

### The Land Tax and Inflation

In "Land and Liberty", Jan/Feb. 1979 issue, Anthony Carter wrote,

"The background for writing "Progress and Poverty" was that Henry George was perplexed as to why, in an age of plenty, there was so much depravation. He set out to analyse this paradox, and identify the reasons for it, and having done so to propose a remedy. His remedy was to abolish all taxes except that on the value of land...."

And on this point he is backed by Milton Friedman, who ninety-nine years later, in November 1978, said,

"There is a sense in which all taxes are antagonistic to free enterprise -- and yet we need taxes.... So the question is, which are the least bad taxes? In my opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago."

To my mind, there is no technical problem in converting income taxes to taxing of land value, LVT.

We agree that poverty, in spite of progress, still is a world-wide problem. The problem is to convince people, and thus the leading politicians, about the urgency of starting that conversion just now.

It is ridiculous that the ideas of Henry George have not been able to penetrate the minds of both layman and economists. To my mind they are all analysing too little, but are too open-minded to new smart ideas with cheap explanations, such as Marxism. It is easy for a poor man to understand that he shall share the accumulated wealth with the rich: "When all people are equal, they should have an equal right to all the food, clothing, and so forth".

But for too many years, Marxism has been the religion of poor people, and unscrupulous politicians and economists to benefit from those easy arguments, so they could still have a free ride on the backs of labouring people.

Just look at the examples from Eastern Europe, where the top politicians are collecting a many times higher salary than the wages for the low-income brackets, than in the Western world. In my own country, the top manager will probably earn 4 times as much as the common wage-earner, but only 2-3 times as much after tax, while the Eastern proportion, including fringe-benefits, easily runs up to 10 times as much as labour.

If you would distribute to other tax-payers what the most rich two percent earn above average (after taxes), the ninety-eight per cent would get only one week's extra income in a year, but already next year the amount will have shrunk to next to nothing, as all initiative will be killed when the carrot is snatched away, and all the fun about being a private enterpriser is gone.

The Chairman of the biggest bank in Scandinavia when visiting Copenhagen recently, said,

"Taxation in Sweden is a most advanced system, practising taking from one and giving to another, so that both give up working." (income levelling).

In Sweden, surplus income is taxed by 88 %.

In a board meeting in Sweden last May we decided to index the salary of

our manager by 100.000 Swedish Kr. (= \$25.000) in order to give him a rise of 12.000 Sw.Kr. (\$ 3.000).

Up to 1914, Great Britain was the leading industrial country in Europe - first in technology and living standard, after a long period with considerable property taxes and practically no tax on income. But she was also first in introducing the next-to-confiscation of surplus incomes 40 years before Sweden. Surplus income was taxed 95%, today 83%, and on unearned incomes if any there is a surtax from 10 to 15% on top of the 83%, which consequently Mrs. Thatcher has now decided to reduce to 60%. Since then, G.B. has suffered from two wars, but it is more due to suffering from "income confiscation" that G.B. today is far behind all North European countries.

This tax system would have ruined Great Britain completely if she had not found the North Sea full of oil.

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As a free enterpriser, I believe in three fundamental laws:

land value taxation, free trade, and free enterprise.

And I have good reasons for the latter when I observe the development in Scandinavia against that in Russia.

In my youth, many poor Swedes settled in Denmark because Sweden was a very poor country 60 years ago, and so was Finland. Today, Sweden is paying the highest salaries in Europe, alternating with Denmark.

In Finland, they have a living standard 3 times as high as in European Russia. But Finland was one of the poorest provinces of Russia until 1917. Most of the country is covered by snow and ice half the year. Even though Russia has plenty of first-class farm land, she is not self-supplying. The only free enterprisers are the wives of the farmhands with a small garden. They supply the market with 30% of all the food, grown on 2-3% of all the land.

Michael V. Rodriguez, founder-president of the British Institute of Inventors, says (I quote:)

"Most people see that Marxism does not work. It does not redistribute the earnings made by capital. It subsumes them. It digests them. It eliminates them."

J.K. Galbraith said in 1977 that "...Poverty is painful. It would be good if we knew the source of it." (quoted from a Danish newspaper). By being a Georgist for more than 50 years, and with the natural understanding of practical matters, such as

and (1) "All improvements are ending up in higher land prices"

(2) "All costs are ending up in higher consumer prices",

I had a good background for observing this source. It is very simple: When some people are able to make incomes without producing work, there must be other people who are getting too little for their work; and that is just the picture of inflation, with its two sides: consumers pay rising prices to balance the rising land prices. So the answer to Mr. Galbraith must be:

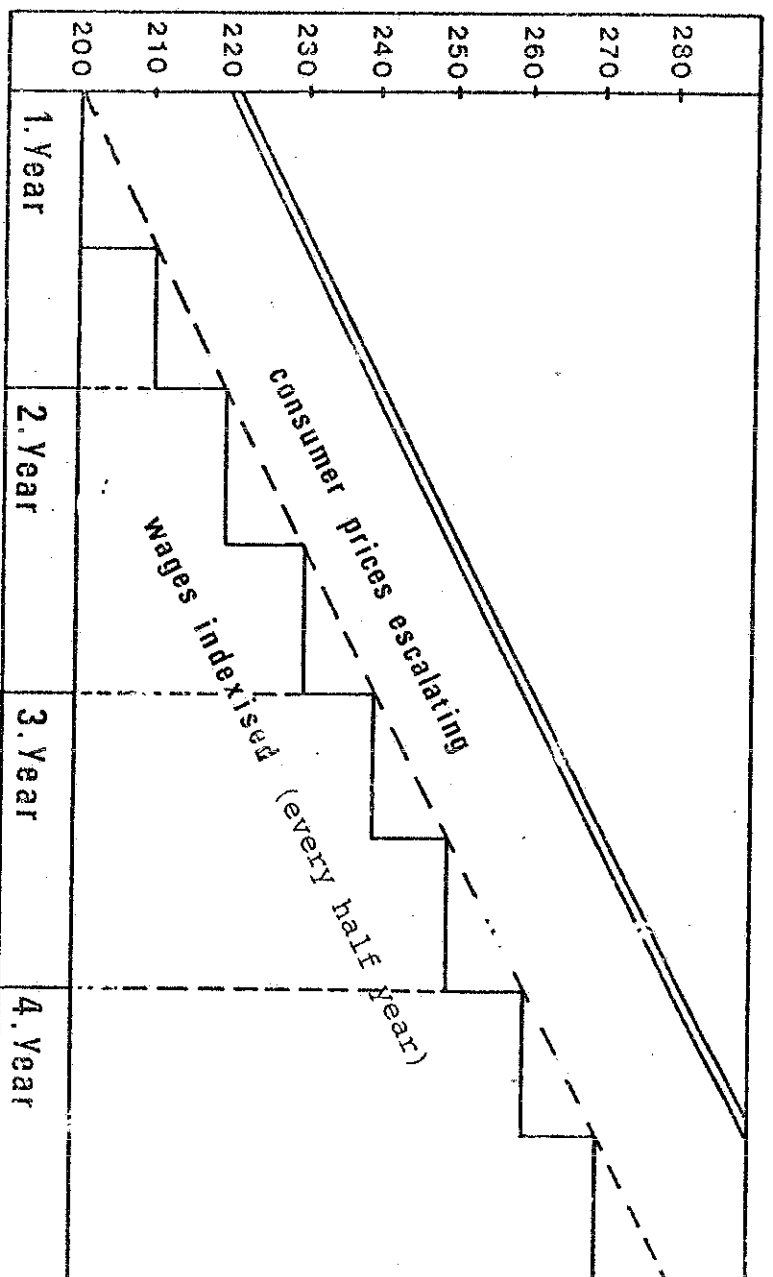
There are several sources, but inflation is regarded as one of the main sources, and the severest.

In other words, your first aim must be to stop inflation, and to do that, you must find the explanation and the source of it. And the efforts have to be done, as inflation is regarded from many sides as the severest economic evil in our time, which is deepening out the gap between the rich industrial countries and the poor development-countries, and thus responsible for the lack of stability in both places, as prices for industrial products are rising in proportion with inflation, long before the raw materials from the poor countries increase in price, and poor countries are coming trailing behind and will never catch up before inflation is stopped.

In industrial countries, the lack of stability causes falling employment, political stirring, and violence, as a consequence of the fact that employees are trailing along behind the price development. Even when wages are regulated after the price index the regulation always takes place after prices have risen. That is one of the reasons for not blaming rising salaries for inflation; it is the other way round: the salaries have to rise to meet the rising prices.

It could best be illustrated by a staircase, the bannister of which is the rising prices, and the steps are the salary indexing:

Staircase with bannister (prices) and steps (wage level):



— Triangles below dotted line being compensated later on by productivity-based wage-increases or/and other wage increases —

It is easy to see that labour are not getting paid in time for the triangles in between by indexing only.

We must not forget that the purpose of production is consumption, and there must be a market for the products. If this market is ignored, you have unemployment, trouble and unrest in the working places.

It is also responsible for the two followers: the high level of interest and the lacking balance in foreign exchange.

Declining value of the coin accelerates the hedging against inflation by investing in real estate and the willingness to pay high interest for a loan to finance the purchase. The high interest is increasing the costs of production altogether, thus contributing to the inflation.

Efforts of wage control and price stop have shown to be of very little effect to inflation. Instead, it hampers the very production and creates unemployment. -- The recipe has proved wrong. --

In their efforts to tackle inflation, governments are only doing patchwork because they are tackling the effects instead of the reason, not realizing that inflation has two sides: winners and losers. The same thing is expressed in Henry Hazlitt's book "Inflation" from 1964, under the heading "Inflation has Two Faces". I quote:

"All those who gain through inflation on net balance, necessarily do so at the expense of others who lose through it on net balance".

Winners are those who get the windfall of land value rising, and the losers are those who pay rising prices for their consumption.

The stopping of inflation must start by stopping the winners from collecting the community-created land value rising, and that can only be done by putting a levy on land value, so that the rising value will give a rising rent to the community, to be used for reduction of income- (and other) taxes, thus creating a balance between the rising rent and the declining of the taxes, so what people pay more as tenants, they save as tax-payers

-- No surplus of purchasing power to press up prices. --

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To understand inflation in money, you must have a clear picture of the consistence of money.

In his book, "Money - whence it came, and where it went", 1975, John Kenneth Galbraith said that until 1933, economists regarded only coins and bank notes as "money", but since 1933, check accounts were included, as for payment there is no difference between a heap of notes and a check for the same amount, they are both equally valid payment media. And that is what we today call "M 1". Later, this was enlarged to comprise all bank deposits, now called "M 2", and today we operate with up to M 5, according to the Staff Papers from the United States' Board of Governors of the Federal Reserve System, with the title "Improving the Monetary Aggregates", published in November 78. "M 3" includes credit union shares and other loan shares.

Hearing that, I wrote to Mr. William Miller of the Federal Reserve Board asking, Why don't you include all papers with an I O U ? and got his reply January 1979 (I quote): "...Your suggestions for redefining the money supply come at a timely moment..."

1973, Milton Friedman paid a visit to Copenhagen, on which occasion I discussed the cause of inflation with him, and stated that we have inflation when the money supply is rising faster than production. But he would not accept my explanation, nor my statement that the only major source of excess money supply was from land value rising, collected by private people without giving anything in return. I am therefore happy to read that he now says that "We have inflation when the amount of money increases faster than the increase of production", but still not giving the right explanation from where it comes. And that also accounts for Mr. Hazlitt, who correctly says, "It is impossible to bring prices down by increasing production, if the money supply is being increased even faster", but also he

fails to explain the main source of the excess money supply.

When Milton Friedman last visited Copenhagen 1978, I again discussed the cause of inflation with him, but he refused to accept my definition of money and is still blaming the federal banks for issuing too much money, in which he is incorrect, as the federal banks work along the same lines as all other banks, they can only lend money in the same amount as depositors save up, except for issuing the amount of bank notes you and I like to carry in our wallets, and the cashiers need for daily change. The amount of circulating notes is not of any importance. It is only about 2 pct of the total amount of purchasing media as defined by the Board of Governors of the Federal Reserve System, and the increase in a year is only 1% of the total increase of M 3.

I would like to give you some figures from Denmark.

The amount of bank notes here has shrunk from 5% to well over 2% of the total amount of circulating payment media over the last 10 years.

The below figures from Denmark are probably showing a common picture of the situation in most Western countries. From 1966 to 1976, development of the amount of purchasing media in Denmark has composed itself as follows:

	1966 bill.Dkr.	% of total	1976 bill.Dkr.	% of total	increase %	(1979) bill.Dkr.	= US\$ bill
Bank notes	4,9	5 %	8,4	2,3 %	70 %	(11) =	(2)
Bank deposits	35		115		230 %	(130) =	(24)
Bonds	46		236		400 %	(340) =	(64)
Total, bill.Dkr. 86			360			(481) =	(90)
Mortgage deeds .....			40 x)			(60) x) =	(11,5)
			400 bill.Dkr.			(541) =	(101,5)

x) To this add the annual increase in private mortgage deeds, not registered statistically, which may be estimated at a 40 bill. Dkr. in 1976, and about 60 bill. Dkr. in 1979.

Over the same ten-year period, price index rose ..... 130 %,  
wages/salaries ..... 180 %,  
land value ..... 400 %.

To issue a mortgage deed is actually to issue money of your own. When land is sold, it is paid by maybe three kinds of money: a check from a depositor, a handful of bonds, and for the remainder a mortgage deed issued on the land; and this mortgage deed is as good cash as any other kind of money. The seller who receives it can now use it for his investments, or just put it aside and collect the annual interest yielding from it (indeed unearned income).

If you try to control economy by putting restrictions upon bank loans (depositors' money), or on the amount of bonds issued, the amount of mortgage deeds will, according to Danish experiences, rise just enough to make the balance, as trade in real estate will never stop.

I have the understanding that this is also the case in United States, where you will also find financing when needed, and are willing to pay any interest demanded, which is also the reason for the present high level of interest.

As my feeling was that figures in United States and Denmark are proportionally very similar, I was not astonished to read the following remarks by Fred Harrison in Land and Liberty, March/April 1979:

"Since 1949 the Consumer Price Index (CPI) has risen nearly 300%. The cost of a typical new single-family home has risen by over 500%. The fastest-growing element in the price of houses is land — which rose by 1,275%.

"Land prices now constitute 25% of the total cost of a typical home, up from 11% in 1949. During this period, labour and material costs fell from 69% to 47%". (= of the total)

This means that land value in the US has risen about 250 billion \$ last year, and there US. will find its source of inflation. You cannot avoid the rise, but if collected and used for the reduction of taxes, the value rising will be neutralized, and there will be no inflationary effect: what people pay more in rent they will pay less in taxes, instead of an addition on consumer prices.

How to do that, I am explaining in another paper, "How to Convert Income Tax Into LVT".

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When, 30 years ago, I set up my theory in Denmark, it was not easy for me to gain understanding, even from the Georgists. But I think I am in full agreement with Henry George himself who says on page 40 in the 4th edition of "Progress and Poverty",

"Increase in the amount of bonds, mortgages, notes, or bank bills cannot increase the wealth of the community that includes as well those who promise to pay as those who are entitled to receive. The enslavement of a part of their number could not increase the wealth of a people, for what the enslavers gained the enslaved would lose.

"Increase in land value does not represent increase in the common wealth, for what landowners gain by higher prices, the tenants or purchasers who must pay them will lose."

— A good illustration of the two sides of inflation. The tenants and purchasers necessarily have to obtain higher prices for their service and products in order to pay the increasing rent. Rent is a considerable cost on production, and will, as all other costs, end up in inflated prices on goods.

Even though it is 100 years ago Henry George wrote (p. 268),

"That land speculation is the true cause of industrial depression is, in the United States, clearly evident. In each period of industrial activity land values have steadily risen, culminating in speculation which carried them up in great jumps. This has been invariably followed by a partial cessation of production, and its correlative, a cessation of effective demand (dull trade), generally accompanied by a commercial crash; and then has succeeded a period of comparative stagnation, during which the equilibrium has been again slowly established, and the same round has been run again. This relation is observable throughout the civilized world. Periods of industrial activity always culminate in a speculative advance of land values, followed by symptoms of checked production, generally shown at first by cessation of checked production from the newer countries, where the advance in land values has been greatest",

it could as well have been written yesterday.

And I am underlining his remarks on page 413:

"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, or making production in any way more difficult."

You could conclude the opposite way: that failing to increase LVT will reduce wages and profit, increase consumer prices (inflation) and make production in every way more difficult.

What Henry George is doing here is actually, in short explaining the nature and the cure of inflation, which of course will disappear when all land rent is collected.

As also stressed in Henry George's own preface to the 4th edition of P&F page XV,

"It is seen that private property in land, instead of being necessary to its improvement and use, stands in the way of improvement and use, and entails an enormous waste of productive forces; that the recognition of the common right to land involves no shock or dispossession, but is to be reached by the simple and easy method of abolishing all taxation save that upon land values. And this an inquiry into the principles of taxation shows to be, in all respects, the best subject of taxation." —

It must be evident that this LVT should replace other taxes, but I think we have to stress that this can be done without violating the right to private land property.

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In 1957-60, my theory was proven to be true. After being re-elected, Justice party, the Georgists, came into a key position between Left and Right, after gaining three more seats in Parliament. As the minister of finance in the former Social Democrat government had a good understanding of the Georgist ideas, I approached him and suggested forming a three party coalition between the Social Democrats (corresponding to Labour party in Great Britain) and another Liberal party (corresponding to the Liberals in Great Britain). Collecting the land rent was to be the main point of the government.

As soon as this government was established, land speculation stopped; and so did inflation. In the following 3½ years, inflation was only 1% average, against 5% annually before and after that period, and further rising since then.

The rate of interest fell, so in 1958-59 it was less than half of what it is today.

Unemployment eased off, the jobs increased by 100,000 (equal to 4 million new jobs in US, as the total number of Americans is 42 times that of the Danes).

The deficit in balance of payment was changed into a surplus in a few months. Foreign debts were reduced by 75 pct during that period, and no new taxes were introduced; in a few cases even reductions took place.

The annual polls showed the highest degree of satisfied voters ever, with the result that we had practically no strikes during the period at all, and industry was able to pay rising wages, so the labour had the highest rise in real income that was ever experienced.

Observing the improving development, I resigned from Parliament in 1958, after 12 years' service taking more and more of my time, leaving too

little time for my own growing business.

The economic effects of the cessation of land speculation were astounding and aroused much attention far beyond the borders of my country. On the 2nd October, 1960, the New York Times wrote "Big lesson from a small nation", and professor Commager recommended that other nations might learn from Denmark's example.

But those who used to benefit from the inflation and land speculation started a campaign against the Georgists, and used the highest amount of money ever used in any campaign, directed against our small party, so that by next election in 1960 we came below the minimum limit for representation in Parliament, and presently the new laws concerning the collecting of land value rising were abolished again. And today our country is suffering from the same illnesses as other countries: high unemployment — high inflation — high foreign debts — heavy taxes — angry labour — and accelerating land prices.

As you may know, in Denmark we have a public land valuation every four years, and running statistics about sales prices for land. (Annual valuation is under consideration). In the four-year period from 1973 to 77, the value rose from 103 billion Dkr. to 197 billion, and at an accelerating speed, so the rise in the last year was at least 30 billion Dkr., or 5½ billion in US\$. And I am practically sure that the value of all the land in US, with 42 times the Danish population, has risen correspondingly, last year 225 bill. US\$.

Through studying newspapers and periodicals, I have made the observation that there is a close connection between the building activity in a country and the present inflation. Accelerating building activity is also accelerating the demand for land, and thus causing rising prices for a building plot. When American economists expected a price rise in 1978 of 6 pct, I wrote to "Fortune" and "U.S. News & World Report" and to Mr. Milton Friedman, who later agreed with me, that the inflation would be higher, as U.S. was experiencing a strongly accelerating building activity. (2 million homes). I was right, as inflation was at least two percent higher than estimated. (Actually, it reached 9,9%).

As I now learn that there will be built 10-12 pct fewer homes this year than in 1978, I should not wonder if the inflation would decline again in second half of this year, after the acceleration in the early spring, so that the inflation after all would not be much higher this year than last year in the U.S. We will see!

It is evident that there is a link between the demand for building plots and the inflation. In Switzerland they had a moderate inflation up to 1970. But as the great migration of foreign workers made shelter necessary, building activity was speeded up and rose from 50.000 to 80.000 homes in 1973. In the same year, inflation soared to 11,9 pct, twice as high as in 1970.

This migration stopped because of general cautiousness due to the oil embargo in 1973, and today the building of new homes does not exceed a 30.000. Inflation 1977 was only 1,3 %.

The rising building activity had an enormous increasing effect on land prices, but since 1973 land prices have practically not risen at all.

It is of particular interest that this occurred in the country of Switzerland, which in spite of high wages had no unemployment, no deficit on the balance of payment (the contrary), no increase in taxes, and no deficit on the budget, all four of which in other countries are commonly blamed by the economists for causing the inflation. And yet, Switzerland had almost 12 pct inflation in 1973 (34 pct up from 1970 to 1973).



That there is a connection between land value rising and inflation must thus be clear to everybody.

The development in Switzerland over 10 years:

	<u>Number of Homes Built</u>	<u>Inflation %</u>	<u>U.S. Inflation %</u>
1968	53.140	2,2 %	
1969	57.280	2,3 %	5,4 %
1970	63.590	5,4 %	5,9 %
1971	65.248	6,6 %	4,3 %
1972	73.612	6,9 %	3,3 %
1973	81.865	<u>11,9 % x)</u>	6,2 %
1974	73.691	7,6 %	<u>11,0 % x)</u>
1975	54.899	3,4 %	9,1 %
1976	34.158	1,3 %	5,8 %
1977	30.000 (est.)	1,3 %	6,5 %

x) Note that the inflation in Switzerland peaked in the year before oil prices were increased, which in other countries caused the inflation to peak in 1974.

Conclusion

In short: "When some get incomes without work others get too little for their work", and

"When the amount of money grows faster than production we have inflation" to which I add:

"We have inflation when the community fails to collect the community-created (unearned) land rent".

My contribution to the discovery of the source of inflation has only been of minor importance.

As a Georgist I just had the background for doing my observations about the development in Denmark (1957-60) and in Switzerland in the seventies, which have proved the above and that H.G. was right when he wrote the quoted extracts from P&P, 100 years ago.

Even if he did not actually use the word of inflation, he explained the nature of it (winners and losers in the land value rising) and the cure of it — L.V.T. — I illustrate on page 10 how it will work.

With a careful study of P&P, any Georgist will come to the same conclusion. Also to this question, his wonderful book is giving the answers.

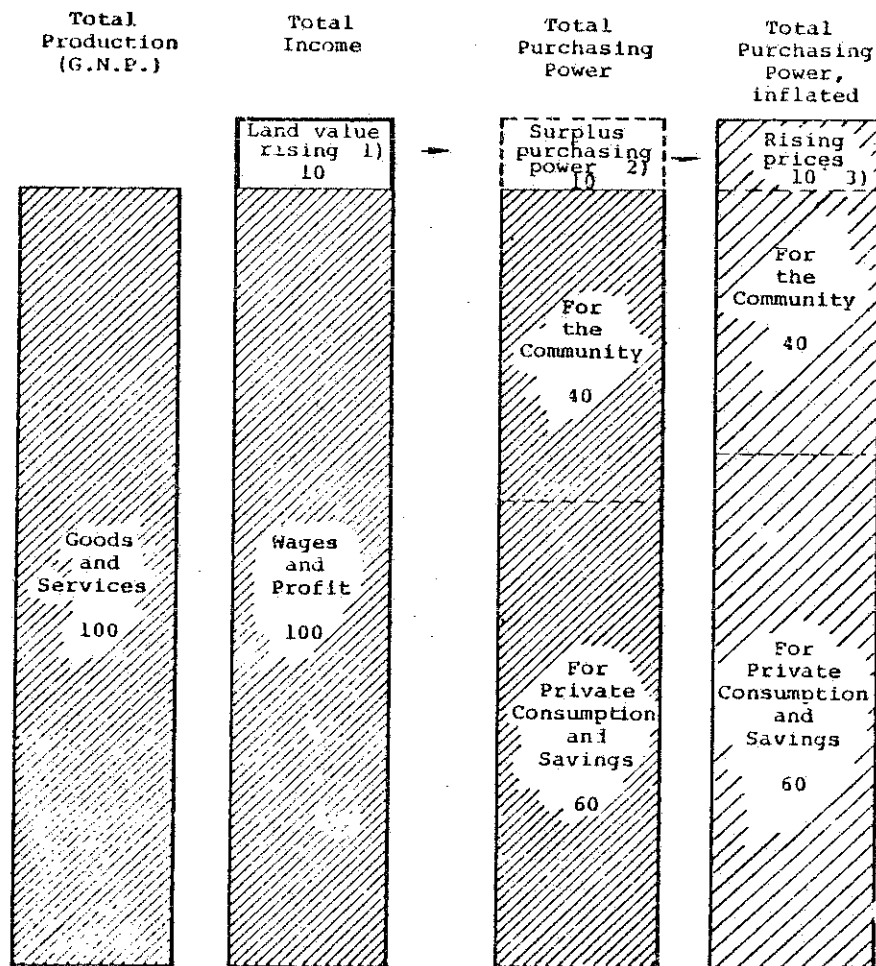
Copenhagen, June 1979

*Frederik Tholstrup*  
Knud Tholstrup

## How Inflation Arises:

Development during the year.

Land value rising created by the community goes into private pockets as unearned income or capital gain for a few, giving them purchasing power at the cost of all consumers through higher - inflated - prices.

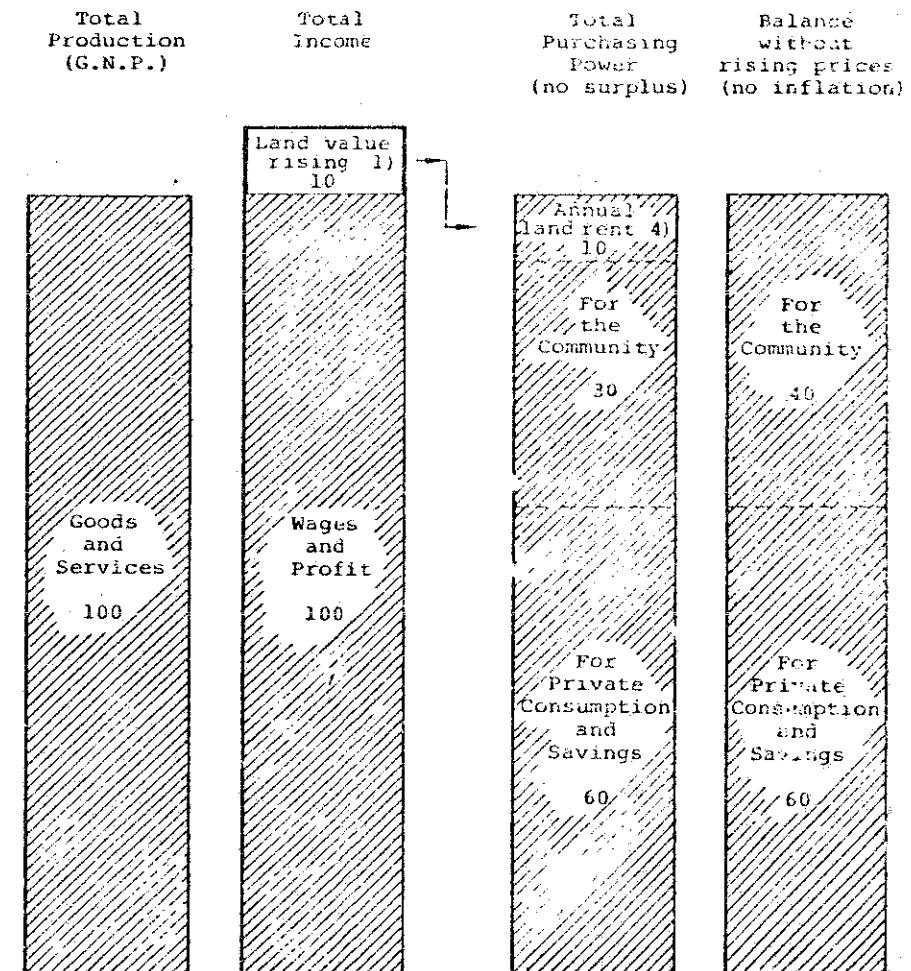


- 1) land value rising is inevitable as long as there is growth in population and living standard
- 2) without production behind
- 3) more (inflated) money for the same amount of goods (more but thinner milk)

## How To Stop Inflation:

Development during the year.

Land value rising being publicly collected as annual land rent (L.V.T.) and then used for reduction of other taxes, abolishing more and more taxes year by year.



- 4) by these means land value rising will increase the amount collected in land rent and thus replace more and more taxes each year.