

– 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.

Knud Tholstrup

September 1974

Sub-appendix for

Summary

Appendix I.

in

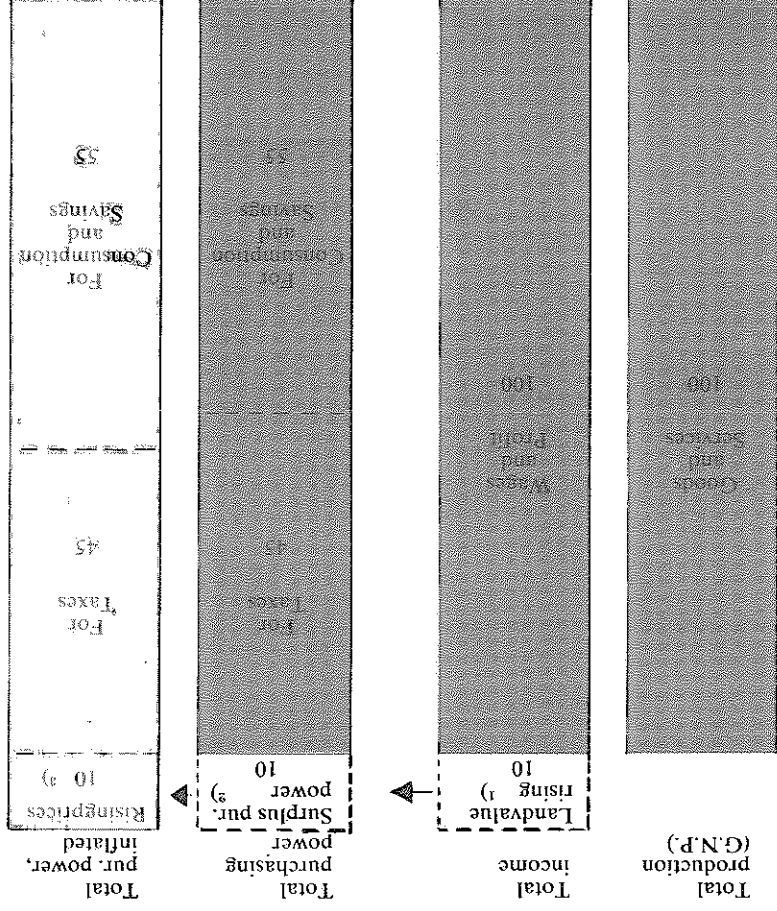
economic liberalism

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.

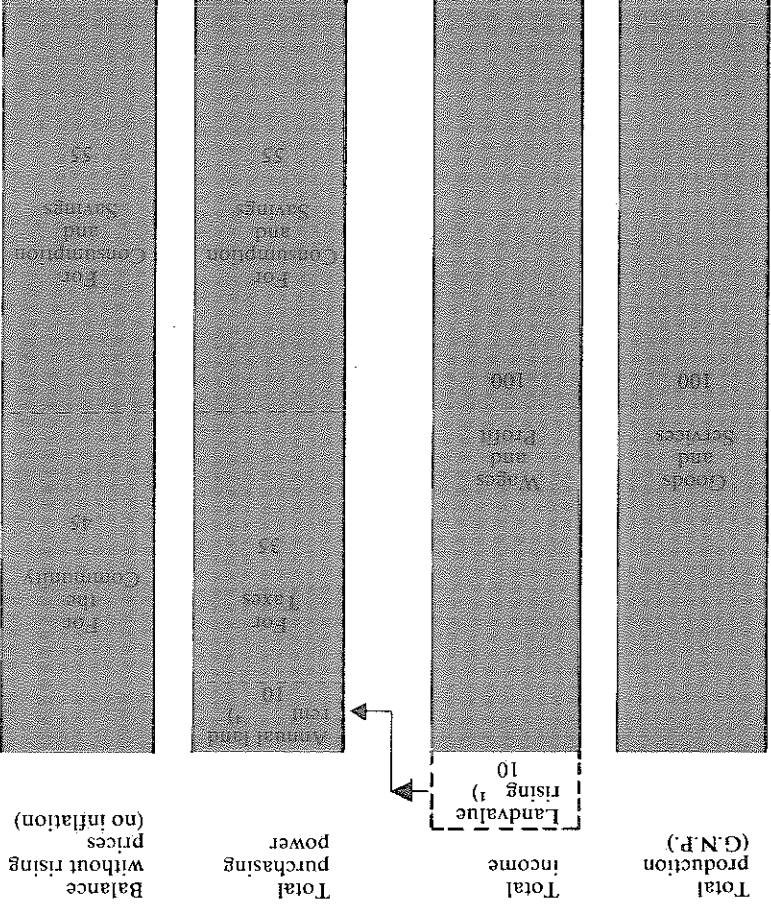


- 1) landvalue rising is inevitable as long as there is growth in population and standard of living
- 2) without production behind
- 3) more (inflated) money for the same amount of goods

How to stop inflation:

Development during the year.

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



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