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VOL. 21

JANUARY, 1962

No. 1

Published QUARTERLY in the interest of constructive  
synthesis in the social sciences, under grants from the FRANCIS  
NEILSON FUND and the ROBERT SCHALKENBACH FOUNDATION.

1827

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## Pittsburgh's Pioneering in Scientific Taxation

By PERCY R. WILLIAMS\*

### Preface

PITTSBURGH'S UNIQUE EXPERIMENT with the special taxation of land values has attracted a great deal of attention, especially on the part of students of economics and taxation. Ever since the "graded tax" law was enacted in 1913 there has been much discussion of this subject. Legislation (either enacted or proposed) to extend the principle to other cities and states has served to stimulate inquiry about it.

Until now no one has undertaken to write the whole story of this interesting movement which brought about significant tax reforms in one of America's great industrial cities. The writer of this study has had the opportunity over a long period, both as a citizen and as a tax official of the City of Pittsburgh, to observe closely the operation of the Pittsburgh tax plan and has from time to time written and spoken on this subject. Now in response to a demand for a comprehensive report, rather extensive research has been undertaken to discover the pertinent facts. An historical sketch is included so that the reader may have full knowledge of the economic and political background and of the social conditions and problems that led to this reform.

Because the taxation of land values was first proposed as a means to land reform, special attention has been given to the early land history of Pittsburgh from the days of William Penn. This shows how the great landed estates of this district originated. It also takes note of the tremendous increase in the value of land during the period when Pittsburgh was experiencing its most rapid growth and was becoming a great industrial and commercial center.

Since Pittsburgh succeeded in achieving and retaining a significant step while similar efforts in other American cities and states were unsuccessful, an effort has been made to discover some of the reasons contributing to this success in the early days of the twentieth century. And as legislation was required in each of the steps taken, it was deemed worth while to present a picture of the political conditions and events that produced an atmosphere favorable to such a reform.

While the graded tax law of 1913 stands out as most significant, our examination of the whole situation brings out the fact that there were

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actually four separate acts of the State Legislature that combined to effect a much greater change in the local tax system than the graded tax law alone could have produced. Thus it was necessary to deal with three separate acts of the 1911 Legislature: (1) abolishing the classification system for determining the assessed valuation of real estate; (2) substituting a city-wide real estate tax rate for school purposes in place of the separate ward rates; (3) completely exempting from taxation machinery attached to real estate. These are features that ordinarily have been neglected in the discussion of the Pittsburgh tax plan.

The writer has sought to present the more pertinent facts and figures bearing on this subject, and also the opinions expressed by city officials, editors and civic leaders, leaving to the reader to judge the importance of Pittsburgh's efforts to pioneer in the development of a more scientific municipal tax system.

Despite some exaggerated notions held by both friends and foes, what was undertaken in Pittsburgh was only a moderate tax reform. It involves no very radical change from prevailing practices in municipal government in the United States, since there is now a substantial tax on land (as part of the real estate tax) in most American cities and towns. Nonetheless a great American city has adopted a new principle as the basis of its real estate tax and, in doing so, has pointed the way to those who would go much farther with this principle.

The writer gratefully acknowledges the very valuable editorial and research assistance of Mr. John L. Fryer. Mr. Fryer, a graduate of the London School of Economics and Political Science, is a graduate teaching assistant at the University of Pittsburgh in the Department of Economics and a graduate student in the Department of History. His assistance was made possible by a research grant from the Robert Schalkenbach Foundation.

## I

### Pittsburgh Confronts Its Land Problem

"PITTSBURGH HAS SET THE PACE for all America in her tax system—reducing taxes on improvements and increasing taxes on land values—the greatest single step any American city has taken in city building."

This was the comment in 1916 of Frederic C. Howe, noted author and public official, and a life-long student of municipal problems.<sup>1</sup>

This quotation also indicates the nature of the Pittsburgh experiment

<sup>1</sup> As United States Commissioner of Immigration in a speech before the Pittsburgh Commercial Club on March 15, 1916. Howe was the author of *The Modern City and Its Problems*; *Privilege and Democracy*; *Why War?*; *European Cities at Work*; *The City, the Hope of Democracy*; *Confessions of a Reformer*.

in municipal taxation. The step referred to was not a revolutionary one. But it has attracted the attention of many students of taxation and of economics because it represented a distinct departure from the time-honored practice of imposing either a general property tax or a tax on real estate. Pittsburgh became, as a result of this step, the pioneer city in the United States to adopt a new scientific principle in the formulation of its municipal tax system.

The "graded tax"<sup>2</sup> law, as it was called, inaugurated the special taxation of land values in a great American city as a deliberate public policy, designed not merely to raise needed public revenue, but to achieve certain economic benefits for the community. It is true, in a real sense, that the land tax was nothing new in the United States, for land had been taxed everywhere by local governments. But the taxes so commonly imposed were not levied on land as such; they were actually imposed on real estate (which includes both land and buildings), or in cases where the personal property tax had not been abandoned, as a part of the general property tax (which included both real and personal property). Under the conventional tax system widely followed by local governments, the taxation of land values, though representing a substantial proportion of the total tax, was only incidental. The general theory was that all property should be taxed alike without distinction or classification.

About fifty years ago Pittsburghers became land conscious as well as tax conscious. They had seen a phenomenal increase in land values. Vast fortunes were being built up through speculation in land. Great landed estates were conspicuous examples of land monopoly. The natural development of large urban areas had been greatly hindered by monopolists and speculators.

Civic reformers, social workers and other public-spirited citizens were impressed with the need for action. Surveys conducted by experts strongly indicated that the local tax system had a fundamental relationship to some of the pressing social and economic problems facing the community.<sup>3</sup>

These problems were not peculiar to Pittsburgh, though perhaps some

<sup>2</sup> The name *Graded Tax* conveys the idea of a differential tax rate on the two classifications of real estate, land and buildings (with higher tax rates stipulated for land and lower rates for buildings). It perhaps was also intended to indicate the gradual approach by ten per cent steps by which under the law the contemplated shift from buildings to land was achieved.

The term *Graded Tax* did not appear in the public press in 1913 or prior thereto, but in 1915, when repeat became an issue, all newspaper reports and comments made reference to this term. Available records do not show who invented the term or was the first to use it.

<sup>3</sup> Russell Sage Foundation, *Pittsburgh Survey*, New York, Charities Publishing Committee, 1910, also J. T. Holdsworth, *Report of the Economic Survey of Pittsburgh*, Pittsburgh, 1912.

phases of the situation were more obvious here than elsewhere.<sup>4</sup> Many cities had similar problems. And new problems continue to arise. Though the grave national and international crises of recent years tend to overshadow local issues that were formerly very prominent in the public eye, there is nonetheless a growing realization that our American cities face problems as serious as any they have ever confronted. Not only are the demands for public revenue much greater than ever before. Many of our cities are growing old and are battling against such enemies as slums, blighted business sections and traffic congestion. Decentralization is causing radical changes in the urban picture. Suburban communities are drawing the major share of the increase in population and trade. It appears that our cities must be largely rebuilt if they are to survive and maintain their position.<sup>5</sup> Pittsburgh's experience may suggest that scientific taxation can be very helpful in meeting issues of this nature.

The Pittsburgh plan is designed on very simple principles. A lower tax on buildings tends to encourage builders and thus to expand production. A higher tax on land discourages the holding of valuable land out of use, by making land speculation relatively unprofitable; hence it also serves to stimulate its development. Because the value of land is created by the activities and by the presence of the community, it is held to be fair and just that the greater share of public revenue be derived from this source.

The growth of any community may be said to be primarily a matter of the development of real estate. Cities are built upon land and as land is improved, our cities grow; hence the importance of offering an incentive for the highest and best use of all valuable land. The Pittsburgh plan is in accord with the declaration of Theodore Roosevelt that "the burden of municipal taxation should be so shifted as to put the weight of taxation upon the unearned rise in the value of the land itself, rather than upon the improvements."<sup>6</sup>

Though this quotation from a distinguished American statesman precisely fits the tax pattern followed by Pittsburgh, the idea, of course, did not originate with Theodore Roosevelt. He merely gave his sanction and the prestige of his exalted position as a former President of the United States. It was, indeed, Henry George, an illustrious son of Pennsylvania, who had inspired the movement for the taxation of land values.<sup>7</sup> And as a candidate for Mayor of New York in 1886, George, though failing of

<sup>4</sup> Lincoln Steffens, *The Shame of the Cities*, New York, McClure, Phillips, 1904.

<sup>5</sup> Hal Burton, *The City Fights Back*, New York, Urban Land Institute, 1954, pp. 41, 185.

<sup>6</sup> "The Progressive Party," *Century*, October, 1913. This pronouncement was made within a few months after the enactment of the Pittsburgh graded tax law.

<sup>7</sup> "The tax upon the value of land is the best tax that can be imposed." Henry George, *Progress and Poverty*, New York, Robert Schalkenbach Foundation, 1942, p. 414.

election by a fairly close vote, had the distinction of beating young Roosevelt, the dynamic Republican nominee, at the polls, though both went down to defeat at the hands of the powerful Tammany organization, whose candidate, Abram S. Hewitt, won the office.<sup>8</sup>

But long before *Progress and Poverty* was written by Henry George, the idea of the special taxation of land values had received the endorsement of such famous economists as Adam Smith,<sup>9</sup> John Stuart Mill,<sup>10</sup> and the French Physiocrats.<sup>11</sup> And David Ricardo<sup>12</sup> had proclaimed his "law of rent," which had served to emphasize and dramatize the fundamental nature of the land question and thus, in large measure, to justify the land tax.

## II

### The Early Settlers and the Great Landed Estates

PITTSBURGH RECENTLY MARKED its bicentennial of the founding of Fort Pitt, which occurred in 1758 with the defeat of the French forces by the victorious British.

George Washington probably was the first white person to see Pittsburgh's possibilities. Passing through in 1753, he noted in his journal that the land at the Point where the Allegheny and Monongahela rivers meet to form the Ohio was "extremely well situated for a fort" and that back of it lay "a considerable bottom of flat, well-timbered land, very convenient for building."

Pennsylvania had been given to William Penn, solely and as an individual, by Charles II, King of England, in payment of a debt of about 16,000 pounds owed Penn's father.

<sup>8</sup> The vote for Mayor of New York in 1886 was as follows: Hewitt, 90,552; George, 68,110; Roosevelt, 60,435.

<sup>9</sup> Adam Smith, *Wealth of Nations*, McCulloch edition, 1850, Book 1, ch. 11, p. 115: "Ground rents and the ordinary rent of land are, perhaps, the species of revenue which can best bear to have a peculiar tax imposed upon them. Ground rents, so far as they exceed the ordinary rent of land, are altogether owing to the good government of the sovereign. Nothing can be more reasonable than that a fund which owes its existence to the good government of the state should be taxed peculiarly, or should contribute something more than the greater part of other funds toward the support of that government."

<sup>10</sup> John Stuart Mill, *Political Economy*, 1848, Book 5, ch. 2, sec. 5; also Mill, *Dissertations and Discussions*, Vol. 5, pp. 225-6. Mill urged that "the future increment of rent should be liable to special taxation." Mill was largely instrumental in founding the "Land Tenure Reform Association" which, in 1870, commenced a definite program of propaganda for "the interception by taxation of the future unearned increase of the rent of land."

<sup>11</sup> Higgs, *The Physiocrats*, London, 1897. Also for accounts of the Physiocrats and their doctrine, see Gide and Rist, *Histoire des Doctrines Economiques*, Paris, 1913, Book 1, ch. 1. A cardinal doctrine of the Physiocrats was that of the "impôt unique," a single tax upon land, which was proposed to supplant the complex and burdensome taxes of the "ancien regime."

<sup>12</sup> Ricardo's Works, McCulloch ed., 1871, pp. 375, 378: "In a progressive country," argued Ricardo, . . . "the landlord not only obtains a greater produce, but a larger share." Hence, "the interest of the landlord is always opposed to the interest of every other class in the community."

Though a few hardy pioneers built their cabins almost immediately after the expulsion of the French in 1758, no white man could legally own land in Pittsburgh because it belonged to the Indians. A clear title was not available to any piece of land in Pennsylvania until the Indians had ceded their rights to it in formal treaties. It was not until November 5, 1768, that the Indians sold their lands in the older part of Pittsburgh, and not until January 21, 1785, that they finally relinquished their right to the land on the North Side.

William Penn had died in 1718. His heirs owned and sold Pennsylvania lands in two capacities—as “proprietors” and as private individuals. They usually reserved one acre for every ten acres sold.

A few years after the outbreak of the Revolutionary War, on November 24, 1779, the Legislature passed a “divesting act” by the terms of which the proprietary or public lands of the Penns were taken from them and the title conveyed to the state. They were paid 130,000 pounds for these lands, however, and left in possession of the manors.

The older part of Pittsburgh—the Golden Triangle—was a manor, and the Penns proceeded to have it surveyed, laid out in lots 50 × 240 feet, and sold within a few years after the conclusion of the Revolutionary War.

The land on the North Side was acquired by the state through the divesting act and sold in town lots after a survey made in 1787.

Great fortunes in land had their origin in purchases by several fortunate individuals from the Penn heirs for merely nominal considerations. Several notable Revolutionary War officers, acquired large areas, including some very strategic locations, and in the course of a short time realized a tremendous unearned increment.<sup>13</sup>

The story of General James O'Hara, Pittsburgh's first great real estate operator, is an illustration of the fortunes that may be made through “judicious investment” in land. By acquiring Pittsburgh land, even when it involved some pinching to raise the funds, General O'Hara made millionaires of some of his descendants and enriched many of them down to the present day.

O'Hara acquired several of the most desirable cornerlots in the downtown district, including the future sites of the great Kaufmann department store, and the Frank & Seder store (both at Fifth Avenue and Smithfield Street) and of the Union Trust Building at the corner of Fifth Avenue and Grant Street.

In addition to much downtown property, he purchased from the Penns a large tract extending from the Two Mile Run on the Allegheny River to

<sup>13</sup> *Magical Growth of Pittsburgh Real Estate, 1770 to 1937*, published by the Pittsburgh Real Estate Board, 1937.



the Monongahela River. He bought lots on the North Side and the South Side and in the Allegheny Valley near the present borough of Aspinwall. At the time General O'Hara acquired these lands they were for the most part unproductive and considered of little value. But he had faith in the future of Pittsburgh and his judgment has been amply vindicated.

General O'Hara died and divided his vast holdings equally among his three children, James, Mary and Elizabeth. Elizabeth married Harmar Denny, son of Ebenezer Denny, Pittsburgh's first Mayor.

Mary O'Hara married William Croghan, Jr., and became the mother of Mary E. Croghan, whose elopement at the age of 16 from a fashionable New York boarding school with Captain Edward H. Schenley of the British Army, who was 45 years old and had already been married twice, created a sensation. Mrs. Schenley inherited a large part of the O'Hara holdings.

The Denny estate and the Schenley estate are very familiar names to Pittsburgh. Their holdings bore witness to the prudence shown by General O'Hara when he invested heavily in Pittsburgh land.

Other American Army officers of the Revolutionary War period also were among the big landlords of the early days. The Park Building site, also at the corner of Fifth Avenue and Smithfield Street, a highly desirable location, was sold by the Penn heirs to Major Isaac Craig in 1788 for the sum of 10 pounds, or about \$50. Major Craig was for many years a prominent figure in Pittsburgh and for a while acting commandant at Fort Pitt. He and Stephen Bayard bought from the Penns in 1784 the property between Fort Pitt and the Allegheny River (now in the new Gateway Center redevelopment area).

The present site of the Rosenbaum department store at Sixth Street and Liberty Avenue was sold by the Penn heirs to Captain Nathaniel Irish, another Revolutionary War officer, for 12 pounds, 10 shillings, or about \$62.50. This property has remained in the ownership of Captain Irish's heirs down to this day.

The Oliver Building, at Smithfield Street and Sixth Avenue, stands on part of two lots purchased by Oliver Ormsby on March 7, 1800, for \$170. Ormsby was the son of John Ormsby, who came to Pittsburgh with General Forbes in 1758 and before the Revolutionary War owned most of the land on the South Side between the Smithfield Street bridge and Beck's Run. The adjacent borough of Mount Oliver is named for Oliver Ormsby. Ormsby made a magnificent profit on the Smithfield Street land within a comparatively few years.

Land is the foundation on which most of Pittsburgh's private fortunes were built. With the opening of major lines of transportation and the

development of a great manufacturing center, the value of the early land holdings grew very rapidly.

The beginning of the nineteenth century found Pittsburgh with a permanent population of over a thousand and a large floating population, as the western tide of migration was on its way and Pittsburgh became known as the "Gateway to the West."

Stagecoach lines ran between Philadelphia and Pittsburgh carrying mail and passengers, and a record run was made in four days. The canal system soon replaced the stagecoach and by 1830, Canal Basin, near the present Pennsylvania Railroad station, was a busy center of trade and travel.

In 1859 the first oil well was drilled in western Pennsylvania and the first railroad line put in operation, creating a new industry and great wealth for Pittsburgh. The Pennsylvania Railroad completed its line from Philadelphia to Pittsburgh in 1852 and in 1871 the Baltimore & Ohio Railroad had brought its line through from Baltimore.

At first Pittsburgh's great industry was not steel or iron but glass. General O'Hara had begun making glass in 1795.

Jones, Lauth & Company, predecessor of the great Jones & Laughlin Steel Corporation, was founded in 1862 with B. F. Jones as head of the firm.

After 1860 the well established industries were greatly enlarged and many new enterprises started. Among the great captains of industry were Andrew Carnegie, Henry C. Frick, Henry J. Heinz and George Westinghouse. Andrew Carnegie, as a boy of 13, came to Pittsburgh from Scotland in 1848, and made his home just across the river in old Allegheny City. In 1889 the Carnegie Steel concern was formed, with Henry C. Frick as Carnegie's operating manager.

Pittsburgh became known the world over as a great steel center. The city grew in population and annexations greatly increased its boundaries.

Pittsburgh was incorporated as a borough in 1794. It became a city in 1816. In 1874 the Pennsylvania Legislature passed the Wallace Act, dividing cities into three classes, and Pittsburgh was at that time the only city of the second class.

### III

#### *Revolt Against the Political Machine*

THE ACHIEVEMENT of the graded tax is not directly related to any political revolution nor to any particular municipal campaign. But it was a manifestation of political action. It was facilitated by a civic awakening and by the growth of popular interest in social and economic problems. Civic and social reform were in the atmosphere of Pittsburgh in the years immediately preceding the adoption of tax reform.

Ever since the Civil War, Pennsylvania had been a Republican stronghold. United States Senator Matthew Stanley Quay had ruled the state with a rod of iron for a long period. At his death in 1904, Boies Penrose, of Philadelphia, succeeded to his seat in the Senate and to his power as state G.O.P. boss.

Pittsburgh had for many years been dominated by a Republican machine operated by Christopher Lyman Magee and William Flinn. For more than two full generations, almost without a break, the city had been in the grip of what has been described by the author of Pittsburgh's bicentennial history<sup>14</sup> as "the most cold-blooded and vicious political ring that ever ruled an American city."

Lincoln Steffens, who surveyed Pittsburgh in 1903, painted a vivid picture of the Magee-Flinn political machine and its alliance with the big private monopolies and privileged interests of those days.<sup>15</sup> Frederic C. Howe, who was a native of Western Pennsylvania, also was highly critical of the state organization.<sup>16</sup>

Christopher Lyman Magee was a popular politician, beloved, gracious, handsome and by many revered almost as a saint, even by some who criticized his machine. Perhaps it was his magnetic personality that completely lulled asleep those who should have been quickest to recognize his methods.

C. L. Magee was elected to city council in 1864 and to the office of city treasurer in 1871. He then retired from public office and drew up an ambitious plan which involved control of the politics of Pittsburgh and Allegheny County and devoted himself to its realization. An advantageous political alliance in 1879 with William Flinn, a public contractor, materially added to his power, which was further increased when in 1882 Flinn became chairman of the city Republican executive committee, a position which he held continuously for twenty years.

Magee next proceeded to safeguard the permanence of his position by firmly entrenching himself with the Pittsburgh business interests, banks and public utilities, constantly making friends and supporters in return for deposits of public funds, franchises and other favors. Magee became the political agent of the Pennsylvania Railroad, which at that time exerted a powerful influence in state politics and legislation. He was twice elected to the State Senate.

<sup>14</sup> George Sweinam, *Bicentennial History of Pittsburgh and Allegheny County*, Historical Record Association, Pittsburgh, Pa., 1956, Vol. 1.

<sup>15</sup> Lincoln Steffens, "Pittsburgh: A City Ashamed," *The Shame of the Cities*, New York, McClure, Phillips, 1904, pp. 147-89.

<sup>16</sup> Frederic C. Howe, *Confessions of a Reformer*, New York, Charles Scribner's Sons, 1925, pp. 70-3.

Senator Magee owned considerable real estate, a daily newspaper, the *Pittsburgh Times*, and stock in more than fifty enterprises. He served as director of fifteen banks, insurance companies and traction lines, and as president of the thirty-million-dollar Consolidated Traction Company. He left an estate appraised at more than four million dollars.

In spite of some friction with Matthew Stanley Quay, then boss of the state, Magee and Flinn controlled the politics of Pittsburgh and Allegheny County with scarcely a break from 1882 to 1899. In the latter year Magee's health began seriously to fail and a bitter fight with Quay developed over the award of public contracts. In 1903, two years after Magee's death, the Magee-Flinn machine began to disintegrate.

As early as 1895 independent citizens had organized to combat the machine through court action and by the nomination of independent candidates for office. These efforts at times attracted strong popular support. The Municipal League, led by Oliver McClintock, a prominent merchant, began a fight for civic reform. This uprising culminated in 1906 in the election as Mayor of George W. Guthrie, a prominent Democrat with strong independent support. Guthrie had long been active in the fight for better government and had come extremely close to being elected to the same office in 1896 as the nominee of the Municipal League.

The political overturn, however, did not bring into city councils an independent majority which was needed to support fully the administration's policies. The need for further reform in government soon became evident. Serious graft scandals in the city councils in connection with public franchises and contracts were uncovered before Mayor Guthrie retired.<sup>17</sup> This soon led to a popular demand for a more modern and efficient type of legislative body for the city and eventually the entire councilmanic bodies as then existed were "ripped" out of office by the Legislature.

Guthrie was the first Mayor of "Greater Pittsburgh," being in office at the time of the consolidation of the two cities, Pittsburgh and Allegheny,<sup>18</sup> which were contiguous except that the Allegheny River ran between them. Later he served by appointment of President Woodrow Wilson as Ambassador to Japan. During the Guthrie administration the tax reform movement actually got under way, though all of the legislative acts directly related to it were obtained during the term of his successor.

<sup>17</sup> The Voters' Civic League, headed by A. Leo Weil, a prominent attorney, hired detectives who, after months of quiet investigation, had accumulated a mass of evidence for the grand jury. No less than sixty of the persons named in the seventy-nine indictments pleaded *nolo contendere*. More than twenty served terms in the county jail or penitentiary.

<sup>18</sup> The people of the two cities voted on annexation June 12, 1906. On June 16, 1906, the court declared Pittsburgh and Allegheny to be legally consolidated as "The City of Pittsburgh." The city councils were consolidated and the Mayor of Allegheny became deputy mayor of the greater city until the expiration of his term.

At that time the Mayor was elected only for three years and the chief executive was not legally eligible to succeed himself. Mayor Guthrie joined with the civic reformers in launching the Civic Party for the campaign of 1909 in support of William H. Stevenson, then an independent Republican member of Council. But the regular Democratic organization did not join in this movement. The campaign for Stevenson was not successful. Before he retired from office, however, Mayor Guthrie created the Pittsburgh Civic Commission as a semi-official body and appointed its original members. This group was to play a very important part in the civic life of the community in the years immediately ahead.

The year 1909 also brought William A. Magee, an able young lawyer, to the forefront. As the regular Republican nominee, he was elected Mayor and he continued to be very prominent and influential in the life of the community until his death in 1938. He was to serve two full terms of four years as Mayor and later a term as a member of City Council. William A. Magee was a nephew of Christopher Lyman Magee and succeeded him as State Senator but did not inherit either his fortune or his political organization; the remnants of his machine had been rooted out by Mayor Guthrie and the independents. But the younger Magee had already been recognized as a skillful politician and had assumed a prominent place in the local Republican party. He had been an unsuccessful candidate for the Republican mayoralty nomination in 1906 but had made a rather brilliant canvass. The Republican nominee who had won over Magee, however, had gone down to defeat by Guthrie. Then in the fall of 1906, Magee had been elected unanimously to be chairman of the Republican County Committee. Interested in politics even before he cast his first vote, he had very early won election to city council and had served a short while. It soon became evident that he was not only well versed in politics but was also a keen student of municipal problems.

#### IV

##### *A Practical Politician Embraces Civic Reform*

THE CIVIC REFORMERS generally were at that time very critical of Magee. They had opposed his election largely because of his political associations. During the first year of his administration, they were very skeptical as to the prospects for civic betterment. But the citizens were very alert in those days. Civic reforms of various types were vigorously promoted by various nonpartisan civic bodies who sought to bring good influences to bear both in the city government and at Harrisburg, where the laws of the state were written, there being no municipal home rule yet.

Almost at once a popular campaign was launched in support of an im-

proved form of city government. It received much publicity and considerable editorial support from the daily press, though opinions differed somewhat as to the detailed provisions of a model charter. The commission form of government was being adopted in a number of cities throughout the country and the city manager idea was being introduced in some cities. The municipal experts in Pittsburgh preferred to retain the Mayor and council form but with certain important changes from the old system. The chief feature was the proposed election at large of a small council of nine members. This would replace the old select and common councils which were made up of citizens serving without compensation and elected to represent the various wards of the city; as there were 45 wards, the membership of the two bodies was well over 100.

Other proposed features were a non-partisan ballot, with an elimination primary preceding the general election, the initiative, referendum and recall. Such reforms were quite popular at that time, particularly with progressive elements in all of the political parties. But they had not been adopted by the state legislature.

The public was thoroughly aroused as to the need for some change in local government. The movement was well organized and directed to obtain a maximum of cooperation by the various groups. It was strongly supported by the Civic Commission, the Chamber of Commerce and the Allied Boards of Trade. The chairman of the new charter committee was Thomas J. Keenan, a former newspaper publisher and a man well qualified to lead such a campaign, both in Pittsburgh and at Harrisburg.

After considerable agitation, discussion and various counter proposals, the 1911 legislature arrived at a compromise and enacted a new charter for Pittsburgh.<sup>19</sup> It provided for a new council of nine members who were to receive substantial salaries so as to attract men of ability. But the act, as amended, authorized Governor John K. Tener to appoint the original members, who would take office immediately to replace the old bicameral body, but stand for nomination and election in the fall primaries and general election, the prevailing party ballot system to be continued. The new council was organized with the acclaim of the public and consisted of John M. Goehring (President), E. V. Babcock, David P. Black, A. J. Kelly, William H. Hoeveler, Dr. James P. Kerr, Enoch Rauh, William G. Wilkins, and Dr. Samuel S. Woodborn, none of whom had previously been identified with organized politics. Two of the new councilmen, Black and Kelly, both prominent real estate men, resigned within a few weeks for personal reasons and Robert Garland and Peter J. McArdle were elected by council to replace them.

<sup>19</sup> *Pennsylvania Laws, 1911*, pp. 461-7, approved by Governor John K. Tener, May 31, 1911.

The nine Councilmen then submitted their candidacies to the people. They decided to enter the primaries of all three of the local political parties and thus appeal for nonpartisan or multi-party support. They easily won the nomination of the Republican, Democratic and Keystone parties, the latter an independent third party which for a time had a strong following. So the new council was elected for a regular term of office with only negligible opposition, a unique happening in the political life of Pittsburgh. The civic reformers had won a significant battle, though it was not regarded as a complete victory and the charter committee declared its intention to seek further legislation.

Meanwhile Mayor Magee, who took no part in the charter campaign, was busy promoting some ideas of his own for the improvement of the municipal government, among other things obtaining legislative approval for a new Department of City Planning. Magee indicated an early interest in tax reform and was very receptive to proposals then being advanced, particularly for legislation intended to make possible the equalization of real estate assessments.

Influential voices had been raised for tax reform, with special emphasis upon the taxation of land values. The issue of discrimination in favor of the owners of valuable land in fixing assessed valuations had been raised as early as 1872, when Henry W. Oliver, then President of common council, referred very pointedly in a public speech to "the great landholders and speculators, and the great estates which have been like a nightmare on the progress of the city for the last thirty years."<sup>20</sup>

The issue of assessment reform finally crystallized when the Russell Sage Foundation made its famous *Pittsburgh Survey*, which had been begun in the closing days of the Guthrie administration but was finally completed and published in 1910. In a detailed report written by Shelby M. Harrison, Director of Surveys,<sup>21</sup> it was pointed out that the old classification system in vogue in Pittsburgh since 1876 (and even earlier in a slightly different form) had "enabled big real estate holdings to get out from under the full share of their local responsibilities."

Pittsburgh had indeed employed a most peculiar method of taxing real estate. Real estate within the city had been classified as "urban," "rural" and "agricultural," assessed respectively at full rate, two-thirds rate, and half rate in fixing the assessed valuation for tax purposes. This unjust system placed a premium upon the speculative holding of under-improved or vacant land, conveniently classified as "rural" or "agricultural."

<sup>20</sup> Henry Oliver Evans, *Iron Pioneer, Henry W. Oliver*, New York, Dutton, 1942, pp. 65-6.

<sup>21</sup> *Civic Frontage: The Pittsburgh Survey*, "The Disproportion of Taxation in Pittsburgh," pp. 156-213; 455-68.

Harrison's report pointed out that "for a generation Pittsburgh had been entangled with a taxation scheme which, because of discriminations, made it easy for individuals and estates to hold great areas of underimproved land, but which, on the other hand, went gunning for the man who bought and improved a small tract, and leveled at him what was in effect a double tax rate. The first was rewarded for doing nothing further than holding the land while the community grew and made it valuable, but the second was penalized for doing something which directly increased not only his own but all land values."

In 1910 real estate to the value of \$212,900,000, or 28 per cent of the total, was classed in the rural and agricultural groups and paid only two-thirds or less of the current rate of the wards where located. The land classified as agricultural was in reality held by wealthy individuals or estates for the rise in values, and this was the class of real estate which paid only one-half of the tax rate. Its owners were "such persons as were particularly able to pay taxes in the support of government."

## V

### The Progressive Laws of 1911

A BILL WAS DRAFTED to abolish the classification system which had been originally created by an act of the legislature. This measure received hearty support from the Civic Commission, the Chamber of Commerce, the Pittsburgh Board of Trade and other civic bodies. The City Board of Assessors had cooperated in the survey of assessments. Mayor Magee gave the bill strong support. It was enacted into law<sup>22</sup> without much of a battle at Harrisburg in view of the evidence of favorable public sentiment. This significant step was of greater importance than is generally realized for it gave great impetus to the tax reform movement.

But this was not the only important step taken at the 1911 legislative session. Mayor Magee sponsored a bill to abolish city taxes on machinery attached to real estate, which tended to concentrate more taxation upon land values. This measure, of course, was favored by Pittsburgh industries, both large and small. It became a law without serious opposition.<sup>23</sup>

At the same time great interest had developed in the idea of bringing about a more efficient administration of the public school system. In line with the reform in city government, it was decided to propose abolishing the various local school boards which had been elected by wards. They

<sup>22</sup> *Pennsylvania Laws, 1911*, p. 273, approved by Governor John K. Tener, May 11, 1911.

<sup>23</sup> *Pennsylvania Laws, 1911*, pp. 287-88, approved by Governor John K. Tener, May 12, 1911.



would be replaced by a Board of Public Education having jurisdiction over the area of the entire city. And with a view to a non-political administration of the schools, the members of the board, who would serve without compensation, were to be elected by the Board of Judges of the Court of Common Pleas. This measure also met with a friendly reception at Harrisburg and the bill was enacted into law<sup>24</sup> with no important amendments. While the new school code, as it was called, was not advanced as a tax reform measure, it also had an important effect on the local tax situation because taxes would now be levied on a uniform basis throughout the city (instead of each ward having its own individual school tax rate). This meant that the more valuable real estate, wherever located, would contribute a larger share to the total cost of operating the schools of the entire city. This phase of the tax situation had not been overlooked in the tax study made by the specialists who conducted the Russell Sage Foundation survey. The tendency would be for the owners of the most valuable land to contribute a larger share than heretofore.

The legislation thus obtained by Pittsburghers at the 1911 session had represented a great step forward. The "progressive movement" was strong in those days and was evidently having its effect on the lawmakers regardless of political affiliation. The way was paved for the launching of the graded tax movement.

Just how the name "graded tax" first came into use is not entirely clear. It was not used when the plan was first advanced but appears to have been adopted as an appropriate designation within a few years thereafter.

The honor of being the first organization publicly to sponsor the graded tax plan must go to the Keystone Party of Allegheny County. This "third party" had been organized in 1910 in a political emergency, when independent and progressive citizens throughout the state were aroused to action. An outstanding figure was William H. Berry (a single taxer) who had been elected State Treasurer by the Democrats in 1905 and had exposed very extensive graft in connection with the erection about that time of the new state capitol building at Harrisburg. He was being strongly urged as the logical Democratic nominee to oppose the nominee of the Penrose Republican machine, John K. Tener.

But the Democratic state convention had also been boss-controlled and was suspected of being under Penrose influence. Berry failed to receive the nomination of his party. As a storm of protest arose, the Keystone Party was organized by independent Democrats and Republicans. The new party, with the handicap of divided opposition to the Tener candidacy, was unable

<sup>24</sup> *Pennsylvania Laws, 1911*, pp. 309-461, approved by Governor John K. Tener, May 18, 1911.

to overthrow the state machine.<sup>25</sup> But it aroused great enthusiasm and came very close to sweeping the state. Encouraged by this measure of success, it was decided to continue the independent party for the local election of 1911.

In Pittsburgh and Allegheny County the new party attracted the support of a number of strong independent leaders, many of whom later held important public offices, though the party was not sufficiently strong to elect its local ticket in 1911. Nonetheless it had made a good fight and developed new political leadership for future civic battles. The county chairman at that time was J. Garfield Houston, a young lawyer who some years later served as President of the Board of Public Education. Others prominent in the leadership were William N. McNair, Cornelius D. Scully and John S. Herron (each of whom later served as Mayor of Pittsburgh after becoming prominent in the affairs of their respective major parties), Ward Bonsall, William D. George, John M. Henry, Jonathan W. Freeman, Bernard B. McGinnis, Wayne Paulin, George J. Shaffer, Carl D. Smith and Harry H. Willock. Most of these young leaders were active single taxers. This was the cause from which they derived their chief inspiration and to them, politics was a means to an end, rather than an end in itself.

The Keystone Party platform of 1911 put the party on record in favor of a new idea in municipal taxation. According to the *Pittsburgh Leader* (a former daily newspaper) of July 22, 1911, William E. Schoyer was chairman of the platform committee and Ralph E. Smith drafted the section dealing with municipal taxation. This was by no means the only plank or even the major plank in its platform, but it has an historic significance:

"We believe that the unduly high price of land in this county, causing high rents for both factory and home, is the greatest obstacle in the development of diversified industries in this district. These high prices are due largely to the speculation in land by which a few individuals appropriate to themselves the values resulting solely from the growth of the community.

"In order to remedy this, we would greatly relieve the improvements on land from taxation, and to this end, we favor the reduction of assessments on such improvements at the rate of ten per cent a year for a period of five years, thereby reducing taxes on all improved real estate and somewhat increasing them on land held out of use. Such a policy would tend to reduce rents and to cause the improving of unused land to the great benefit of all the people."<sup>26</sup>

But the graded tax plan was chiefly promoted by non-partisan civic organ-

<sup>25</sup> Popular vote for Governor of Pennsylvania, 1910: John K. Tener, Republican 415,614; William H. Berry, Keystone, 382,127; Webster Grim, Democratic, 129,395. Tener had a plurality but not a majority.

<sup>26</sup> Adopted July 22, 1911, as reported in *The Saturday Critic*, July 1911.

izations. It was, in fact, never made a prominent partisan political issue. That it had been first endorsed by the Keystone Party was not long remembered. The new party vanished from the scene within a few months after the city and county campaign of 1911, having succeeded only in electing one of its judicial candidates. When in 1912 the followers of Woodrow Wilson won in the Democratic primaries in Pennsylvania, and the followers of Theodore Roosevelt won in the Republican primaries, the demand for a third progressive party ceased to exist, and the individual "Keystoners" returned to their former party allegiances or made new affiliations according to their preferences. (Though William Howard Taft, running for re-election, won the Republican nomination for President in 1912, he lost to Roosevelt in Pennsylvania.)

Thus the position of the progressives in both major parties was considerably strengthened, and even the more conservative public officials who might be classified as regular Taft Republicans (such as Governor Tener and Mayor Magee) felt the influence of the progressive trend of the times.

The Keystone Party had brought together for effective team work a remarkable group of young, aggressive leaders and workers. Many of them were ardent advocates of the taxation of land values, though there was also much interest in other comparatively new ideas such as the more direct rule of the people through the initiative, referendum and recall.

## VI

### *Civic Commission Proposes Graded Tax Law*

HOWEVER, IT WAS the Pittsburgh Civic Commission that brought the graded tax plan directly before the city officials and the general public as a specific project in its program of civic betterment. The commission was an unusual type of civic organization. While it had an official origin (its members originally were appointed by Mayor George W. Guthrie), it was supported entirely by contributions of private citizens and sought to enlist the interest and support of all public-spirited citizens in behalf of a broad program including such projects as city charter reform to modify the form of municipal government, city planning for major public improvements, and municipal tax reform. It was, of course, an independent group not associated with any political party. The members of the commission served without compensation but employed assistants to plan and conduct activities. It consisted of H. D. W. English, president; H. J. Heinz, John W. Beatty, T. E. Billquist, Charles F. Chubb, William L. Jones, James W. Kinnear, Morris Knowles, H. L. Kreusler, Joseph W. Marsh, Marcus Rauh, George R. Wallace and Charles F. Weller. Allen T. Burns was its able and aggressive secretary.

In January 1912, the Civic Commission, after a careful study of the municipal tax system with special relation to the housing problem, adopted and published a report prepared by its housing committee, proposing specific legislation under the title *Tax Revision to Promote Pittsburgh's Progress*.<sup>27</sup>

It recommended that the tax rate on all buildings should be fixed at only 50 per cent of the rate on land. It suggested that "in order to allow adjustment of investments and prevent hardships," this change should be spread over five years, beginning with a 10 per cent reduction in the building rate the first year, and with further 10 per cent steps each succeeding year until the 50 per cent ratio would be reached. Actually the law as passed was more gradual in its application, providing for reductions of 10 per cent every third year, corresponding with the triennial assessment years, so that twelve years was required to bring about the full change.

In its report the Commission stressed the results of a survey which showed that land prices were extraordinarily high in Pittsburgh at that time and were, in fact, second only to those found in New York. "Industries will be slow to locate in Pittsburgh if rents or prices of land are higher than in other cities," the report stated.

It also pointed out that a few individuals and families had owned large tracts and that some owners, by making ground leases or by improving to a very small extent, had received sufficient income to enable them to hold their land for increases in value due to the city's rapid growth.

For several generations two families had owned land the assessed valuation of which then amounted to 2.6 per cent of the entire assessed valuation of the land in the city. Five families possessed land assessed for 7.4 per cent of all the assessed land values in the city, but their assessed building values were only 36 per cent of their land values.

Continuing, the report said: "A few individuals have been enabled by circumstances to place and hold land prices at a figure which prevents the profitable use of the land by others. Can this paralyzing grip on Pittsburgh's growth be broken? We recommend twice as heavy a tax on land values as on building values as the remedy. This means to place a penalty on holding vacant or inadequately improved land and to offer special inducements and premiums for improving land."

The legislature was to assemble again in January, 1913, following the state and national elections in November, 1912, and no time was lost in seeking the support necessary to obtain the desired legislation.

Single taxers had initiated several years before a movement for the taxa-

<sup>27</sup> Pittsburgh Civic Commission, *Civic Bulletin*, January, 1912; also *An Act to Promote Pittsburgh's Progress*, published by Pittsburgh Civic Commission in 1913.

tion of land values through a rather intensive effort. Pittsburgh had quite a substantial group who, in the earlier days, had been members of the Single Tax Club and later were affiliated with the Henry George Club or with the Henry George Foundation of America, chartered in 1926, with its headquarters in Pittsburgh.

Many of them were politically-minded and eager to see some steps taken toward practical application of "Georgist" principles. Being active in civic and political affairs and enthusiastic for social reform, they were inclined to seize every opportunity to advance their ideas. Most of them affiliated with the Democratic party, then very decidedly the minority, where they gained quick recognition. Their leaders were frequently nominated for important political offices and sometimes elected or appointed to such offices.

Among those most prominent in the political field were McNair and Scully, George E. Evans and Walter R. Demmler (who later served as City Councilmen) and Bernard B. McGinnis (later State Senator and Democratic County Chairman).

The single taxers were a minority group (and a rather small minority). Hence they could not hope to win without making allies. They conceived the idea of inducing the Boards of Trade, Chamber of Commerce, the Hungry Club, and other civic organizations to listen to single tax lecturers, such as John Z. White, Herbert S. Bigelow, Henry George, Jr., Frederic C. Howe, Louis F. Post, Joseph Fels and Peter Witt.

Lawson Purdy, then President of the New York City Tax Department, was also among the speakers who came to Pittsburgh about that time. *The Survey*, of July 5, 1913, states that it was Benjamin C. Marsh, secretary of the New York Congestion Committee, who first placed before the Pittsburgh people the possibility of a specific rate-change in the real estate tax. He did so at the civic exhibit held at the Carnegie Institute in the fall of 1908.

Harry H. Willock, an industrialist, and William D. George, a real estate man, were probably the most influential as members of the Pittsburgh Civic Commission's Committee on Housing and signers of the original report advocating the new tax plan. Both had frequent contacts with Mayor Magee before and during the legislative session. It was George who, with the assistance of Attorney Marcus W. Acheson, drafted the original graded tax bill and obtained the Mayor's approval.

Mayor Magee had not previously been identified in any way with the land tax movement<sup>28</sup> though, as mentioned, he had actively sponsored the

<sup>28</sup> In an address on September 26, 1924, before the Henry George Club of Pittsburgh on the "Progress of Tax Reform in Pittsburgh," Mayor Magee said: "I am principally

act to equalize the assessed valuations of real estate and also the act to exempt machinery from taxation, both adopted in 1911. Magee was then in a receptive mood for further tax reform. But before finally committing himself to the plan, he sent a special investigator, Thomas C. McMahon, a member of the board of assessors, to visit municipalities in western Canada where similar tax systems had been in operation and were attracting favorable attention.<sup>29</sup> The City of Vancouver had entirely exempted buildings from taxation by gradual steps over a period of fifteen years. That community was enjoying a remarkable building boom, conditions were very prosperous, and the city was receiving ample revenue under its new tax plan.

Mayor L. D. Taylor of Vancouver came to Pittsburgh about this time to address the Oakland Board of Trade and gave a first-hand report which was decidedly in favor of shifting the tax burden from improvements to land values. Mayor Magee then gave his endorsement to the proposed law and ever thereafter was a consistent supporter of the graded tax plan, bringing to its support many of those who were closely associated with him in political life.

The graded tax bill was introduced in the legislature on February 26, 1913, by Representative Abram C. Stein, Republican, of Pittsburgh, and promptly referred to the Judiciary General Committee for consideration. The committee made a favorable report. Meanwhile the bill was approved by a caucus of the Allegheny County delegation. It received strong support from the members of both political parties. The Republican Party was at the time in full control of both houses of the legislature. The bill was passed in the House<sup>30</sup> on April 9, 1913, by a vote of 113 to 5. It passed in the State Senate<sup>31</sup> on April 30, 1913, by a vote of 40 to 0.

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interested in two things regarding taxation: the progress of the graded tax law and the problem of assessments for public works. Both concern the unearned increment, the profit of land owner who becomes rich through growth of the community without effort on his own part. I am frankly opposed to him. I can say that without becoming a single taxer. We owe Henry George a great debt for having exposed him for what he is, a parasite upon the body politic."

<sup>29</sup> Robert M. Haig, *The Exemption of Improvements from Taxation in Canada and the United States*, 1915, pp. 170-1 (a report prepared for the Committee on Taxation of the City of New York).

<sup>30</sup> *Pennsylvania Legislative Journal*, 1913, Vol. 2, pp. 1635-36.

<sup>31</sup> *Pennsylvania Legislative Journal*, 1913, Vol. 2, p. 2453.

(Continued)