the politics which now has to be effected, the inflation will stop and the interest will be reduced." This statement was met by laughter.

The following year the interest was reduced from 6 1/4 per cent to 5 per cent and in 1959 the inflation was 0 per cent and below 1 per cent a year in the period 1957 to 1960 compared to approx. 5 per cent annual before and after.

During the period, 100.000 new jobs were created and due to low interest and without new taxes, the workers received the highest real payroll increases ever.

In addition, the balance of trade deficite became a surplus, and 3/4 of Denmark's foreign debt was repaid. Another year, and Denmark would have been free of debt.

The result was so sensational that a Swedish national economist in his description called the period: "The triangles happy Denmark", and New York Times on October 2, 1960 wrote: "Big lesson from a small nation" in which article professor Comager recommended other nations to learn from this.

At the election in 1960, the parties against land rent put all their efforts in getting the Justice Party destroyed by use of the hitherto biggest economic means in any

election, strongly supported by the associations of land owners.

Because of more deaths and sickness in the parliament group, the Justice Party had weakened their agitational power and the party could not pass the limit for election. For personal reasons I left the Danish Parliament in 1958.

The Uncomprehensible Act

With Mr. J.O. Krag as socialdemocratical Prime Minister from 1962 and his promise to repeal the law about land rent, the speculation went back with an accelerating speed. The law was repealed on April 30, 1964 and the inflation increased to 8 per cent.

While the gross national product (GNP) and the total real estate values (the land prices being an essential part) have increased 20 times since 1960, or 3 times as much as the consumer price index, the real estate values in Denmark in actual sales prices in the same period have increased from 17 billion DKK to more than 500 billion DKK, i.e. more than 30 times and more than 4 times as much as the consumer prices/inflation.

As the society neglect to collect the rent from the society created value increases, the Danish government suffers an annual loss of about 50 billion DKK which, therefore, have to be collected in additional taxes, which otherwise would not be necessary.

These additional taxes end up in higher commodity prices and cost each of the country's 5 million inhabitants 10,000,- DKK a year as a part of the consumer prices and, above that, it leads to reduction in the competitive power.

Today, Denmark is confronted with the worst economic crises ever.

We shall never get out of this crisis, if we do not get to the root of the problem - the reason for the lost competitive ability - and stop the land speculation against a future promise to demand land rent paid to the society so that the suffocating income taxes can be eliminated over a period of e.g. 10 years.

We do not, however, have to wait years for the effect of this. It will come immediately after a firm promise of making the necessary laws, exactly as it did in 1957 to 1960.

The neglect of the society to collect the society created land rent has necessitated a broad variety of taxes. The worst of these is the income tax which swallows up to 3/4 of the fruit of work.

It is worse, however, that the effect is a punishment on working, which especially hits the young people without any money who want to start up their own business. Barriers for a sound economic development are thereby created. The initiatives are killed from the beginning, which makes the undergrowth of the young entrepreneurs to suffer from interest and tax death, before their expansion actually gets started. And we need newcomers in business.

When I have emphasized land rent collection over income taxes, I often get the sceptical comment that the land rent collected simply will be added to the other taxes.

Therefore I have to explain that the present tax system means that people must pay twice, while they would have to pay only once if they paid land rent. Now, firstly the land rent is paid, which primarily is collected by the credit institutions, financing investments in land

and other real estate, where first and foremost the land value has been mortgaged to the lender (the money which should have been given to the state). Thereafter, a similar amount is paid in income taxes (second time).

In fact, payment takes place 3 times as the present inflation creating system leads to a doubling of the interest level/interest payment.

All these expenses have to be collected through higher prices on goods, i.e. where all costs actually end up.

This is the reason for continuous revolving economic crises, which first and foremost hit the young persons who cannot get a job.

The people in favour of limitation of the income taxes by means of land rent must have a usable detailed proposal ready for presentation. The practical possibilities could be as follows:

Winding-Up of Income Taxes

Proposal for winding-up of income taxes through land rent payments.

First step

Land values to be brought up to date on a current basis by comparing to actual sales prices.

In the first year, 4 per cent of the value in excess of the first 30,000,- DKK*) per hectare, is collected, and the amount in money is fixed as an annual fixed payment. The revenue collected through that means is used for immediate reduction of the income taxes with the same amount for all tax payers. Consequently, a great number of low income tax payers will be free of income tax already after the first year.