

A Reply to Critics

By C. VILLALOBOS DOMINGUEZ

When the editors of *The Freeman* published my article on "Who Pays All the Taxes?" in the October, 1941 issue, they had the kindness to accompany it with a note in the "Contributors' Corner" which offered, in addition to the gracious personal references, an objection to the thesis of the article. I take this opportunity to answer that objection, as well as others presented by Miss Bertha Sellers and Peter W. Schwander in the November issue.

My thesis is that today and at all times all taxes are in the last analysis paid by the proprietor of the soil. Every tax, whether initially levied on the worker, the entrepreneur, against merchandise, or in any other way, must eventually come to rest upon the landowner.

Such a thesis is substantially admitted by the editors, and I even believe that they will concede the point, with trivial objections applying only in exceptional cases. They say: "It must be conceded that if wages are indeed at an irreducible minimum they cannot be reduced. But it sometimes happens that people can be induced to reconcile themselves to a lower standard of living, and in such a case it would seem possible to depress wages without the burden falling eventually upon rent. If you can sell the idea of 'guns, not butter' thoroughly enough you can depress the economic condition of all economic classes except the lowest—those actually on the verge of starvation, who of course cannot be depressed further. The extreme poverty and undernourishment of the German people in 1916-1919 indicates that even though war may eliminate unemployment, the diversion of productive capacity to armaments may result in shortages of consumer goods, and a consequent diminution of real wages. What are wages except consumer goods?" (Emphasis mine.)

I agree with all this and I did not point it out beforehand because of

a wish to economize space in the journal. Moreover, the difficulty with which I write English made me strive rather for terseness, without stopping for qualifications. A more detailed analysis and enumeration of the possibilities involved might have been convenient under different conditions.

On the wages of many workers there is, in fact, a margin above mere subsistence, and this is capable of being clipped by taxation. It must be admitted that in some indeterminate proportion the wages of specially remunerated workers can be indirectly reduced, temporarily or permanently, by the pressure of taxation. Here originates, in part at least, perhaps chiefly, the universally observed tendency of the "middle class" to disappear—the increasing "proletarianization" of society. But it is certain that the wages of common labor are always (broadly speaking) at an irreducible minimum. These workers form the base of the social pyramid and their wages constitute a standard which determines the wages of all the others.

I do not deny that we may occasionally find situations in which people can be influenced by basely sophistical slogans such as "Guns, not butter" or "Living-space" and that they will fanatically resign themselves to a lower standard of living in consequence of a stupid calculation or an illusion of future prosperity.

We sometimes observe events which appear to be exceptions to economic laws, even when the laws



themselves are the best established. This does not mean that we must reject the laws as invalid. The fact is that all economic laws, and indeed the laws of nature generally, are susceptible to apparent exceptions. It is not in their province to state conclusions with exactness. "The premises," says Henry George, "from which political economy makes its deductions are truths on which in everyday life we constantly base our reasoning and our actions. Its processes, which consist chiefly in analysis, have a like certainty, although, as with all the causes of which it takes cognizance are at all times acting other causes, it can never predict exact results but only tendencies." (Lecture on "The Study of Political Economy.") In order to obtain relatively precise results such laws presuppose, moreover, specific political or other circumstances. In all cases the tendency of phenomena to conform to what we apprehend as "natural law" is most powerful; in the long run, attempts to resist this tendency lead to an explosion.

For example, the law of supply and demand which controls prices is without doubt fundamentally certain in circumstances of entire freedom of trade and of the movement of goods and persons. According to it the wages, for example, of European and Asiatic workers should be equal to those of American workers. Of course, political causes interfere; but even they cannot nullify the persistent tendency towards equalization at a common minimum standard of living.

Even though it may likewise suffer specific and circumstantial exceptions, the deductive thesis presented by me is true nevertheless. It modifies fundamentally the Georgist theory and its possible processes of application and it should initiate a new Georgist policy. It makes it clear that all efforts and measures to eliminate present taxes and concentrate them on the value of land

lack necessarily any social effect since they would not essentially modify the existing situation.

This does not exclude the usefulness which the taxation of land values can have as an agency for a political economy of the most extended and profound significance. It is a concept which I believe Georgist thought will have to consider.

Miss Bertha Sellers finds "strange" the assertion that landowners pay all the taxes. In reality, it is not so very strange. This proposition has been asserted by various authors since the eighteenth century, notably by the great philosopher Locke, who stated it thus: "Taxes, however contrived, and out of whose hand soever immediately taken, do, in a country where the great fund is in land, for the most part terminate upon land... It is in vain in a country, whose great fund is in land, to hope to lay the publick charge of the government on anything else. There at last it will terminate. The merchant (do what you can) will not bear it; the laborer cannot; and therefore the landowner must ... whether ... by laying it directly where it will last settle, or by letting it come to him by the sinking of his rents." ("Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money." London, 1692; page 87.)

Likewise, the Physiocrats shared the same idea. Quesnay said that "the tax may be levied directly on the product of the landed property; indeed, in whatever other way it may be established in a kingdom which obtains its wealth from its soil, the result is always that it is paid by landed properties." ("Oeuvres, &c., et Phil. de F. de Quesnay, edit. par A. Auken, 1888, p. 337.)

The question has been vigorously mooted from time to time by many writers but no solid conclusions have ever been reached, owing to the insufficient advance of economic science. Many of them did not know the law of rent, formulated by Ricardo, much less the profound investigations of Henry George which today allow us to clarify the subject.

Miss Sellers argues: "Would a

landowner erect a building before he figures whether a tenant would pay taxes as well as construction costs?" To this I reply that, in the first place, I am quite sure that landowners generally are ignorant of the theory of taxation here presented and act accordingly. Alexander Hamilton, influenced by the doctrines of the Physiocrats, was of the opinion that "a large part of all taxes, however remotely laid, will, by an insensible circulation, come at last to settle upon the land—the source of most of the materials employed in commerce," but that it would be "impracticable" to concentrate all taxes in a single tax upon land. Franklin wrote more forthrightly upon the same subject: "I have not lost any of the principles of political economy you once knew me possessed of—our legislators are all landowners and they are not yet persuaded that all taxes are paid by the land." (Letter to Mr. Small.) In the second place, still replying to Miss Sellers, we must remember that an exact calculation regarding the case of a single proprietor does not necessarily hold regarding the aggregate of proprietors.

Her objection that "land with such natural advantages will bring more rent because the tenant does not have to pay taxes to provide them (a fact which I do not doubt) can be answered with a question: If, contrariwise, heavy taxes are imposed upon the tenant, is there any method by which the latter can pay them except by the landowner's reducing the amount of rent? The rent of the proprietor must necessarily diminish in this case, and thus my contention is proved.

The objection of Mr. P. W. Schwander is that landlords, as such, really pay no taxes at all. "Taxes

must be paid out of production, and landowners are not producers."

This last is true. But assuming that existing laws empower landlords to absorb the whole yield of social production save those parts necessary for wages, interest, and replacement of capital, every tax directly or indirectly diminishes the fund from which they make their withdrawals. In this sense at least we may say that they pay taxes.

PROSTITUTION AND THE WAR

By Philip S. Broughton
Public Affairs Committee, 10c.

This pamphlet was prepared for the Federal Security Agency and reflects the official policy of the government in dealing with prostitution. According to Mr. Broughton, venereal infections constitute a major threat to military efficiency as well as to the civilian war effort.

"In some places," Mr. Broughton admits, "it has been thought that segregation and inspection is the answer. Prostitutes are licensed, by law or by extralegal police tolerance. They are placed in houses or restricted areas. They are made to undergo regular physical examinations, which are supposed to assure their noninfectiousness."

But Uncle Sam doesn't care for this method. In the first place, it doesn't work. Even if medical inspection is conscientiously performed, the task becomes impossible with segregated prostitutes who have from forty to sixty and more customers a day. The political corruption associated with licensed prostitution is apparently inescapable. In the present difficult situation, the army relies upon repression as the only workable method.

Mr. Broughton admits, however, that a basic remedy for prostitution cannot end with repression. He quotes one authority to the effect that "99 per cent of those who become police problems (i.e., prostitutes) come from families that don't have the income to live as American families are supposed to live. Prostitution is seldom a chosen profession."

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