

Time for a cure for unemployment

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Perhaps the most acute and persistent of all social problems in Britain is mass unemployment. For many centuries, and still today, unemployment has had a close relation with the control and ownership of land. As far back as the 15th Century, English land enclosures for wool production led to the appearance of landless bands of "sturdy beggars". By the late 19th Century, unemployment came to follow a pattern associated with booms and slumps, and that alternation of booms and slumps still continues. But the so-called "trade cycle" is a description rather than an explanation.

After the 1914-18 war a new variant of the pattern of unemployment appeared. Even in boom conditions there was a large residue of mass unemployment. After the 1939-45 war, however, chronic large-scale unemployment seemed to have vanished for ever. Full employment after 1945 was achieved primarily by what is known as "demand management", that is by printing money and injecting it into the economy through public spending, in accordance with Keynesian principles. This produced troubles of its own - adverse side effects of the medicine - and since the middle 1970s large-scale unemployment has returned with a vengeance. Unemployment has not been exclusively the curse of people who live on wages or salaries, for it has been accompanied with business failure and collapse.

It is surely absurd as well as tragic that great numbers should be unable to find jobs when so many people, often the same people, are living in want. In a sustainable and well run society, the problem would not be to find jobs for people, but to find people for the jobs which need to be done.

What causes Unemployment?

We have not much hope of curing unemployment unless we know how it is caused. All kinds of theories have been offered to explain unemployment.

Thus, some people have suggested that there is a "trade off" between inflation and

unemployment. This does not explain - for example - the fact that unemployment was far higher in the late 1970s and early 1980s when inflation was higher than in the 1950s when inflation was much lower.

Others have suggested that high unemployment in Britain is related to some peculiarly British trait, like the tradition of the "gentleman": the tendency to undervalue technology by comparison with the arts and professions. But unemployment is widespread today not only in Britain but also in countries where British values do not hold.

Mechanisation has also been suggested as a cause of unemployment. No doubt inventions often reduce the amount of labour required to satisfy some particular demand, but this does not make the supply of labour superfluous. Wants remain unsatisfied. Indeed, the long period of full employment, from the 1940s to the early 1970s, was a period of rapid mechanisation.

Towards a better Explanation

The various explanations of unemployment which are most commonly suggested are all essentially unsatisfactory. So where do we look? There are two factors which are rarely mentioned, and even less appreciated: the property market and the tax/benefit system. In relation to the unemployment problem, these represent two faces of a single coin. It is necessary to consider both of them.

Types of taxation

There are two quite distinct categories of taxation. Taxes such as VAT and Income Tax act as disincentives to production and trade. By contrast taxes on land have a stimulating effect on trade by encouraging productive efforts and discouraging the practice of holding land out of use.

The present tax system clearly acts in various ways as an obstacle between people who want to work, and the work which they could usefully perform. But the influence of tax on the economy is more profound

than this. What is not taxed is quite as important as what is.

What Isn't Taxed

The British tax system has no tax which falls directly on the value of land. The cost of holding land which is not in use is no more than the cost of servicing any mortgage and the rent which has been foregone. At times when land values are rising quickly, as they did in the late 1980s, these costs are often well worth bearing. Hence land ownership is often a tax haven. This has distorted patterns of investment for decades. Fortunes have been made by purchasing land cheaply, holding on to it, and selling at the most opportune moment.

All this is not a "zero sum game". That is to say; from the point of view of the country as a whole the gains exceed the losses. The supply of land is fixed. Every site is unique, and if land becomes the subject of speculation it is either not used at all, or it is under-used. A valuable building plot may be used as a car park; or cabbages may be grown on a plot suitable for a hospital or for housing.

Land Speculation

The consequences for the economy are deeply damaging. "Land", in the economic sense, includes all natural resources, and the unemployed are denied access to nature's store of raw materials. No-one can produce goods, or provide services, without access to land. No business can function without suitable premises. A site held out of use means that labour is deprived of an employment opportunity. No doubt that site will be used sooner or later, but time is of the essence. If a factory site where 100 people could work is held vacant for five years, 500 job-years are lost for ever.

To understand land speculation, it is essential to remember that the land market does not perform like the market in, say, tomatoes or lorries. With both consumer goods and capital goods, the pattern is usually simple. If there is a glut, the price falls. If there is a shortage, prices rise.

When prices rise, tomato growers or lorry manufacturers decide to produce more, and prices tend to fall again. Alternatively, the producers or manufacturers simply move their goods from places where they are sold relatively cheaply to places where they are relatively dear.

The land market acts in a different way. No more land can be produced to satisfy increasing demand; nor can it be moved from one place to another. If land prices rise, more people attempt to buy - just the opposite of what happens in the other two cases. When there is a big demand for land, people do not bring it into use, but hold it back from use in the hope of even greater increases. This is land speculation. Land speculation means that people are unable to use land to produce goods to satisfy their own demands, or the demands of other people. The result is less demand for labour, leading to widespread unemployment.

Tax and Unemployment

Most existing taxes impair the economy. To take a simple example, tax accounts in total for over 40% of the cost of a restaurant meal. Eating out becomes a luxury and the catering industry suffers. Something similar applies to most of the familiar taxes which are imposed on goods and services, especially VAT.

But direct as well as indirect taxes foster unemployment. It is now accepted that work-related taxes are a major component of the poverty trap, sometimes called the "tax wedge", which is an important factor in generating unemployment.

High Labour Costs With Low Wages

Although no general minimum wage legislation operates in Britain, a minimum wage is established in a rough-and-ready way by the cost of buying labour out of unemployment. In order to do this, the employer must match, in take-home pay, at least the amount which is being received in unemployment and welfare benefit. He must also match other benefits for which people may qualify when unemployed, such as income support, mortgage assistance or housing benefit, free school meals, free NHS prescriptions and Council Tax assistance. To bid successfully for unemployed labour, the employer must further add on the income tax and National Insurance (NI) contributions nominally paid by the workers, as well as his own slice of NI contributions made on their behalf. There is a huge gap between what the employer pays and what the employee receives. This has brought about a

seemingly impossible situation: an economy with low wages, yet high labour costs.

It is essential to be aware of what is happening here. Pay-as-you-earn income tax is usually considered by workers as a deduction from their wages; their concern is with what their net, or "take-home", pay will be. The employer, looking at what he must pay, also recognises that "gross pay" is a purely notional amount. From his perspective, the various taxes, whether nominally paid by the employee or by himself, act for all intents and purposes as a payroll tax. They are a claim by government on the wealth created by the business.

The situation is similar with indirect taxes. What concerns workers is not how much money they have in their pay packets, but what they can purchase from the proceeds of their labour. As Adam Smith recognised more than two hundred years ago, not only are direct taxes such as income tax passed on, but so also are indirect taxes.

The consequences of this are felt most severely by those with the least skill, by labour-intensive industries, and by people in marginal locations and marginal activities. Thus, British Coal's Annual Report, 1991, showed that the production cost of deepmined coal was £41 a ton. Of this amount, £8 consisted of taxes which had ultimately to be borne by the coal industry. Not surprisingly, this means that the British coal industry is uncompetitive in world markets, despite the progress that has been made in improving efficiency. Other threatened industries, such as steel, are suffering in a similar way. So also are particular locations, like Northern Ireland, Liverpool and Tyneside. Wage-related taxes destroy economic activity which would otherwise provide goods at a competitive price, and livelihoods as well.

Taxes on wages, goods and services also bear down especially hard on the public services. The shape of the tax system explains the fact that it is very costly to employ people to do relatively menial, but valuable, tasks. As a result - to give but a few examples there is a shortage of hospital cleaners, the apprenticeship system is all but dead, street pavements are being neglected, public lavatories are rapidly disappearing, bus conductors have almost vanished, and railway staffing has been pared to the bone, to the great inconvenience of the passengers.

Taxing the Value of Land

If a fair rent was paid for all land with no

speculative element, and that rent was taxed, then unemployment would be reduced dramatically. The four main reasons why this would happen are:

1. It would put a cost on holding land. This would discourage land speculation, and if the tax were set at a sufficiently high level would end it altogether. The property market would be freed, and commercial premises would become more readily affordable.
2. The revenue raised by Land Value Taxation would make it possible to phase out those existing taxes which are so damaging to employment, such as VAT.
3. LVT would certainly reduce, and if implemented in its fullness, would abolish those trade cycles which have been the most important factor in causing unemployment for hundreds of years.
4. There would be other social benefits, each bringing financial advantages. Because there would be much less unemployment, changes could be made to the benefit system so that it supported with dignity those who were genuinely unable to work. There would be many more vacancies than people seeking them. Crime rates would be reduced: The health of the nation would improve.

Conclusion

Unemployment is caused by governments who do two things wrongly. First they allow speculation in the value of land in the mistaken belief that this process is creating wealth. In reality it is causing major inefficiencies in the free enterprise process and inhibiting wealth creation.

Secondly they collect public revenue from the wrong source. They impose income tax and VAT on the activity of wealth production and its exchange. A substantial proportion of taxation then has to be used to prevent destitution amongst those prevented from working because the free enterprise system has been rendered inefficient.

The practical solution is to collect the rent of land for the public purse, while at the same time reducing, and if possible removing other damaging taxes: VAT and income tax in particular. It is noteworthy that the rent of land in 1995 was four fifths of all income tax. Collecting the rent of land would stop the speculation without burdening production or services. Removing VAT would stimulate the economy without causing inflation.