

A New Way to Help Elderly Homeowners

There is genuine concern for the plight of older people, but a new financing technique can go a long way toward alleviating the problem.

Older Americans tend to have a special financial problem; they often are "house rich" and cash poor. Their incomes tend to be static or declining, but their equity ownerships in real estate tend to be extraordinarily high.

For example, Bruce Jacobs, a University of Rochester researcher, has estimated that Americans 65 years and older hold \$500 billion in net equity in their homes in 1982. Four out of five of the 12 1/2 million elderly homeowners in this country have paid off the mortgages on their homes, and have an equity stake worth \$50,000, on the average.

By pulling \$300 to \$400 a month from their accumulated equity, hundreds of thousands of owners could afford

to live at a higher standard in their present home, travel, or simply pay their bills.

The White House Commission on Housing, in its May 1982 Report, strongly urged pension funds, life insurance companies, Federal National Mortgage Association and other similar institutions to establish plans that would enable elderly persons to get much-needed income now from the equity in their home. Such plans are already being increasingly implemented in country. (See Philadelphia Inquirer, May 30, 1982).

For example, one East Coast entrepreneur offers homeowners, 65 years old and over, \$100 to more than \$500 a month for the rest of their lives. When the homeowner dies, the home is sold and the entrepreneur gets back the payments he made to the owner, with interest and with a percentage of any appreciation in house price that might have occurred.

There is yet another way to protect elderly homeowners - a way more familiar to Incentive Taxation readers. If the property tax rate on buildings were reduced while the rate on land assessments were increased, then most homeowners would save tax money. Most elderly homeowners would also save.

PRINCIPLES OF GOOD GOVERNMENT

GOOD GOVERNMENT RESTS ON THESE FOUNDATIONS

1. The true function of government is to maintain peace and justice. This does not include interfering in national or international trade or commerce, or in the private transactions of its electors save only as these threaten peace and justice.
2. A democratically controlled and just revenue is available to governments by the collection of all site rents as their sole and proper revenue, at the same time abolishing all taxes, tariffs and unjust privileges of every description.
3. A democratic system of representation by the adoption of proportional representation in multi-seat electorates and simplified provision for the referendum, initiative and recall.
4. A continuous programme of education in the economic facts of life to enlighten the electorate.

Same AIM -- Different METHOD

The object of Socialism and that of Single-Tax are the same—abolition of the exploitation of labor. The Single-Tax proposal proceeds upon the theory that abolition of land monopoly will abolish exploitation of labor. Socialists insist that abolition of capital monopoly also is necessary. This is conceded by Single-Tax advocates, but they consider that abolition of land monopoly makes monopoly of capital impossible.—Louis F. Post.

WHY THE NEED FOR SEVEN-MEMBER ELECTORATES?

WHAT ARE THE OBJECTIONS TO HARE-CLARK ELECTIONS?

IS REPRESENTATION DEMOCRATIC UNDER THE HARE-CLARK SYSTEM?

THESE QUESTIONS AND OTHERS ARE ANSWERED IN THE BOOKLET

DEMOCRATIC REPRESENTATION UNDER THE HARE-CLARK SYSTEM

By Dr George Howatt

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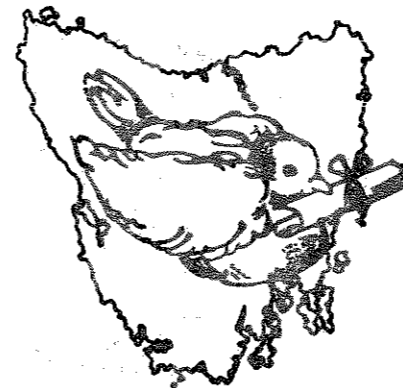
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PROGRESS



No 15

Householder

A Tasmanian Journal to Advocate the Rights of the People in the Land

- POLICY
1. COLLECTION OF LAND VALUES OR GROUND RENT AS PUBLIC REVENUE.
 2. THE ABOLITION OF TAXES NOW IMPOSED UPON LABOR AND LABOR PRODUCTS
 3. PROPORTIONAL REPRESENTATION FOR ALL ELECTIONS.

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UNEMPLOYMENT — A DISEASE THAT CAN BE CURED!

By L. Hemingway

This article is a synopsis of the author's recently published book "Unemployment, Inflation and Taxes on Land", reviewed in August "Progress".

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 \$15,625¹. During the same year, mean after-tax earnings for Victorian male employees were \$205 per week or \$10,660 per year². 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 Mel-

bourne 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 \$76,677³ — \$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 or 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 "cost 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 land-owners 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. They are so inclined, they may use it to their own advantage.

Effective land taxes would put a stop to speculation on 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 prices 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 a 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 the ignorance to whom the reverse applies.

REFERENCES

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2. Year Book Australia 1981. Page 163. Plus Schedule of Weekly Rates of Income Tax Instalments, issued by the Australian Taxation Office. December 1979.
3. "Unemployment, Inflation and Taxes on Land". By Dr Les Hemingway, Warrnambool. Pages 15-17.