The author, Knud Tholstrup (1904), began as a farmer. In 1936 at age 32, he became an entrepreneur. In 1941 he bought Kosan Gas Co. Later he founded Kosan a/s, of which he is still chairman. Kosan a/s is a conglomerate of 11 trading companies and factories, with foreign affiliates and a fleet of 19 LP-gas tankers ploughing the seven seas, exporting to 100 countries.

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.

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A THIRD WAY FOR THE THIRD WORLD

LESSONS FROM DENMARK IN ECONOMY SANS MONOPOLY

Knud Tholstrup

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PREFACE

After reading in "Land & Liberty" about a proposed trip to Central America by Jeffery J. Smith, San Diego, California, I called up and asked him what kind of printed matter he had explaining Henry George's ideas and how to implement this nonsocialist, noncapitalist, free trade and free enterprise system. If he had none, I would try to write a booklet. And here it is.

This booklet should show a practicable way of converting initiative punishing income taxation to incentive land value taxation. I take the opportunity to thank Jeffery J. Smith for his assistance - suggestions and linguistic corrections.

Knud Tholstrup

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much the state can squeeze from the citizens; rent is limited by the value of land in the market. Taxes fall on property, the fruits of one's production; rent comes from "trusterty", the part of Nature one claims. Taxing private individuals hinders production; the public renting land to its members enhances production.

ADDED BENEFITS

Were we to implement this program (SOLV), we would not only cure inflation, unemployment, and taxation, we would also solve some problems from skewed land value. (1) The market value of farm land where subjected to speculation would fall rapidly. (2) The value of most locations would stabilize because the tax burden is moved from variable human improvement to invariable natural potential. (3) Growth would be moderated in areas where already intensively developed; more land changing from cultivation to construction would be spared. (4) Farmers, whose work is hard, will especially benefit from switching from a tax on effort and skill that kills initiative to a duty on natural advantage that encourages business.

More clever and industrious workers could produce more from any site but much more from prime sites, so they would probably outbid others for these sites. Using the best sites would be a great incentive to these workers. Their output would be a great boon to the rest of society.

Because of the rapid development in rationalism, research, and technology during the last 20 to 30 years, finding a way to fairly share this new bounty is an imperative today. The program of pooling all land value - driven up by progress - then sharing it among all citizens is the fairest, most efficient way of making modern advances benefit everybody.

VII. CONCLUSION

The whole world is struggling with drastic economic problems. We cannot go on with the present situation of inflation raising the cost of production, increasing the number of unemployed, upping the interest on bank loans, and expanding the need to borrow and sink deeper into debt. The vicious spiral grows more vicious every year.

The whole world is at a fork in the road. We must choose between traditional ideologies of left and right that do not work and a third way - an innovative system that has brought prosperity before and can do so again. We must strike at the root of the problem - private retention of publicly created land value. Liquidating land monopoly would reward initiative and promote production, making the cake bigger for sharing with all, so no one need suffer.

Liberty with prosperity is the only reform worth struggling for. The key is to free people's productive powers of all irksome fetters, and to share the natural advantages in God-given land. Thus we would all be free to work and live in a just world.

ing to Ricardo's Law of Rent, is how much more the site could yield compared to the poorest one in use - the margin.

HOW TO ASSESS LAND VALUE

All assessments would be based upon the actual selling price of land. Although the market does a good job of determining the value of locations in the aggregate, certain sites may still be assessed too high or low, conferring an unfair penalty or reward to various citizens. This may be especially so during the beginning of switching to sharing only land value (SOLV).

To allow for mistakes, any landowner may have the new assessment revised at any time on request. So that running adjustments could take place, assessments could be implemented over a ten to fifteen year period. And because land's lasting value is usually increased not by Nature but by human effort - rock clearing, terracing, fertilizing, draining or irrigating - and because the margin should be free (especially to self-reliant farmers), it would be a good idea to allow room for error and permit users to deduct from the value of their sites the first $2,500 per hectare ($1,00 per acre).

PROCEDURE SCHEMATIC

FIRST YEAR:

1. Assess all land at market value per hectare (or square meter).
2. Deduct, say, $2,500/ha ($1,00/acre).
3. Impose on all land a duty of 4% of this reduced value.
4. Register this total (minus deduction) as a permanent annual duty
5. Use the yielded revenue for immediate reduction of personal income tax on a per capita basis.

SECOND YEAR:

6. Assess all land according to actual market value as influenced by the burden of the duty and taking into consideration the future annual duties.
7. Impose on all land a further fixed duty of 2% of the newly assessed value.
8. Register this duty on top of the previously registered duty, resulting in a new fixed duty, totaling 4% of old plus 2% of new.
9. Use the yielded revenue for further reducing income tax.

THIRD YEAR AND FURTHER YEARS:

10. Continue the whole process - the same as the second year - with a different 2% value each year.
11. Use the yielded revenue for reducing all other taxes, too.

NO TAX, JUST RENT

In the end, when a tax on land is the only tax remaining and it collects full market value, it will be more accurate to say that the community rents all land. Taxing and renting differ in crucial ways.

Taxes arise when rulers want money; rent arises when people use more than two grades of land (Ricardo's Law). Taxes are limited by only how

A THIRD WAY FOR THE THIRD WORLD - LESSONS FROM DENMARK IN ECONOMY SANS MONOPOLY

I. INTRODUCTION

In my younger days when bank interest was 5%, a 10% profit was good business. When bank rates rose to 10%, it was difficult to make a reasonable profit. When bank charges rose further, many businesses had to close down; old jobs were lost. Few entrepreneurs found it worthwhile to start up; no new jobs were created.

Up to the 1940s, inflation and interest were not a severe problem. But since World War II, economic growth has been so rapid that demand for land to build on (and land's amount is finite) created a land price explosion. An enormous surplus of unearned purchasing power accrued to a few. This resulted in high inflation and interest that burdened the many.

Inflation and its faithful follower, high interest, is a problem that beleaguers both industrial Denmark and the agricultural Third World. Interest on borrowed money has risen to the point where Third World nations cannot pay off their debts, endangering the money economies of all nations.

Interest payments threaten not only companies and poor countries with bankruptcy, in recent years big loses on credit have severely shaken some of the world's biggest and strongest banks. Our whole civilization is threatened. Stopping inflation and high interest rates has become absolutely essential.

II. TAXATION

WHEN REFORM LOOMED LIKELY

In Denmark in 1957, inflation was 5% and bank interest on loans was 6 1/4% (both high rates then). In the election of that year, the Labor Party (the largest Danish party), the Liberal Party, and the Justice Party (the classical liberal free enterprise party) won enough seats in Parliament to form a ruling coalition. To reverse rising rates, the coalition planned to raise taxes on land (locations only, not buildings) then lower them on labor and capital.

As a member of Parliament, I promised that taxing land would bring inflation to a standstill and trim interest back. My words were greeted with laughter from my colleagues in Parliament. After a year, however, investor expectation of the coming land value taxation stopped land speculation, and land value stopped rising. By 1958, inflation had fallen to under 1% and interest to 5%.

Furthermore, unemployment nearly disappeared; 100,000 people (and Denmark had a population of only five million) found a job within the next three years. The deficit in the balance of payments was turned into a surplus within one year. By 1960 the foreign debt was reduced from 11.2 billion 1958 Danish droner (1.6 billion 1985 U.S. dollars) to 2.8 billion 1985 Danish kroner (0.4 billion U.S. dollars) - a reduction of 75%!

Things were going so well, the economy was so healthy, that people forgot what had got them there. Though the general public did not understand the economic forces at work, the landowners did. The owners of the best views, soils, harbors, and resources launched a campaign against the little Justice Party whose parliamentarians had inserted the tax shift plank into the ruling coalition's platform. Having resigned from Parliament in 1958 due to pressing business matters, I was not able to defend our gains. In the 1960 election, the Justice Party failed to collect the minimum required for seating in Parliament.

The tax reform law that had worked so well was repealed. Quickly inflation climbed back up to 5% and by 1964 was up to 8%. While prices in general rose fourfold from 1960 to 1981, land values skyrocketed from 17 billion kroner to 320 billion, a nineteen fold increase.

WHEN OPPORTUNITY KNOCKED

When land prices are high, some owners withhold sites, waiting for a higher return later. When some prime business sites are not used, some people cannot find work and unemployment rises. To help the jobless, the government raises taxes on producers. The cost of production rises and sales lag. Companies dismiss more workers, and the vicious spiral worsens.

Furthermore, surrendering a huge portion of profits through the income tax puts a brake on initiative and human energy, reducing production. Was it Lincoln who said that you cannot make the poor rich by making the rich poor?

In 1969, Denmark had a brief reminder of what good tax reform could do. That year, the nation changed from paying federal taxes based on last year's income to a "pay as you earn" tax. For logistical reasons, the government had to ignore one's 1969 income and tax 1968 income again, so any increase in income (such as overtime pay) was tax free. The effect of this exemption can be seen in the chart below.

Not shown is the fact that most previously unemployed workers found a job, confirming the saying that the crop for supporting their family. They lived in utmost poverty until the rule of the occupying American military.

General Douglas MacArthur can be accredited with the democratization of Japan. This admirer of Henry George gave the defeated nation a new constitution (which is still valid today). He also reformed rent distribution by reversing the landlords' and tenants' portions, so the farmer got twice as much gross and presumably three times as much net as before. In the course of a very short time, Japan became self-sufficient in rice which was previously supplemented with imports. Also, tenants could afford better education for their children.

A similar success story took place in Taiwan, thanks to the influence of Sun Yat-sen, who was also an adherent of George. When Taiwan began its "land to the tiller" program in the late 1940s, it was a poor country whose people knew starvation. Then the land tax broke up the huge plantations, so farmers could own their land and keep a bigger share of the produce.

A 1979 study by the World Bank gives land reform credit for these two nations moving from near feudalism to modern industrialization. Land reform of the Georgist variety could work anywhere - Tanzania and strife-torn Latin America included.

ECONOMY SANS MONOPOLY

Privileged capitalists and large estate owners have given free enterprise a bad reputation, but conditions for both liberty and security lie in the Third Way - free enterprise. Enterprise must be freed from taxation on production and from all forms of monopoly, and the most egregious form is land monopoly. According to Winston Churchill, it is "the mother of all monopoly".

Land monopoly can be eradicated without landowners losing their right of disposal - their right to use, sell, or testate a site. All the government need do is collect the rent from a site, determined in the market by the possible uses of the site. What better way to have a bloodless revolution?

IMPLEMENTATION

There are two basic ways to switch from the present tax system to a rent system. One is to lower other taxes and raise the tax on land by a like amount, which may be difficult to practice. The other is the converse - raise the tax on land and lower others by a like amount. Neither one need proceed faster than people can keep up with.

Either way, the government would have to know the full market value of all sites. Land has widely ranging values from low on sandy soil on the edge of cultivation, upon which no duty can be placed, to high on busy intersections in the center of shopping districts. A site's value, accordbank interest drops, wiping out any last vestige of usurious rates.

(3) Inflation is ended because the value of land returns to those who created it in the first place - the public. Thus production and purchasing power are put in balance.

(4) Unemployment is lowered because production is raised. Lower taxes, rent, and prices means putting more goods in the range of more consumers. Their purchasing will require more hiring. When jobs seek labor, wages rise.

SOLUTION'S MORAL BASIS

Because we have it in our power to halt inflation and unemployment and prevent any further damage, it is absurd that we don't. We are negligent in that we don't abolish taxation and collect ground rent.

A better understanding of ownership, of the differences between private and public property, would make the rightness of this tax reform more obvious. Consider that the best, most justifiable claim to something is having made it. Items of wealth - food, clothing, shelter, medicine, vehicles - belong to whoever made them (or their customers). Similarly, the value of land belongs to the community making it. Land itself, created before we got here, should not be owned outright but be "borrowed" from posterity and, though used privately, be held in trust for future generations.

Individuals have no right to keep rent; society has no right to take income or savings from one's effort or enterprise. Society is obliged to collect rent; individuals are obliged to pay it.

Paying rent returns public property to the public. Spending rent on desired social services compensates each excluded from another's site.

The right to life gives us a right to air, water, and land. Yet not all land was created equal; sites vary in quality. To even out the advantages, society should charge rent amounting to the site's annual market value. Owners of the best sites would pay the most; owners of the worst would pay the least.

If collected, rising land value would benefit all people instead of only the few who benefit today at the expense of others. No taxes and greater access to land will encourage initiative and determination; the most clever people will take advantage of most of the possibilities, so the total production will grow - the horse of egoism would be hitched to the carriage of progress. More goods and services will benefit everybody.

PRACTICAL RESULTS - ASIAN EVIDENCE

That this land reform would improve social conditions is evidenced by the successes of moderate versions of it in Asia. Before World War II, Japanese landowners, who mostly lived in towns, collected 2/3 of the yield from their tenants who for their hard work were left with only 1/3. After paying for seed, interest, etc., farmers might get only the last 1/6 of

WHEN ONE TAX FREEZES

Annual percentage increases in ...	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-earners' savings in million kr. (estimated)	2,468	2,857	3,774	3,137	3,059

"work creates more work". All together it was a remarkable experience.

MYRDAL'S REVERSAL

Gunnar Myrdal was the 1974 Nobel laureate in economics and Sweden's former minister of finance with the Social Democracy government. In *Ekonomisk Debatt* (1977/8), he made a remarkable admission:

"The Swedish tax system is too radical and there is much to be said in favor of reducing the progressive income tax considerably, not because I consider the total pressure of taxation too high, but because of the way in which the taxation takes place.

In spite of the progressivity, the result is that people within all income groups must pay, because **the rich are so very few.**

For an old welfare politician, it is depressing to think of the unhappy consequences of our income taxation and especially the bad effects of the high marginal rates of taxation.

Swedish honesty and my own pride suffer because my generation made such bad laws that they have made the Swedes into a people of small-cheats.

To this may be added that this tax system requires a huge bureaucracy."

In Sweden, the marginal income tax is up to 85%; in Denmark, 78%.

In Switzerland, one of the four richest European countries, the situation is the opposite. Switzerland has less than half as many citizens engaged in civil service as the other three richest countries in Europe, and unemployment is less than 1%. Real wages are the world's highest. Inflation and interest rates are low. There is no foreign debt. And perhaps most importantly, their highest income tax is 30%. The Swiss never dream of socialism.

III. SOCIALIST EXPERIMENTATION

FALSE HOPES

Despite the beauty of the ideology, nowhere on earth has socialism fulfilled people's expectations. On the contrary, this radical change has often disappointed people struggling for more freedom and prosperity. Desperate people have thrown off the yoke of oppression only to end up with less political liberty and economic security.

The new rulers, having won popular support, abused the positive ideology and failed to fulfill the golden promises. Estate-owner government turned into state-controlled administration; the resultant powerful bureaucracy ate up most of the progress, leaving the people the least. In some cases, their conditions even worsened.

NYERERE'S REALIZATION

The President of Tanzania, Nyerere, tried a well-intended mix of pure socialism and Scandinavian socialism. The latter combines the Welfare State with private enterprise to raise money for social distribution.

In 1968 I visited Tanzania and found a fair amount of prosperity. The houses in the towns looked nice and had been recently painted. In 1972 when I revisited Tanzania, everything seemed so poor. Paint was peeling off the dilapidated houses and the people were poorly dressed. Why the sudden downturn? The state had taken over people's property and their responsibility; consequently, nobody cared.

Poverty increased year by year. Only in the school sector did some progress take place. In 1985 when he resigned, Nyerere admitted that the socialistic experiment had failed. Nyerere said:

"We are a poor people, and we chose socialism. But socialism is a luxury and only for the rich.

Socialism maintains or creates poverty and stagnation. It cannot be carried by a community already poor and underdeveloped."

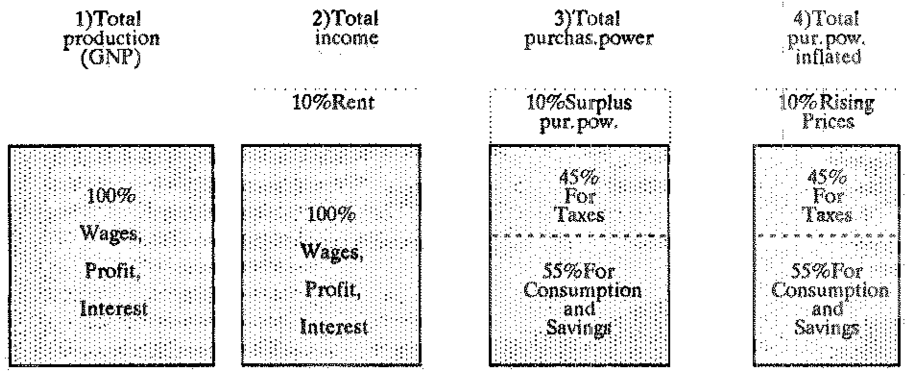
Nyerere's assertion that socialism is for the rich is doubtful. Scandinavian socialism is pretty far along in ruining Scandinavia, too.

TWO PATHS TAKEN

Russia is one of the richest countries, endowed by nature with vast amounts of minerals, ore, coal, oil, and natural gas. With one meter of top soil, her province the Ukraine in the time of the Tsar exported so much wheat it was called "Europe's granary". Finland - without any raw materials and most of the country covered by snow for six months - was the poorest province of Russia before its independence in 1917.

Today even with the Ukraine, Russia is not self-supporting in bread. The Russians are relatively poor, having

HOW INFLATION ARISES (DURING A YEAR)



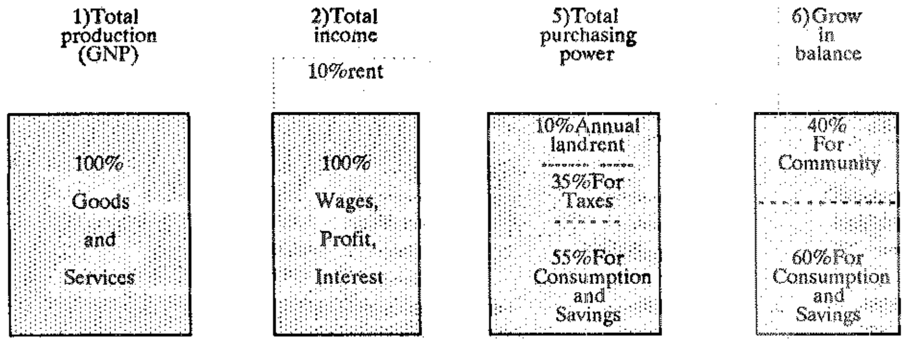
1) Total production, all the goodsand services from one year, equal someone's income - wages to workers, profit to managers, and interest to investors.

2) Total income, however, is greater than total production, made greater by the rise in land value, or "rent" (here 10%). Land will cost more, without putting out more, as long as population grows and the standard of living rises. Rent goes into private pockets as unearned income.

3) Total purchasing power, therefore, is greater than the total output available for purchasing. This surplus purchasing power is the unearned income of landowners. If allowed to stay in private pockets, then taxation must reduce consumption and savings.

4) Total purchasing power is inflated; there's more money for the same amount of goods. Landowners spending their surplus and producers meeting higher rents raises prices for all commodities by an amount equal to surplus purchasing power, costing consumers and savers the most.

HOW TO STOP INFLATION (DURING A YEAR)



5) Total purchasing power will equal total production, thus stopping inflation, if the rise in rent is taxed. Taxing rent eliminates the surplus purchasing power of landowners and reduces the tax on wages, profits, and interest, leaving more income for consumption and savings.

6) Growth in land value will stay in balance with production and purchasing power, keeping prices even (no inflation) as long as the public collects rent (which it made). Eventually, land value will rise to the point where it will be sufficient for all public revenue. Then the public **can** replace **all** taxes on earned personal income, further freeing consumption and savings.

withhold their sites from use. This restricts supply, further driving up the cost of land. Ironically, the best time to speculate is in "boom" periods when many people want to build houses and factories.

If I print my own dollar notes, I will soon be put in jail; a surplus of false money will dilute **the value of the** dollar (inflation), because more dollars are chasing the same amount of goods. **If**, however, my surplus dollars come from dealing in land of inflated value, they still dilute purchasing power yet **I am** considered a good citizen. And the more I do it, the more esteemed and prominent I become.

As true with all others costs, the cost of location ends up in the production cost, meaning higher commodity prices. Higher prices is the external symptom of inflation. What we don't see is that inflation is actually greater than the final, total cost of a product. Were it not for technological progress increasing productivity and deflating costs a bit, the jump in prices would

be even worse. Without inflation, techno-progress would lower prices for commodities and all consumers would benefit.

V. HOW TO END INFLATION

Inflation will last as long as the present system does. As long as merely owning land makes money, there'll be more purchasing power than products to purchase. **But production and purchasing power can seek balance by means other than inflating prices; unearned income can be taxed.** Rather than have the state try to determine how much of personal income is earned and how much not, the government could merely tax land, the greatest source of unearned income. This reform would reverse current policy. In 1985, taxes on Danish land value was only 5% of total tax revenue.

VI. THE THIRD WAY

HOW TO HEAL THE WHOLE ECONOMY

We cannot prevent land from increasing in value, but we can prevent this increase from hampering our economy. By taking this unearned income out of private pockets and putting it into the public treasury, we can plug the four main drains on producers' income: (1) taxation, (2) "rentention" (private retention of rent), (3) inflation, and (4) unemployment.

(1) Taxes can wither away because rent is enough to fund government; no tax would be needed. With sufficient funds, government would not need to borrow money to build public utilities. Deprived of this business with spendthrift customers, banks would have to lower interest to attract ordinary customers.

(2) Rent is lowered because withholding becomes cost-prohibitive. More good sites will be put on the market, and competition will drive down their price. Buyers won't need to borrow as much money, so again to queue up at shops, and the Finns rich, with a standard of living two to three times higher than Russia's.

The reason for the difference is the reward for work in Finland. We must admit that for motivating production, egoism is stronger than altruism. Thanks to the Third Way, real free enterprise, all Scandinavia experienced much material progress up to the beginning of the 1970s.

OIL SHOCK AFTERMATH - DANISH DEBT

During the 1970s, another natural resource besides land took off in price - oil, the lifeblood of the industrial West. The nations blessed with abundant oil organized themselves into a cartel, OPEC, and led the way in raising the price of oil from all extractors. Interest rates followed and then unemployment.

To deal with joblessness in Denmark, the new government in power, the Social Democrats, began redistributing wealth even before it was created; they borrowed money heavily, saddling the government with a huge outstanding debt. From 1979 to 1982, domestic debt increased fivefold and foreign debt threefold. During these three years, the Social Democrats devalued the krone 19%, directly increasing inflation. By 1982, bank interest was 20%, increasing unemployment by 100,000.

These discouraging trends showed no signs of letting up, so the Social Democrats quit, leaving the task of imposing the necessary economic measures for reducing public expenses to the subsequent nonsocialist government. Willing to try free enterprise, the new coalition of the

Knud Tholstrup skriver . . .

"Those two guys are always cutting in front of me!"

conservative and liberal parties stopped devaluation of the krone and borrowed less money. This by 1985 cut inflation and interest in half and increased employment by 200,000 in four years.

Under these improved conditions, the Social Democrats have begun again promoting welfare (purchasing votes). Yet conditions are not good enough (if they ever will be) to tolerate their policies. In 1985 Denmark had to struggle with a huge burden of interest and repayment to foreign banks. We have lost so much of our competitive power that in 1986 unemployment was 8% to 9%. In the wake of this unemployment, violence and other criminality has spun out of control. (Crime in Holland is even worse.)

IV. INFLATION

THE DAMAGE DONE

Inflation doubles the rate of interest on bank loans, so the deeper in debt a country is, the more inflation hurts. Denmark and most other industrial countries are hindered but get by. The economies of the Third World, however, incipient and fragile as they are, are terribly crippled by inflation and its attendant high rate of interest.

After 1982, improved economic conditions in Denmark and other industrial nations resulted in huge increases in land prices. This scepter of high rent following development confirmed the claim of the 19th century American economist reformer, Henry George, who said "all improvements show up in higher land prices". These higher prices sowed the seeds of a later crisis.

HOW INFLATION ARISES

When the amount of money grows faster than the amount of production, then the price of products inflates. On this point nearly every economist agrees. In 1970 in Copenhagen, I met with Milton Friedman; we agreed on this definition of inflation - more money than goods - but disagreed on the source of inflation - extra purchasing power. (Here "purchasing power" and "money" refer to all means of payment, I.O.U.s, mortgage deeds, as well as bank notes.)

If there's more money than products (goods and services), then this extra money must represent some economic value other than products. The thing of greatest economic value that was not produced is land - sites and resources.

Because land - views, soils, harbors, resources, airwaves, etc. - is not produced by labor, it has no cost to its original owner or seller. Furthermore, land value is determined not by what an individual does - own - but by what the surrounding community does - grow, install utilities, adopt new technology, and provide social services like police and road maintenance.

Because the supply of land is fixed, especially good land like prime real estate and petroleum, and the demand for it usually increases as population grows, the price for land tends to rise. Thus without producing any wealth, *"landlords grow rich in their sleep"* as John Stuart Mill said.

They collect money and by increasing their purchasing power, they increase total purchasing power beyond total production, creating the imbalance that leads to inflation. The dollars for land value swim in the same sea with dollars for production, competing with them for the same goods and services. Bidding against money backed by goods, money backed by land value drives up prices. Producers charge more to absorb the surplus purchasing power and to meet the increased land cost.

To afford the higher cost of living, workers must demand higher wages. So **higher wages do not lead to inflation; inflation generates rising wages.** Wages always limp along afterwards and lag further and further behind.

EIGHT STEPS IN THE COURSE OF INFLATION

1. People produce and in exchange for their products receive money.

2. People deal in non-products, especially land (like oil and real estate) and receive money.

3. Total purchasing power exceeds the amount of products.

4. Land dealers buy goods and services with money not backed by production.

5. Producers sell goods and services to the highest payers, taking in money not backed by production.

6. As prices rise, production and purchasing power move toward balance.

7. The higher cost of living necessitates higher wages.

8. So equilibrium is always elusive as the cycle repeats itself.

The above explains why prices have always risen throughout history. The following reasons explain why inflation quickens periodically. First, artificial demand expands then supply artificially contracts.

Expecting further increase in land value, investors try to profit by buying land; more investors means more demand which pushes up prices.

Most sales are concluded with promises of *future payments*. These mortgage deeds, etc. can be used by banks as *present assets*. Money lent against inflated land value will join money from production in demand for goods.

Expecting continuous inflation, savers will try to secure their "nest egg" by investing in real estate instead of in production.

More competition for borrowing (on mortgages) pushes up the rate of interest, and this cost to producers is in turn a further impulse to raise prices. High land prices especially hurt first time home buyers.

Rising land prices leads owners to expect a higher future return, so they