

## UNEMPLOYMENT - A DISEASE THAT CAN BE CURED!

**Explanatory Note:** This leaflet was written by Dr. Les. Hemingway, M.B., B.S. Dr. Hemingway is a General Practitioner, who lives and practices in Warrnambool, in South Western Victoria. He has studied economics in his spare time since 1968.

### A Cancerous Growth

Unemployment is like a cancer, spreading through the world. Politicians and economists have not produced a cure for unemployment, so it is about time the medical profession took a hand.

When doctors are baffled by a disease, they look beyond the symptoms and seek a CAUSE for the complaint. If economists used a similar approach, then a cure for unemployment could be found.

### High Wages or Modern Technology?

Unemployment is usually blamed upon:

- (a): High wages and union demands, or:
- (b): Automation and modern technology - which replace men with machines and allow a relatively small number of workers to produce the basic needs of entire nations.

### Not the Whole Story

These claims have some validity. But they are not the whole story, because:

- 1: Unemployment occurs where neither union activity nor modern technology is well advanced, and:
- 2: Millions of the earth's people lack even basic necessities, to say nothing of the numerous other goods and services they would gladly produce (and consume), if they could only obtain work.

So there must be a more basic cause for unemployment, and that cause must operate in many different countries. We may unearth it, if we look at the means whereby goods and services are produced.

### Land, Labour and Capital

Most goods and services are produced by a combination of LAND (which includes all building sites, farmland, and natural resources), LABOUR (which may be physical, mental or both), and CAPITAL - a term which includes all tools and machinery, as well as various other goods and services that facilitate production and increase the output of individuals and of society.

### Lack of Land and/or Capital

Unemployed persons would willingly supply labour! Hence, if a would-be worker is unemployed, then he must be denied access to either land or capital.

That theoretical consideration fits the facts. In Australia, for instance, the building industry is in a slump, because would-be home builders cannot afford a home site at today's prices, or borrow sufficient finance at ruling interest rates. Potential shop or factory builders are in a similar predicament.

In 1980, the average price paid for a vacant home site in the Melbourne area was \$15,625\*. During the same year, mean after-tax earnings for Victorian male employees were \$205 per week or \$10,660 per year\*\*. On those figures, an average worker must save his entire take-home pay for almost eighteen months, if he wants a home site in the Melbourne area. Buyers whose

earnings are below average, or who buy on terms, may spend two or more years' earnings on a site.

### Interest Payments

Interest payments provide another reason for unemployment in the building industry. A home loan of \$30,000, with interest at 10% and a weekly repayment of \$60, spans thirty-five years. Interest on the mortgage amounts to \$76,677<sup>#</sup> - \$42 per week, for fifty two weeks per year, for thirty-five years!

Today's home loans are often larger than \$30,000, and many of them bear interest at more than 10%. Therefore, many workers would have to spend MORE than \$42 per week as interest - if they wanted to own a roof over their heads!

### Facts that are IGNORED!

The above facts can be ascertained quite readily. But they are largely IGNORED by politicians, economists and others who offer "solutions" to Australia's current lack of jobs.

These commentators bluster and storm about LABOUR costs, and call upon unions to exercise restraint. But they say little or nothing about the huge amounts the worker - and his would-be employer - must spend as interest on land.

### Silence is Golden. For Some!

That silence is golden for wealthy overseas investors, for multi-nationals, and for fortunate Australians who chose their parents well. Such people own a great deal of land in Australia. They are also expert at the management of "investment portfolios". They use that expertise to acquire ever more land, power and wealth - while the rest of us squabble over labour costs, or fight amongst ourselves for the available jobs.

### A Remedy Exists

Land would be cheaper, and jobs would be more plentiful, if governments taxed land in preference to other taxes now in use.

### Idle or Under-Used Land

In Australia, there is plenty of idle or under-used land - much of which could be described, quite aptly, as "prime real estate".

When land is idle, it should be cheap. Dirt cheap, in fact. But idle land is NOT cheap. In fact, quite often, it almost "costs the earth" - because those who own it have no immediate need for the land, or for money they could obtain through selling it.

### Increase Taxes and Rates on Land, Reduce Other Taxes

The situation would alter for the better, if land taxes, and rates assessed against the value of sites, were steadily increased, while other taxes were reduced. That measure would not hurt the pocket of anyone who was making effective use of whatever land he owned. Such persons would pay more tax on their land, and less tax on their motor vehicles, incomes, sales, payrolls, etcetera. But it WOULD exert financial pressure on the owners of idle or under-used land - and lead them to sell land they are now withholding from the market, or to accept bids they now reject.

### Cheaper Land = Smaller Mortgages, Less Interest To Pay

As land taxes went up, land prices would come down. Builders who now spend eighteen months' income on a site, would get one for six to twelve months' income instead. Such persons would need less finance for home building, so their mortgages would decrease in size as well. That, in turn, would save them thousands and thousands of dollars in interest.

Thus, if an average home site were \$5,000 cheaper than it is today, then a mortgage which is now \$30,000 would be \$25,000 instead. If that mortgage bore interest at 10% and was repaid at \$60 per week (as in the example given above), it would be repaid in seventeen years instead of thirty-five. Interest would drop from \$76,677 to \$27,902 - a saving of \$48,775!

#### Lower Interest Rates?

A drop in the size of mortgages could also lead to a drop in interest rates. With smaller mortgages, loan funds would soon return to lenders and become available to new borrowers. In that way, the supply of loan funds would keep pace with the demand for them, and interest rates could fall. That, in turn, would reduce the crushing burden interest now imposes on the nation's primary and secondary producers. It would reduce costs in all manner of industries, and improve Australia's competitive position in markets both here and overseas.

#### More Land Tax = More Jobs

In these ways, an upturn in land tax would reverse the downturn in the building industry. Related industries would also benefit, and the present recession could be overcome - without causing hardship or forcing poor people to "tighten their belts".

#### Falling Property Taxes - Rising Unemployment

Exactly the reverse is happening in Australia at the present time. In 1967-68, property taxes (including taxes and rates assessed against the value of land), amounted to 3.1 percent of total household income in Australia. In that year, only 1.5 percent of the workforce was unemployed.

Since then, property taxes have steadily declined, and by 1979-80 they were down to 2.0 percent of total household income. Over the same period, unemployment quadrupled to 6.2 percent!##

#### Why is Land Tax Neglected?

These facts are available to governments. Why, then, is land tax neglected, when the country is in a recession and its taxation system needs an overhaul? The answer is not particularly hard to find.

In Australia, a great deal of valuable land is owned by a relatively small number of people. These wealthy landowners and investors (some of whom are not even residents of Australia), would pay more land tax than other citizens. They also possess considerable political influence. They are more likely to oppose land tax than to support it.

#### Politicians

In addition, politicians are not always impartial where land tax is concerned.

These days, lucky people get "something for nothing" - through buying land when it is cheap and selling it later when its price has risen considerably. This practice is called "speculation" - and it is a risky enterprise. The speculator MAY get more for his land than he paid for it. He may also lose money on the deal - if he makes the wrong choice or buys at an inopportune time.

The risk is less when one has advance notice concerning forthcoming developments - such as sewerage or road works, drainage schemes, or the likely placement of new industrial plants, schools, hospitals or supermarkets.

Politicians - of all parties, in all countries, and at all levels of government - often receive such information. If they are so inclined, they may use it to their own advantage.

Effective land taxes would put a stop to speculation in land. They would force people who now "live off the fat of the land" to work for a living instead. In that way, land tax would kill a goose that has laid a lot of golden eggs for municipal councillors and members of parliament. Because of this, politicians and councillors tend to vote against land taxes and site value rating, and to favour alternative sources of revenue.

### A Job for the Unions

For these reasons, effective land taxes will only be introduced at the instigation of the trade unions, or other mass popular movement. This leaflet has been written to provide such persons with information - and a point of view - they are unlikely to get elsewhere.

### Losses and Gains

We should note, in passing, that a fall in land price will reduce the capital assets of all who now own land. However, in the long run, that "loss of assets" would be more apparent than real. Persons who - because of land tax - "lose money" on their present site, will also SAVE money when they or their descendants need land at any future date. Hence, "losses" will be balanced by gains for most families.

On the other hand, if the present decline in land taxes is not reversed, then Australia's recession will almost certainly worsen. In that event, nearly EVERYONE in the community will lose money - and those losses WILL NOT be balanced by equivalent gains!

### Open Discussion Needed

An increase in land tax would bring other benefits to society, but they cannot all be described in this leaflet. What is here is enough, surely, to stimulate discussion, and to show that unemployment is not entirely due to forces beyond our control. Some of it, at least, is due to ignorance on the part of the majority who would benefit from an increase in land taxes and, perhaps, to a fostering of that ignorance by those to whom the reverse applies.

### REFERENCES

- \* Figures released by Victoria's Valuer-General. Reported in *Warrnambool Standard*, June 13th, 1981. Page 3.
- \*\* *Year Book Australia 1981*. Page 163. Plus *Schedule of Weekly Rates of Income Tax Instalments*, issued by the Australian Taxation Office. December 1979.
- # *Unemployment, Inflation and Taxes on Land*. By Dr. Les. Hemingway, WARRNAMBOOL. Pages 15-17.
- ## *Australian Year Books*: 1972, pages 589, 701; 1974, pages 619, 703; 1977-78, page 623; 1980, page 154; 1981, pages 146, 598, 612; 1982 (Pocket Year Book), page 93.

**FOOTNOTE:** This pamphlet is a synopsis of Dr. Hemingway's recently published book: *Unemployment, Inflation and Taxes on Land*.

*Unemployment, Inflation and Taxes on Land* measures 147 x 205 mm. It contains 144 pages of text and a comprehensive index. It is available from Dr. L. Hemingway, at 18 Banyan Street, WARRNAMBOOL, 3280, or from the Henry George League, 31 Hardware Street, MELBOURNE, 3000. Price: \$4.00, plus postage of \$1.00 for single copies. Price and postage for bulk orders on application to author.

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