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**Knud Tholstrup**  
**economic**  
**liberalism**

### *PREFACE*

*There is undisguised discontent with the general state of things in our society today. Social inequalities are still too marked, taxation far too high, the authorities seem ruthless, the administration bureaucratic.*

*Envy thrives and people lack confidence and security in East as in West. In the Eastern bloc, systems adapted once and for all are strictly adhered to, unaffected by the quality of the results. In the Western world, governments change, but seldom policies. New governments merely follow in the footsteps of their predecessors.*

*Shall we remain in these seemingly hopeless conditions, or can we find something else to put in their place – something positive and desirable?*

*Free men do not willingly allow themselves to be harnessed, but they do respect good and logical laws, that count all men as equals and are therefore just.*

*Only economic liberalism can offer a solution consistent with this basic principle.*

# Economic liberalism

First of all, what is our aim in advocating economic liberalism?

If our aim is equal rights in every respect and a greater measure of human happiness through personal freedom as well as economic independence, together with achievement of the biggest possible production of necessities of life through a free division of labour and an uninhibited choice of consumer goods, the way leads neither over monopolistic capitalism nor bureaucratic socialism, but through monopoly-free liberalism, where the freedom of the individual is only limited by the equal and similarly inviolable right to freedom of his fellow beings.

We must be realistic and base our society on human beings as they are and not as we should like them to be.

But first, a brief explanation of why we cannot achieve the desired aims through monopoly capitalism or socialism or a combination of both systems.

## MONOPOLY CAPITALISM

Under monopoly capitalism, which often seems to have the effect of "sending the manufactures to sleep", progress stagnates. The injustice of the special privilege breeds negative reactions thus hindering a fruitful cooperation in the interests of production.

Monopoly capitalism gives, furthermore, individual persons unearned incomes without any kind of productive contribution. This creates inflation, which steals from incomes earned through work (cf. Appendix 1).

The most regrettable aspect is that those who rightly enough are shocked by these "unearned incomes", make no clear division between yield on capital acquired through diligence and thrift and the income that is attributable solely to in-

creases in land values created by the community. Only the latter is true unearned income.

The conservative forces claim to have a patent on defending the inviolability of private property, but without defining what the term covers, inasmuch as they simultaneously acknowledge and uphold the violation of private ownership that takes place by way of confiscatory taxation rates and, on the other hand, the private acquisition of values created by and thus belonging to the community.

The monopolistic system of capitalism is thus devoid of both logic and line, and without purpose – unless the definition of purpose in the promotion of private interests at the expense of others.

Injustice provokes perpetual political and financial crises: unemployment, deficit on the balance of payments, devaluation, costly emergency relief measures, accompanied of course by overtaxation, and resultant new crises.

This has led to the mixed system under which we live today which, with its compensatory schemes and restrictions, is being strangled by its own immensity, both as seen by the individual citizen and by the politicians whose task it is to legislate, not to mention the growing army of public officials needed to administer this legislation. As far as the majority of the latter are concerned, they would be superfluous if the injustices that the social relief measures are designed to counteract were removed.

Blinded by the drawbacks with which capitalism is unfortunately encumbered, negative, if not to say implacable, feelings seem to have arisen among large sections of the population towards the capitalistic system as a whole.

Nevertheless, despite the shortcomings of the system, capitalism has after all led

to the welfare society we benefit from today, just as it has proved itself superior to socialism as regards production and standard of living. But all the injustices that have arisen out of the mentioned defects have necessitated a never-ending and innumerable stream of social aid measures, accompanied by a bureaucracy that is about to strangle the economic life that must produce all the necessities of life.

Capitalism can be likened to a wheat field plagued by thistles. The thistles must not be allowed to divert attention from the essential thing – the wheat itself. The thistles can be weeded out and the wheat given even better conditions of growth.

The thistles are first and foremost the unearned incomes, incomes which are not the results of capital contributions or work, but due simply to the normal growth of the community – the increases in land value created by the community which give, thanks to the imperfections of the system, the right to reap what others have sown.

The wheat harvest must go untouched to those who have ploughed the field, sown the seed, attended to the growth and kept it free of weeds, including payment to helpers of all kinds, as well as interest on working expenses and machinery etc. etc. Weed out the thistles and there will be more wheat for us all.

Capital gains taxation is an instance of mistaken legislation. In order to suppress capitalism, socially-liberalistic labour politicians vote for bills that affect the very formation of capital – essential to the community in both socialist and capitalist countries – whilst not touching true unearned incomes.

It must be emphasized, as a principle of vital importance, that the problem can only be solved by eliminating unearned incomes. Unless capitalism is released from the burden of monopolies, it has

not sufficient strength to solve the problems facing society today.

### **SOCIALISM**

Socialism emerged as a reaction to despotism and monopoly capitalism either as dictatorship by the proletariat or, in more developed countries, as “democratic” socialism. Thus a mixture of capitalism and socialism has gradually taken shape, varying from country to country – but nowhere by picking out the best from each of the systems – rather to the contrary.

In the majority of Western countries where democratic socialism exists, democracy is limited to the right to vote at elections. In day to day life, we are “managed” by the might of officialdom.

Real socialism is practised over much of the world. Let us see what the experience of 50 years has to offer.

Really thorough analysis of the economic theories of socialism has been neglected, and equally little attention has been paid to human nature. Instead, and without any assurance that the theories will hold, a rigid framework has been erected within which people, through one-sided influence, either must adjust or submit themselves to enforced conformity. The State, and not the individual, is the essential thing here.

These untenable theories demand a form of government under which the individual is denied his right to personal liberty – on the contrary he must accept censorship and limited freedom of speech and advertisement. Socialism thus means dictatorship with its one-party system and the necessary forces to ensure that the rulers remain in power. In no country has it been possible to combine pure socialism and democracy.

Experience shows that where socialism exists, initiative dies. All experiments with state-controlled production compare very dismally with consumer directed,

liberalistic production. The system presupposes supermen. Of course these simply don't exist. Quite to the contrary, the system attracts men ambitious of power and these do indeed exist.

In no socialist country where the right of the individual to self-determination has been eliminated, and where all private enterprise has been brought to heel, is the standard of living even half that of monopoly capitalistic Western Europe. In Finland, which in 1917 had the same starting-point, economically, as Soviet Russia, the standard of living of the working man is today 2-3 times higher. The socialist countries have, moreover, benefited from free use of scientific and technological developments which liberalism has made possible in the West.

The bureaucracy of socialism devours all progress, and there are countless instances of disastrous falls in production. Serious shortages in necessary foodstuffs, actually leading to the threat of famine, have thus necessitated liberalistic "shots" for example by opening up the market for vegetables and other products (eggs, milk, cheese and poultry) from small-holdings in the USSR and other East-bloc countries. No socialist country today dares dispense with this liberalistic practice.

Socialism in practice for 50 years without positive result must serve as sufficient evidence that the system doesn't work. This is particularly emphasized by the generally accepted view that people in socialist countries do not appear to be happy and content.

### **MONOPOLY-FREE LIBERALISM**

The prerequisite of a true democratic economy is that the people decide what is to be produced. Liberalism thus meets in full the demands in the slogan of today: "democratic economy", which first and foremost must be democracy in the market place.

The law of the open market – the law of supply and demand – acts thus, that the wishes and demands of the people determine which goods are to be produced. No manufacturer or businessman sets aside the demands of the market, (consumers' wishes) and gets away with it.

When at one time Liberalism was in slight disrepute, this was due to a lack of consistency in practise, inasmuch as monopolistic conditions were preserved. Consistent liberalism must free itself of monopolies, thus encouraging the emergence of a greater social awareness.

### **HARNESS THE HORSE OF EGOISM TO THE CARRIAGE OF PROGRESS**

One of the principles of monopoly-free liberalism is acceptance of people as they are, that they are first and foremost egoistically interested in the well-being of themselves and their families. Let us therefore, in recognition of this fact, harness the horse of egoism to the carriage of progress, and then introduce "traffic regulations" in order that the freedom of the individual in no way infringes upon the equal rights of others, out of regard to the belief that all are born with equal right to a life here and thus with equal rights to find a means of living, a home and a place in the community.

In accordance with present demands for democratic economy, equal access must be assured for each and every member of the community to nature's wealth, equal rights to land, air and water. Opportunity is thus provided for freedom of self-expression and unrestricted economic life with equal rights for all to compete on a free and equal footing, starting with equal access to education and training and equal access to and opportunities for establishing oneself. The "traffic regulations" must exclude

special privileges and commercial monopolies, simply by prohibiting price and market-sharing agreements and organized restriction of production through, for instance, boycott.

With monopoly-free liberalism, the individual assumes greater personal responsibility, while increased responsibility is placed in the hands of local officials, thus dispensing with considerable legislation which will gradually become superfluous.

The greater the degree in which the laws of a country are made simply, logically and justly, all the more will respect for and confidence in them grow. This will provide fertile soil for such good and positive sides of human nature as initiative, resourcefulness and respect for the rights of others. The inviolability of the right to private ownership is of great importance in man's sense of justice.

#### **RESPECT FOR THE RIGHT TO PRIVATE OWNERSHIP**

Respect for the right to private ownership demands a clear definition of the concept of private ownership and of the division between what is private property and what is the property of the community.

The individual must have the right to ownership of his own production, so that he may freely dispose thereof, either for immediate use or as an object of exchange. Freedom to trade products inside and across the borders of a country must be guaranteed.

The right of the community to values created by the community must be equally inviolable. It is nothing less than violation of fellow citizens' right to private ownership when individuals acquire and own the increased land value created by the community or attributable to nature. For practical reasons, right to ownership of the plot of land itself, is necessary in order to ensure man's right to ownership of the values created through work

put into the land, such as improvements of the soil (draining, liming, fertilizing, levelling, road-making) and buildings for residential and industrial purposes. It is only the unearned increment (increased value) created by the community that ethically belongs to the community.

Possession of landed property must moreover be looked upon as a biologically determined need. Pleasure in owning is an important factor in most people's happiness and desire to create.

#### **INCREASED VALUES DUE TO THE COMMUNITY**

After periodic market assessments, land rent due to the community must be imposed on each plot of land corresponding to interest on its increased value compared to the yield that can be achieved as normal profit through utilization of the land for agriculture or market gardening, or for other commercial activities; an increased value based upon the site value, which also applies for sites for residential purposes.

The land rent must be sufficiently high as to ensure that the market interest on the entire value increase attributable to nature or the community is collected by the community. The primary purpose is to make it possible for anyone, by paying interest on the increased land value, to take over a piece of land without any payment other than for the values created through work such as improvement of the soil and buildings. The secondary purpose is to secure for the community just and reasonable income in order to discharge the necessary joint tasks, in place of the unreasonable taxation on consumption, which bears down hardest on the lower income brackets, and taxation on income, which acts as initiative-destroying punishment of diligence, ability and thrift, (cf. Appendix II) – and which is moreover passed on to commodity prices.

The actual extent to which the collection

of unearned increment will be able to meet public expenditure cannot be estimated beforehand. It will cover a considerable part – from the point of view that there cannot, in principle, be any sizeable difference between the sum the population can afford to pay in increased value tax to the community and the total amount they at present have to find in order to meet the many different kinds of taxation levied by the State – apart from the “private taxation” (mortgage interest) payable to sellers of land. Today private persons, quite legitimately but far from justly, collect the unearned increment created by the community. If the annual interest on the increased value goes to the community, payment is only made once and “private taxation” ceases. But this is not all. The much simplified system of tax collection (land value taxation) without income tax returns and accounts, will contribute towards reducing public requirements. Land tax has only to give half of the present revenue from taxation in order to meet public expenditure without disturbing the social balance.

In practice, high land tax will be levied on well-situated sites, such as busy shopping centres, and relatively high on particularly fertile soil. Land tax on badly-situated sites, sand and outlying areas will, however, be low.

The land tax payable by moorland farmers and the population of small islands will be more or less nil, inasmuch as the increased value here is very modest, there on the whole being no more than the actual profits of labour to live on.

There will never be any risk that land taxation will be so high that it will hinder utilization of the soil, the extent of unearned increment being decided by the weakest link in the chain. As land taxation must be the same on all similar pieces of land, the system will prove specially beneficial for the most efficient

and capable users of the land, those who get most out of cultivation of the soil or proper utilization of the location, inasmuch as land tax cannot be set higher than is payable by all, able or less able, apart from a negligible minority of ineffective users.

When the collection of unearned increment replaces income tax, this will in itself involve considerable savings in State and private administration – thousands of able tax officials and company employees will be released for participation in actual production. Public expenditure will thus be reduced, whilst the overall result of production – in which we all are to share – will, thanks to the manpower now available, rise considerably.

### **SOCIAL WELFARE**

When people are allowed to keep a much bigger part of the result of their work, public expenditure on social welfare is reduced considerably. The sums the State will save will probably be twice as much, because administration and supervision of welfare assistance generally cost just as much as the assistance itself – which is first collected as tax and then paid out. Considerable means will thus be available for reducing taxes and improving conditions for the truly needy.

Far too great a portion of social benefits are today compensation for part of the extortionate taxation and losses which, directly or indirectly, are caused by intentional or unintentional land speculation – not least through inflation – that can only be stopped by collection of land rent.

### **COLLECTION OF LAND RENT**

It must be emphasized that the increased values which are attributable to nature or created by the community do not rightfully belong to individuals, but must belong to the community as a whole. Conversely, values produced or created

through work belong to those who carry out the work. The situation can be remedied by the following, simple process: All land is assessed at present market prices, for instance every 4th year as in Denmark, (67 billion kr. in 1969). The first year, 1 % of the market value is collected as land tax (in Denmark called Grundskyld), 2 % the second year, 3 % the third year and 4 % the fourth year, after which the percentage-wise tax amount is converted into a fixed, registered annual sum on each title deed. A new assessment is then carried out and land tax on this presumably lower assessment is again collected over a period of four years, rising from 1 % to 4 %. The percentage-wise amount is converted to an annual fixed sum on top of the amount from the first period – and so on, until the annual fixed amount finally counter-balances the interest on the increased value, and then land can be taken over without purchase price other than payment for the improvements mentioned.

Assessment of registered plots of land takes place publicly, allowing all an opportunity to compare and criticize. The revenue collected is used to remove taxation in order of priority, due regard being paid to rational and social considerations and to the intention of encouraging free enterprise. The taxes and duties that are most demanding as regards administration compared to the revenue brought in, such as value-added tax on foodstuffs, and income tax on all small incomes, should be removed. In order to promote cultural interests and freedom of speech, tax on literature should also be abolished.

In pursuance of this principle, customs duties which create inequality, protect unprofitable production and hinder free exchange and selection of goods should similarly be abolished. The remaining purchase and income taxes should be

successively abolished until finally, only excise on spirits and tobacco remain.

Once taxation on income, which to such a degree hampers free enterprise and hits at the newly established, has been removed, all civil servants and privately employed persons previously needed to deal with taxation, will now be available for production and the accumulation of wealth.

When payment of land rent succeeds taxation, this does away with the unjust "private taxation", and when these unearned incomes can no longer force prices up, balance will be restored between the production thus brought about and the resultant real purchasing power. Increased production through rationalisation and technological developments will then lead to higher real wages.

When speculation in land is not interesting any more, the community can publicly – without risking private exploitation of prior knowledge – lay town plans and invite the general public to take part in considerations. We will then experience democracy in town planning.

Queries will perhaps be raised as to whether all this is not merely a fine theory, devoid of the possibility of practical realisation. Is it possible to create social equality, to avoid monopolism, socialistic planned-economy, the all-devouring bureaucracy and inflation? Can currency crises, deficits on the balance of payments and unreasonably high interest rates and therefore high rents in new housing really be remedied?

Practical experience shows that it can be done.

### **SENSATIONAL EXPERIENCE**

Sensational practical experience was gained in Denmark in the years 1957–60 when the Danish Justice Party (equal rights party) propagating land value taxation, free trade and equal rights, formed



a so-called land tax government together with the Social Democrats (Labour) and the Radicals (Liberals). The three parties made an agreement based on the following:

1. Collection of land rent.
2. Liberalization of trade, including closing-down of the Department of Supply and Import Control (restrictions).
3. Tax freeze.

Although the Justice Party was the only member of the Triumvirate to have agitated and worked for the introduction of land value taxation, the election programmes of all three parties included land tax (increased value taxation).

It was thus generally expected after formation of the government that some kind of land value taxation would be introduced, with the result that land speculation ceased immediately.

Legislation on taxation of increased land values was prepared, presented to parliament and passed with effect as from the new land value assessment in 1960.

The economic effects of the cessation of land speculation were astounding and aroused much attention far beyond the borders of this 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.

Prior to the election of 1957, Denmark had a sizeable deficit on her balance of payments, was considerably in debt abroad, burdened with a relatively high interest rate, big unemployment figures and an annual rate of inflation of approx. 5%. Devaluation threatened.

The following improvements took place in the next 3½ years (1957-1960):

1. The big deficit on the balance of payments was turned into a surplus.
2. Denmark's total debts abroad amounting to 1,600 mill. kr. were reduced to one quarter of this, about 400 mill. kr.

3. The rate of interest – and thus also rents in new housing – went down.
4. Unemployment was soon replaced by almost full employment, together with considerable increases in production and wages.
5. Inflation was brought to a standstill.
6. All wage increases were real wage increases, the highest ever in Denmark.
7. No new taxes during these 3½ years.
8. The Department of Supply was closed down. In 1960 all import restrictions were lifted and duties cut.
9. Industrial peace – free of strikes.

Public-opinion polls run at the time showed the relationship between satisfied and dissatisfied voters, *before, during* and *after* the three-party government, ("undecided" answers have been omitted):

	<i>Satisfied</i> voters	<i>Dissatisfied</i> voters
Before 1957 . . . . .	25 %	75 %
1957/60 . . . . .	82 %	18 %
After 1960 . . . . .	20 %	80 %

At the general elections in 1960, however, the opposition started a hetz directly solely against the smallest party in the Triumvirate – the Justice Party's 9-man group – and used the hitherto largest sum ever in any Danish election campaign financed by the Conservatives and land-owner associations. With its limited financial resources and lacking support from the daily press, the Justice Party was unable to withstand the violent attack. The party lost half of its votes, and was unable to collect the minimum required for representation in parliament. Agitation against land tax legislation continued after the election and the new, weak government gave in in the face of strong pressure from land-owner associations and promised that the new law would be repealed, and this was done in 1964, just before its effects made a real impact.

After this the following took place:

1. The currency surplus became a currency deficit.
2. The annual deficit on the balance of payments is now, 12 years later, 3-4 billion kr.
3. Debts abroad amount today to 20,000 mill. kr. - 50 times as much.
4. The effective rate of interest has been doubled.
5. Land prices jumped sky-high. Denmark's overall land value rose from 17 billion kr. at the assessment of 1960 to 67 billion in 1969, and is expected to reach 100 billion at the next assessment in 1973.
6. Rents in new housing are sixfold those of 11 years ago.
7. The rate of inflation rose from barely 1% to 5-7% and was 8.6% in 1965, the year after repeal of the land tax law in 1964.
8. Taxes have risen again and again and are today 5 times as high.

A comparison between the three periods, *before*, *during* and *after* the so-called "land tax government", gives a clear picture of the importance of eliminating land speculation and unearned increment.

As there was no longer any unearned income mixed with incomes resulting from production, the balance between the purchasing power and amount of goods was restored. Inflation came to a halt because it received no nourishment and the restored balance yet again helped to balance other aspects of the economic situation.

These exceptional developments in Denmark's economy in the three periods mentioned demand the greatest attention and should be the subject of intensive study by economists and laymen who are interested in economic politics or merely national economy.

This practical experience should form the basis of a revised political evaluation of the importance and strength of a free economy and free enterprise.

### **ECONOMIC LIBERALISM SEEN IN PERSPECTIVE**

A revised appraisal of the significance of economic freedom and equal rights seen in relation to development of the individual, and a clear definition of the concept of private ownership will be the first step towards putting everything in its proper place.

By removing the injustice and resultant envy and unfair distribution, many of the incentives to industrial conflicts, civil unrest and war will disappear.

Introduction of economic liberalism will change the structure of society for the better and in a broader perspective relieve the tension that exists between countries. The political and economic tension that prevails in the world today is in fact due to the present situation where, lacking economic liberalism, trade and production are subject to intervention and control and the mechanism of economic life is unable to function as it should.

When production - with all due consideration of the common good, including protection of the environment - finds its natural form and is given free reins, the greatest results for the benefit of all will be achieved. Free trade between countries will lead to greater international understanding.

Economic liberalism is the only practicable way to achieve greater human happiness, economic independence, freedom to choose employment, free choice of commodities and equal rights for all in every respect.

# Appendix I. Inflation

Inflation – the falling purchasing power of money – is the subject of interest and discussion everywhere. Our distinguished economists have not, however, succeeded in accounting for the causes of inflation, which surely is the cardinal prerequisite to its elimination.

Some are of the opinion that the printing press throws out too many bank notes, and others put the blame on wages and prices – the screw without end.

## INFLATION AND NOTE CIRCULATION

A limited understanding of the concept of money leads to the quick, but erroneous, conclusion that too many bank notes are printed.

Despite the fact that, for instance, Denmark has experienced annual increases in prices of 6–7% from 1968–71, there has been no increase at all in the note issue in circulation (constantly about 5½ billion kr.).

During the same period, deposit accounts in banks and savings banks have risen from 44 to 55 billion kr. and bond holdings from 62 to 99 billion kr., plus an increase in other mortgage deeds not included in the statistics. This increase in means of payment (proofs of purchasing power) is far greater than the increase in production. These means of payment are used for purchase of commodities and, in particular, acquirement of real estate.

It is logical that the concept “money” includes all means of payment. The greatly extended use of cheques, giro and account cards might well result in gradually halving the note circulation, but anyone can see that this would have no effect on the cost-of-living index.

Money is in fact a written promise of payment. The National Bank, with its

two signatures, guarantees that a 100-kroner note entitles the bearer to goods of equivalent value. A private mortgage deed for 100,000 kr. only requires one signature.

Purchasing power is the amount of goods or services that can be offered as payment for other goods or services. A Dollar, a Mark, a Pound or a Krone are units of measurement for goods and services. The value of a coin thus depends upon how much it can buy. The National Bank exchanges proofs of purchasing power for those who require bank notes or coins to facilitate everyday purchases. It does not, however, put more notes into circulation than necessary to meet these requirements.

To blame the printing of bank notes for inflation is both illogical and incorrect.

## THE RACE BETWEEN WAGES AND PRICES

Rising wages and salaries are often blamed for inflation. This is absurd, inasmuch as increases in earnings generally limp along behind price increases. Denmark's Minister of Finance, Henry Grünbaum has often said that inflation is the price we have to pay for full employment. This is an error of judgement. Full employment was in point of fact achieved in Denmark in 1957–60, when we simultaneously put a stop to inflation.

At times of full employment, the labour force is in the seller's market – a hitherto unknown phenomenon and something that classic political economists had not even dreamt of. They had only considered situations in which the work force was in the buyer's market, where the weak position of the working man was open to exploitation.

As long as full employment is enjoyed, the law of supply and demand assures

the working man a wage level so high that there only remains a comparatively modest remuneration for management and similar yield on capital employed. On the other hand, there is a definite limit to just how high wages can soar. Wage demands that are higher than can be borne by production, lead to close-downs.

The total real purchasing power of employees and employers is equal to their joint production; it is merely the distribution between the two that has changed. So here too we look in vain for the source of inflation. There will always be equilibrium between the extent of production and the purchasing power production itself brings about.

#### **SOURCES OF INFLATION:**

Extra purchasing power emerges without production and the greatest part comes from increased land values.

#### **CAUSES OF INFLATION:**

We permit the rising land values created by the community to find their way into private pockets to become extra purchasing power (for a fortunate minority), without corresponding extra production. Already in existence is purchasing power resulting from work performed and precisely corresponding to the amount of production. The demand for goods made by the extra purchasing power has to be met out of this same production. The resultant pressure of demand leads to higher prices – which must be paid by all.

In order to understand this, it must be appreciated that there is no difference between the money that is earned through the performance of work and the money that is gained through unproductive increases in the value of real estate.

In this way, the contents of the wage packet are simply eaten away and employees are forced constantly to demand

compensation for the undermined purchasing power in the shape of more pay. The State has to collect higher taxes to pay higher salaries to civil servants and bigger pensions and more aid to the victims of inflation – without anyone being any better off, except inflation, which thrives.

With present taxes and an inflation rate of 7%, the employee must be paid 12% more in the course of the year to maintain the purchasing power of his money. Not only must he pay higher commodity prices, but he is cheated out of his share of the progress in production.

It is interesting to note that the effect of 7% inflation on Denmark's national product of 150 billion kr. is 10 billion a year. At the same time, Denmark's landowners – with emphasis on a small minority – have experienced a rise in the value of their land of just about 10 billion kr.

#### **THE EFFECTS OF INFLATION:**

A very unequal distribution exists inasmuch as relatively few landowners, without any contribution through performance of work, increase their income and their wealth at the expense of the majority, who in this way thus receive correspondingly less for their production.

Those actively engaged in the economic effort, increase the overall production by 3–4% and thus expect their income to rise accordingly. At the end of the year, however, they realize that real wages simply haven't risen inasmuch as the entire increase has been lost in the reduction of the buying power of the Krone. All progress merely ends in increased land values to the advantage of a small number of individuals, passive onlookers to the economic effort.

#### **THE TWO SIDES OF INFLATION**

All attention has hitherto been focused on the "losses" side of inflation. Economists and politicians have, without suc-

cess, tried one-sidedly to combat the effect, but have through their counter measures done more harm than good. Had they approached the "profits" side with the same zeal, how easily they could have prevented these profits from arising. Without the "profits" side of inflation, there would be no losses and the unfair distribution of wealth would have ceased. The numerous small house-owners who are also actively engaged in the economic effort, have been pushed into the limelight by political propaganda in defence of the big landowners' monopolistic interests. However, if only they had studied the "profit and loss accounts" more thoroughly, they would have discovered that their gain from rising house values is negligible compared to their loss. Take for instance, daily price increases, the high rate of interest and rising taxes – all of which are due to the unequal distribution mentioned.

#### **THE SOLUTION OF INFLATION:**

Simply channel the increment from rising land values into public funds and use the money to reduce taxation correspondingly, so that the amount that has to be paid extra in land rent, directly, in the form of land tax and, indirectly, through higher rents, will be paid less in tax.

A state of balance is thus achieved and only one payment is made instead of two, as in the case at present where the victims of inflation are subject to private taxation in the way of increased land rent to private individuals, (interest on mortgage deeds), and then in higher taxes to the State because the community does not receive its rightful income (land rent) as compared to its investment.

#### **UNSUCCESSFUL COUNTER MEASURES:**

It is the victims of inflation that have to pay for the unsuccessful experiments of our politicians: "consumer-restrictive

measures" through "confiscation of the surplus purchasing power" – by means of higher taxation, naturally – and "we must lower the steam from the overheated pressure of demand" by "wages and price freeze".

The result is, however, that these interventions act as a spoke in the wheel of production itself and thus instead work as production-restrictive measures.

When, in the late sixties, this was tried in the United States, unemployment figures were doubled, without any fall in the rate of inflation. And along came the Dollar crisis instead. This and similar experience in, for instance, Great Britain, should be sufficient to stop these experiments.

It takes a very special psyche to believe that economic crises can be overcome by working less.

The great majority of people either have no or very few private means. The number of those who do, or the extent of their means, has not grown concurrently with the rise in production that rationalisation and technological progress has achieved for the country as a whole, whilst a comparatively small minority have, on the other hand, increased their private accumulation of wealth considerably.

Most of this growth in wealth comes, not from rising production, but from the increased value of real estate created by the community, especially that of land, which as mentioned rose 50 billion kr. in 9 years. The annual increase in land values, which has now reached 10 billion kr., is paid for in the way of higher commodity prices by the 5 million Danes at a rate of 2,000 kr. each.

#### **THREE INDICATIONS:**

If the gains of inflation are stopped, the losses will stop too.

Three instances indicate the truth of this:

In the Soviet Union, where speculation

in land is out of the question, the Ruble buys more and more year for year and this despite the enormous and still rising military expenditure which is put on commodity prices.

Land values in the USA have risen 95% from 1962-72 and inflation here is only 3-4%, half that of Western Europe where, for example, land values in Denmark have risen 300% over the past 10 years. Our rate of inflation is 6-7%. After exorbitant increases in the price of land in Great Britain in 1972, land values will doubtless have increased even more there. The British rate of inflation is also higher, namely 8-9%.

Inflation was brought to a halt in Denmark when the parliamentary majority promised in 1957 to collect increases in the value of land. Increases in commodity prices fell from 5-6% annually to less than 1% on average in the 3½-year period.

An inflation rate of, for example, 6% is often mentioned because this is how much the cost-of-living has risen. However, as rationalisation and mechanisation should lead to lower commodity prices (as is in fact the case in the USSR in recent years), the true rate of inflation is probably a few percent higher than shown in the index.

The following is thus established:

- i) inflation means unequal distribution of the results of production;
- ii) the unequal distribution is demonstrated by the double-sided effects of inflation, the losers, on the one hand, who have to pay higher commodity prices and, on the other, the winners of enormous fortunes;
- iii) the unequal distribution is worsened by the fact that the winners, who often raise a loan in order to acquire real estate, can repay loans in greatly depreciated kroner;
- iv) the injustice of inflation rests in

the fact that while the winner gets his "prize" without productive contribution, the loser must consequently relinquish full and rightful payment for his contribution;

- v) inflation accelerates, with the result that both prices and taxes rise to such an extent that many branches of trade and industry will not, in the long run, be able to meet the high wage demands that are made to cover the price increases, if they are simultaneously to maintain their ability to compete on world markets;
- vi) inflation also accelerates speculation in the price of property and, especially, land, thus increasing capital requirements for those wishing to establish themselves - to the detriment, in particular, of the young;
- vii) as everyone desires to borrow money to safeguard themselves against inflation through the purchase of real estate, inflation is accompanied by a high rate of interest and thus also high rents. This again is detrimental to young people who wish to set up house or go into business;
- viii) Denmark's experience of a balanced foreign economy is limited to the period from 1957-60 where inflation was eliminated and,
- ix) more and more people have to have social support - with resultant higher taxes - because their earnings and savings are eaten up by inflation.

Our experience in the years 1957-60 simultaneously establishes that:

- i) inflation can be stopped;
- ii) the interest rate is almost halved when inflation is stopped (low rents);
- iii) the deficit on the balance of payments was settled in the course of the 3½ years without inflation;
- iv) practically the entire wage increase in the non-inflation period was a

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real wage increase, the highest ever experienced, because the unearned incomes were eliminated and,  
v) no new taxes were necessary.

**Briefly:**

**Inflation can be stopped at any time by making land speculation an uninteresting**

**proposition. This is done by collecting the unearned increment created by the community in order that it may be used by the community in the reduction of taxation.**

**The question is, do our politicians really want to stop inflation and have they the courage to do so?**

## Appendix II. The harmful effects of income tax

It would be interesting to examine the causal connection between the relative economic decline of Great Britain and the introduction of very high income tax.

Great Britain held – until the First World War in 1914 – the position of leading industrial nation. Then followed stagnation, one country after another by-passed Britain in the accumulation of wealth.

Way before this, the rest of the world received inspiration and know-how from the British, the first nation to concentrate on research. Danish and other European farmers learnt from the UK how to drain their fields, treat them with lime and artificial fertilizers and, later on, the use of protein enriched feed-stuffs. Know-how was not all we got from Great Britain. Grafted corn sorts and other cultivated plants, as well as breeding stock of all categories, (even our "Danske Landrace" are descendents of Yorkshire boars).

The English industrial products were sold all over the world and associated companies were established abroad for the purpose of local production. Industry in, for instance, Germany, was far behind and in fact started by copying English products, especially in the tool line.

Great Britain was unfortunately, however, by the end of the First World War, also far ahead as far as more or less confiscatory income tax was concerned. Seen by the independent observer, much

indicates that the decline has been due to these high income taxes up to 90 %. Industry had previously been accustomed to investing and re-investing the greater part of its profits both at home and abroad. Great Britain, prior to 1914, was a capital-producing and capital-investing country. This was forced to a stop as strongly progressive taxation eliminated all opportunity for this. Private enterprise was brought to heel. Not only did the formation of capital cease, but many industrialists were forced to realize their capital in order to live.

Should an intensive study lend support to such a theory of causal connection, it is high time that the whole world learnt from this example and got rid of income tax by promoting taxation systems which do not act as punishment for diligence and thrift, but first and foremost respect the right to private ownership of the profits earned through work and instead levy tax on incomes created by the community, thus "rewarding" diligence and efficiency.

The harmful effect of income tax is also indicated by experiences in Denmark in connection with the so-called "tax-free" year, 1969, when extra income was not taxed due to a reorganization of the Danish tax system. There were no objections to overtime in 1969 – on the contrary!

The below tabulation shows clearly that tax-free extra incomes in 1969 gave a number of good results:

### DEVELOPMENTS IN DENMARK 1967-71

Percent increase:	1967	1968	1969	1970	1971
Production (in fixed prices) .....	4	4	8	3	3
Consumer prices .....	7.5	8	3.5	6.5	6
Private investments .....	5	5	20.5	9.5	0
Wage-earner's savings in mill. kr. (estimated) .....	2,468	2,857	3,774	3,137	3,059



It appears from the foregoing that production was 4-5% higher than in the comparative years and private investments rose by 20.5% against 5% in the previous years, whilst prices rose only half as much as in the other years. Wage-earners savings rose by 32%.

With the enormous burden of taxation as we know it today, where any extra effort by the ordinary working man in the form of overtime is taxed at a rate of 50-60%, people are not easily motivated to work overtime - which is why the community must give up the elastic adaptability that comes with variable working hours when needed. Once income tax has been removed, this elastic adaptability can be restored and with it better utilization of a costly production apparatus that constantly demands the investment of fresh capital.

60% on extra income for the wage level in which the skilled worker lies, means - with an inflation rate of 7% - that wages must rise 12% per annum in order to retain the same purchasing power.

But the situation is worse than generally known. Hitherto, rationalisation and the investment of considerable capital in mechanisation have counter-balanced wage increases, so that prices have not

needed to rise higher than the market could bear. Insufficient accumulation of capital will put a stop to further rationalisation in many firms and they will no longer be able to compete with factories in countries where the level of taxation is lower.

It will then no longer be possible to maintain annual wage increases at 12%. In other words, real wages will go down. Production will not merely stagnate, it will fall, with resultant unemployment.

The following is cited from a white paper on the budget for 1973-74:

"In the financial year of 1973-74, there will only be room for a 1% increase in the population's private consumption. Of this one percent, those engaged in work will receive nothing, inasmuch as this modest increase is reserved for pensioners, students and other groups with transferred incomes."

If inflation is stopped, as dealt with elsewhere, by applying the collection of unearned increment to the reduction of taxation, there will be no need at all for higher incomes in money merely for the purpose of maintaining present real wages. The least increase of wages will then simultaneously be an increase in real wages - as was the case in 1957-60.

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**Knud Tholstrup**

**September 1974**

Sub-appendix for

**Sub-index for**

**Appendix I.**

**in**

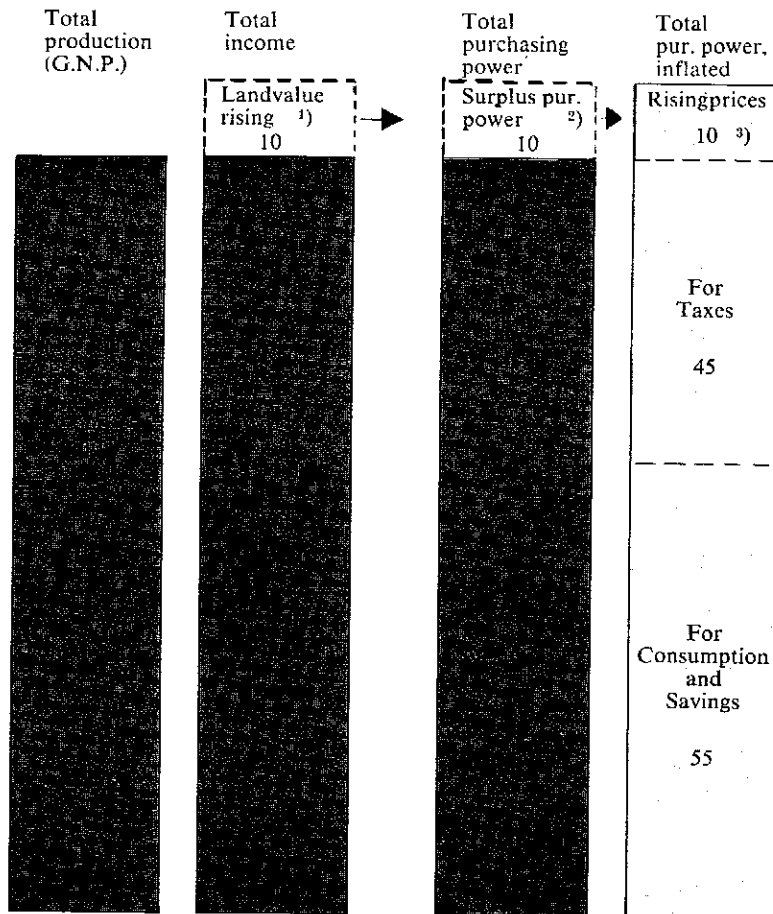
**economic liberalism**

**Feb. 73**

### How inflation arises:

Development during the year.

Landvalue rising created by the community goes into private pockets as unearned income and purchasing power at the cost of the consumers through higher prices.



<sup>1)</sup> landvalue rising is inevitable as long as there is growth in population and standard of living

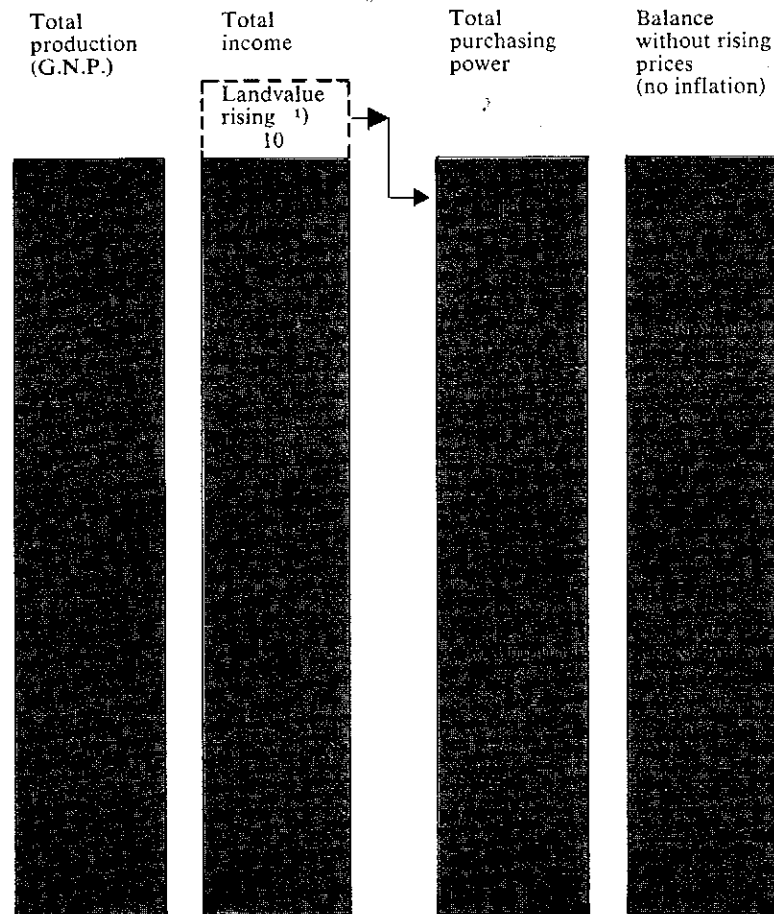
<sup>2)</sup> without production behind

<sup>3)</sup> more (inflated) money for the same amount of goods

### How to stop inflation:

Development during the year.

Landvalue rising being public collected as annual land rent and then used for tax reduction.



1) by these means landvalue rising will increase the amount collected in land rent and thus replace more and more taxes during the year

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*- inflation is not started by rising wages.*

### **Succession in the course of inflation:**

When the amount of money grows faster than the amount of goods, we have inflation, as production and purchasing power gets out of balance.

The surplus purchasing power must necessarily come from non-productive sources of money incomes.

The concept »money« includes all means of payment, mortgage deeds and all kinds of I.O.U.s as well as bank notes.

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

Nothing can change this succession:

I. Purchasing power (money) arises from production.

Surplus purchasing power arises from rising value of existing goods, especially real estate.

II. The total purchasing power exceeds the amount of goods.

III. Prices will rise until balance is established.

IV. First then is it possible to pay higher wages.

But new value rising is already on its way.

a. In expectation of further land value rising people become interested in buying land and thus the demand is pressing up prices, and sales are concluded with promises of later payments.

b. Promises of later payments (mortgage deeds etc.) can immediately be used as payment and thus take part in the demand for goods in the same manner as money which comes from production.

c. Expected continuous inflation encourages people to secure their savings by investments in real estate instead of in production.

d. The competition about the savings is pressing rate of interest up and this element in turn is a further impulse to raise prices.

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