

HENRY GEORGE AND URBAN RENEWAL IN PENNSYLVANIA

STEVEN CORD

A native Pennsylvanian, Henry George, achieved the first rank of international prominence in the 1880's and vitally affected the development of American democratic thought. His proposal for social improvement, the heavier taxation of land values, has been successfully applied in many parts of the world, including Pennsylvania, and has recently received much attention from numerous urban tax experts who regard it as one important but overlooked approach to urban renewal today.

A research monograph recently published by the Urban Land Institute states that "to exempt improvements and at the same time to tax land more heavily would provide a double incentive to the owners of derelict buildings to demolish them and to use the land more intensively. Here surely is a golden key to urban renewal, to the automatic regeneration of the city — and not at public expense."¹

Arthur Krock of the *New York Times* has pointed out that because local municipalities have neglected to tax land values, the only outstanding tax source still available to them, they have not been able to provide the necessary services to their residents. Consequently, they have been forced into a growing reliance upon the Federal government.²

Other endorsers of a heavier tax on land values have been Walter Heller, the National Association of Housing and Redevelopment Officials, and such magazines as *House & Home*, *Practical Builder*, *American City*, *Nation's Cities*, and *Fortune*. U.S. Commissioner of Education Howard Howe II advocates the land tax as a means both of improving city land use and finding a new source of revenue for the schools.³ Many other prominent endorsers can be cited. To be sure,

Dr. Cord is Professor of History at the Indiana University of Pennsylvania, Indiana, Pennsylvania.—Editor

1 Mary Rawson, "Property Taxation and Urban Development," Urban Land Institute Research Monograph No. 4, 7.

2 Arthur Krock, *New York Times*, March 17, 1961, editorial page.

3 *Henry George News*, September 1967, 14, quoting Howe's remarks at a conference on Urban School Planning at Stanford University on July 10, 1967.

they are not endorsing a *single* tax on land values, as did Henry George, but they have borrowed George's arguments for a heavier tax on land values.

If George's tax ideas have received so much favorable comment, how is it that they have not been more widely adopted? This question naturally springs to mind, and for the answer we must look to history.

George began life on September 2, 1839, in a little two-story brick house on South Tenth Street in Philadelphia, within the shadow of Independence Hall. The house still stands, being actively used as a school, residence and museum.

George's grandfathers were successful entrepreneurs, as was George's father for a time. The latter gentleman published Sunday School texts and other books for the Episcopal Church, a business which was flourishing at Henry's birth, but by the time Henry was nine his father was suffering so from the competition of the larger general book houses which were just then beginning to enter the religious publishing field, that he closed the business and became a clerk in the Philadelphia customs house at a modest salary.

George was the eldest son in a family of eleven children. His parents were devout church-goers and the Bible was Henry's frequent companion in his youth. No doubt its measured phrases echoed in the eloquent prose of George's later years. In his home and neighborhood, George first imbibed the Jacksonian principles of individualism, equality of opportunity and opposition to special privilege and monopoly which were to be the cornerstones of his thinking for the rest of his life.

Although a devoted and dutiful son, the young George was willful to the point of obstinacy and found the restrictions of his religious home and school to be too confining. So at the age of thirteen, he ended his formal schooling and signed on as an apprentice seaman aboard the *Hindoo*, a merchant ship with a load of lumber bound for India. At the end of a year he was home again, but soon he was off to California aboard another ship, there to make his home for the next twenty-two years.

By this time the personality of the man was set. Although he cut short his own formal education, he was an assiduous reader throughout his life; he read both widely and well, so well that he could have had the first professorship in political economy at the University of California if he had actively sought the position. He had a strong streak of argumentativeness and independence, which cost him many a job because of quarrels with his employers. Yet he was a warm friend

and could easily transmit his own idealism, optimism and boundless enthusiasm to others, either personally or as an orator and writer. Despite many reverses, he never lost that self-esteem and self-confidence which could make him — and others — think that he was the prophet of a New Dispensation, leading a new Secular Revival.

The facts of his adult life are well known: years of poverty occasionally bordering on starvation, a happy marriage, sporadic employment as a typesetter and then later as a newspaper reporter and editor. Then, in 1871, at the age of thirty-two, George became a co-owner of the *San Francisco Post*, which flourished for awhile, but with characteristic excess of optimism, George overextended his credit and in 1875 was ousted from control of a sizable enterprise with hardly a penny to show for his four years of financial success.

Being well connected in the Democratic Party in California, he was able to obtain the sinecure of state inspector of gas meters, a job which allowed him enough free time to write his masterwork, *Progress and Poverty*, which was published by Appleton & Co. in 1879. The book moved slowly at first, but within a year it began to sell wildly, helped along by E. L. Youmans, George's friend and editor of the prominent *Popular Science Monthly*, by a series of articles George wrote for other magazines, and by the relevance of his ideas to the Irish agitation, the leading issue of the day. Soon his name and ideas were mentioned everywhere, and his trips to the British Isles, studded with passionate orations, further popularized his ideas during the 1880's. *Progress and Poverty* sold into the millions and covered the world. In 1886, George was almost elected mayor of New York with workingman support, beating the Republican candidate, a young man named Theodore Roosevelt; however, he was edged out by the candidate of Tammany Hall, which was counting the ballots.

The 1880's saw George spreading the gospel with great success in Australia and New Zealand. Today, most localities in those countries are meeting their governmental expenses almost entirely by a single tax on land values.

His extensive travels took him to Johnstown, Pennsylvania, in 1893, a year in which a severe constriction of the currency had taken place. He was told by the president of a rail manufacturing concern there (Arthur J. Moxham) that, although he could get plenty of orders for rails, he could get no money in payment. George suggested that the bonds of the street railroad companies ordering rails should be taken in payment of their orders, and that certificates to be used as money be issued against them. This was done, and the employees

and townspeople were prevailed upon to accept these certificates in lieu of money. The company prospered during this period and unemployment was avoided; eventually the certificates were drawn in and redeemed. "Mr. George regarded this as an illustration of what the United States Government could do to clear up the currency difficulties — issue from its own treasury a paper currency, based upon its credit and interchangeable with its bonds."⁴ This presaged Keynesian economics, but unfortunately George did not develop this line of reasoning any further.

In 1897, deliberately disregarding doctor's orders, George risked martyrdom by plunging energetically into another New York mayoralty campaign; he died two weeks prior to the election. The tax movement he inspired continues to this day. It has primarily a middle class appeal and its principal activity is educational: the Henry George Schools number their graduates around the two hundred thousand mark.

Henry George aroused the social conscience of his time and converted Mugwumps into Progressive reformers. He was instrumental in making Americans realize that the twin problems of poverty and depressions had to be solved — could no longer be brushed aside — and that the most likely agent for solving these problems was the government. His eloquent statement on social justice and the rights of man inspired innumerable reformers into action. Literally dozens of Progressive Era leaders testified that they were first jarred out of complacency upon reading *Progress and Poverty* in their youth.

In my own recently published book, *Henry George: Dreamer or Realist?* (Philadelphia: University of Pennsylvania Press, 1965), I attempted to document the case that although George expounded his ideas with clarity and consistency, they have not been clearly understood by many American historians and economists down to this day. Many misconceptions abound, particularly in textbooks. He was frequently accused, for instance, of being a land nationalist—that is, of advocating government ownership of land—in part because the British land nationalists sponsored one of his speaking tours and also because in one place in *Progress and Poverty* George described his remedy as the reduction of land to common property. However, he repeatedly emphasized later on in the same book that the best means of applying this remedy involved not the state ownership of land — this was needless and dangerous, he said — but the taxation of land values, thus

⁴ Henry George, Jr., *The Life of Henry George* (New York: Robert Schalkenbach Foundation, 1900), 558.

leaving the title to land in private hands.⁵ Slipshod summarizers might easily miss this vital distinction. And in his book, *A Perplexed Philosopher* (1892), he wrote: "I am not even a land nationalizationist, as the English and German and Australian nationalizationists well know. I have never advocated the taking of land by the state or the holding of land by the state, further than needed for public use; still less the working of land by the state."⁶

Many other American historians and economists have believed that George was a socialist, no doubt misled by his early working-class support, his virulent denunciation of the conservatism of his time, and the warm reception he received in socialist circles. But he was very much the individualist, wanting to free capital and labor from taxation and special privilege. Karl Marx recognized this and called the single tax the last-ditch defense of capitalism (George called Marx "the prince of muddleheads").⁷ George consistently berated socialism throughout his life.

An often-heard criticism is that the land value tax is impossible to administer, but this cannot be because the tax is being administered in Australia, New Zealand, Denmark, Hawaii and Pittsburgh as well as elsewhere. Some critics have said that it is impossible to separate land from improvement values, but this is being done everywhere by private real estate appraisers and by the local real estate tax. Such criticisms stem from an incomplete understanding of how a land value tax is administered. Stated briefly, a municipality administering such a tax would gradually raise the tax rate on land values while lowering it on improvements; eventually the improvements will be completely un-taxed, at which point the land tax rate could continue to rise until all the land rent is being collected by the government in taxation.

It is more difficult to evaluate the truth of ethical criticisms, but the task must be undertaken. George had maintained that since a landowner *per se* performs no service he has no right to receive a rental income from land, but many critics stated that all rights are derived from the state. But George replied: "There are those who say that the right of property, as all other rights, is derived from the state.

⁵ See Henry George, *Progress and Poverty* (New York: Schalkenbach, 1879, edition of 1951), 404-406.

⁶ Henry George, *A Perplexed Philosopher* (New York: Schalkenbach, 1892, edition of 1946), 70.

⁷ For Marx's views of George, and *vice versa*, see the letters translated by George Geiger, *The Philosophy of Henry George* (New York: Macmillan, 1933), 237-8.

But they do not really think this; for they are as ready as any one else to say of any proposed state action that it is right or it is wrong, in which they assert some standard of action higher than the state.”⁸

Other critics have charged that a landowner has the right to land rent income because he could have bought the land with savings accrued from his labor, but this argument is invalid because it could also justify the ownership of slaves or the purchase of a stolen car. The relevant question is: did he buy a *just* title? Another frequently encountered criticism is that land rental income is justified as a reward for risk-taking. The only thing is, such an argument would justify burglary also.

However, it must be said that George’s economic analysis has not stood the test of time. He predicted that rent would increase as fast as total production, leaving wages and interest at the subsistence level. He conceded that in periods of prosperity, production might grow faster than rent, allowing wages and interest to rise above subsistence, but eventually the land speculation which is endemic during prosperity would boost rent faster, and down would go wages and interest to the subsistence level again. This is how he explained depressions. But although land rent has risen as an absolute amount over the years, contrary to his prediction it has declined relative to production. In his own day, George was often criticized because it was thought his single tax would provide too much revenue for the government and despotism might result, but in our time it is quite clear that a single tax on land values would be insufficient for the needs of government. One reason for this is the rapid increase in those needs due to both warfare and welfare. We can always spend more than any tax can yield.

However, it must be realized that a heavier tax on land would reduce taxes on income and improvements, thereby enabling land users to retain more of the land’s output; they would then be willing to pay more rent for land. This is why we could expect a greater amount of land rent under land value taxation than under the present set-up.

In sum, then, there has been a tendency to reject Henry George’s ideas *in toto* because of his excessive Utopianism and incomplete economic analysis, these errors being unduly magnified by the all-too-common misconceptions of many of his interpreters.

And yet today his central idea of a heavier tax on land values has found support among urban renewal authorities, and here are their reasons:

⁸ Henry George, *A Perplexed Philosopher*, 211.

A full land tax would require land to be put to at least the minimum economic use, for it would be difficult to keep land out of use or in only partial use if the landowner had to pay the full annual rent in taxation. Urban sprawl would be discouraged. And if at the same time we can reduce the tax on buildings, we will have more buildings and the cost of their operation would be materially lessened. Space rentals could therefore be reduced because the owners could afford to rent for less. Finally, if land rent is publicly collected in taxation, then eventually the price of land will fall; land speculation would be discouraged, and prospective builders would not have to sink their capital into land purchase, incurring heavy mortgages, but instead would be able to invest their capital into more and better houses.

This sounds fine, but an ounce of experiment is worth a pound of theory. Has George's tax idea been tried anywhere in the United States? To a limited extent, yes. The construction and maintenance expenses of the California Irrigation District have not been borne by the California taxpayers but instead have been paid by a special levy on those landowners whose lands have been watered by the irrigation network and which have increased in value as a consequence. There is a lesson here for highway financing.

There have also been two successful communitarian experiments still in operation today: in 1895 some Georgists from Iowa bought a cow pasture near Mobile, Alabama, called their new community Fairhope, rented out lots and the community prospers today as a growing and attractive suburb. The corporation owning Fairhope's land pays all the local government taxes of its property owners from the land rent it collects annually. Arden, Delaware, a suburb of Wilmington and Philadelphia, was established in 1900 by a group of George's followers under the same system and has a similar success story to tell. Although neither Arden nor Fairhope tax land values, they have established an equivalent system for using the rent of land for public purposes.

But it is in George's native state of Pennsylvania that we have the most notable example of the taxation of land values. Not many citizens of Pittsburgh are aware that their city has successfully experimented with a heavier tax rate on land, but such has been the case since 1914. At the turn of the century, Pittsburgh's city government had sunk to such a low state of efficiency and honesty that Lincoln Steffens was moved to remark that although physically the city was hell with the lid off (referring to the many steel mills belching fire

and brimstone into the skies), politically, because of the boodling going on behind closed doors at City Hall, it was hell with the lid on.

The property tax system was in a particular mess. Assessments were notoriously unfair and the law was so designed as to favor the holding of land out of use. As a consequence, well-to-do families held vast areas of downtown land either out of use or as private parks. The Progressive Era spirit was at full force in Pittsburgh in 1911, and finally the first property tax reforms were made. In that year, the tax exemption for unused and underused land was removed, and all industrial machinery was exempted from taxation. There weren't many Georgists in Pittsburgh but these few were very active politically and were instrumental in getting these reforms instituted. Two years later, with the help of Mayor Christopher Magee, they were able to induce the state legislature to pass — by near-unanimous vote — the law which instituted the Graded Tax in Pennsylvania's two cities of the second class — Pittsburgh and Scranton. Under this law, the tax rate on buildings and other improvements was lowered in five successive steps and simultaneously more of the community-created land values have been collected for municipal purposes. In the first period, 1914-15, the building tax rate was ninety per cent of the land rate; in the second period, 1916-18, eighty per cent; 1919-21, seventy per cent; 1922-24, sixty per cent; and in 1925, fifty per cent. Since then this differential has been unchanged, as the state law neglected to authorize a further shift. Because it was done gradually or in graded steps, the tax became known as the Graded Tax.

Large landowning interests succeeded in getting the Graded Tax repealed by the 1915 legislature, but the repealer was vetoed by Governor Brumbaugh and the law has never been seriously threatened since. In fact, it has received the endorsement of the North Side Chamber of Commerce and other civic organizations, newspapers and mayors of both parties. For instance, David Lawrence has said that "there is no doubt in my mind that the graded tax law has been a good thing for Pittsburgh. It has discouraged the holding of vacant land for speculation and provided an incentive for building improvements. In the distribution of the tax burden it is particularly beneficial to the home owners."⁹ In May 1950, Roy Stauffer, Chairman of the New Industries Committee of the Scranton Chamber of Commerce, said: "We have found that our method of taxation on land and improve-

⁹ Percy R. Williams, "The Pittsburgh Graded Tax Plan" (New York: Schalkenbach, 1963, 60, reprinted from three articles appearing in the *American Journal of Economics and Sociology*, 1962 and 1963).

ments is a factor in attracting new industries." ¹⁰

The critics, however, although in a minority, did not retire from the field. J. P. Watson, a University of Pittsburgh economist, maintained in 1934 that since the Graded Tax tends to reduce land prices, "it therefore tends more or less to defeat itself" by diminishing its taxable base (*i.e.*, the higher the tax, the less there is to tax).¹¹ On the other hand, the untaxing of buildings tends to raise land prices in offset, and in any case the Graded Tax rate can always be increased, and if necessary levied on annual land rent rather than selling price, exactly as is now being done in the case of leaseholds.

In a 1930 article, Edward F. Daume of the Commonwealth Trust Co. stated that although housing construction increased rapidly (actually doubled) after the introduction of the Graded Tax, he quoted 1928 figures to show that Pittsburgh did not excel in this regard when compared to some other cities. However, it is questionable whether such comparisons between cities are valid because tax rates, construction costs, suburban rather than urban development, temporary local business trends, etc., all are factors influencing such statistics. His best criticism was that Pittsburgh's rents were higher than elsewhere and had grown rapidly since 1913, although he offered no explanation of this phenomenon.¹²

On the other hand, Graded Tax proponents maintain that the beneficial effects were almost immediate, that "in 1913 and 1914, while other industries of the city lagged, the building business flourished." ¹³ Vacant land in particular, being most affected by the new tax shift, was most rapidly developed. They quote statistics which show that the number of permits which were issued per capita during the transitional period 1914-25 were 25% greater than in New York, 52% greater than St. Louis, 66% greater than Philadelphia and Cleveland, and 238% greater than Baltimore.¹⁴

Advocates also point out that their system has reduced taxes on buildings by five million dollars in 1960, and this, added to the industrial machinery exemption which amounted to three million dollars in that year (both figures would be higher now), can have only

10 Harry Gunnison Brown, *et al.*, *Land-Value Taxation Around the World* (New York: Schalkenbach, 1955), 104.

11 Percy R. Williams, "The Pittsburgh Graded Tax Plan," 36.

12 Edward F. Daume, "A Critical Analysis of the Operation of the Pittsburgh Graded Tax Law," *Annals of the American Academy*, March 1930, 153, 155.

13 Brown, *et al.*, *Land-Value Taxation Around the World*, 95.

14 Leon Silverman, "Municipal Real Estate Taxation as an Instrument for Community Planning," *Yale Law Journal*, December 1947, footnotes 99 and 100.

beneficial effects.¹⁵ They have called their idea "the incentive tax" because it imposes a smaller tax burden on improvements.

They have also pointed out that because government expenditures, such as roads, schools and hospitals, tend to increase land values, it is only right according to the "benefits received" principle for the government to tax land values. Lastly, I would like to offer you a new thought — the Graded Tax would seem to accord with the "ability to pay" principle even more than the property tax or even the present income tax because the more valuable the land, the richer the owner and the heavier the tax (compared to the income tax, the Graded Tax has few loopholes and it can't be passed on to the user as can a tax on buildings).

A final evaluation of the effect of the Graded Tax on Pittsburgh is difficult, not only because so many factors are constantly affecting Pittsburgh's economy, but also because the 1913 reformers had neglected to get the Graded Tax applied to the school and county taxes in Pittsburgh as well. Consequently, these two taxes have uniform rates for land and buildings and only the city tax is subject to graded taxation. In 1960, for instance, improvements in Pittsburgh were taxed at 71% of the rate on land, not 50%.¹⁶ This mitigates the effects of the Graded Tax.

But if imitation is the greatest praise, Pittsburghers should take note that the state of Hawaii has recently adopted the Graded Tax after having sent a commission to Pittsburgh to examine its operation there. Hawaii has a land problem; almost two-thirds of the land is owned by a handful of families who can trace their ancestry back to the early missionaries and pineapple planters. Despite a growing population pressure, much of this land is vacant or underused. It is too early as yet to tell what effect the Hawaii Graded Tax has had.

The Pennsylvania followers of Henry George have continued to be active down through the years. A campaign was instituted to induce the state legislature to pass a bill enabling Pennsylvania's forty-nine cities of the third class to adopt a graded tax, even removing taxes on improvements altogether, by vote of the city council. This campaign was led by U.S. Congressman Charles R. Eckert, Chief Assessor Percy R. Williams and State Senator Bernard B. McGinnis, all of Pittsburgh, and they were able to obtain the endorsement of numerous city councils throughout the state. Finally, in 1951 such a

¹⁵ Percy R. Williams, "The Pittsburgh Graded Tax Plan," 46.

¹⁶ Dick Netzer, *Economics of the Property Tax* (Washington, D. C.: Brookings Institution, 1966), 202.

bill was passed and signed into law. Another stronger bill was passed in 1959.

But transforming local option into local adoption has proved more difficult. A number of cities have shown great interest in the Graded Tax, but none has yet taken a concrete step. At the present time, for instance, the Graded Tax is a live issue in Lancaster and the summer of 1967 I was asked to make a survey of the effects of the Graded Tax on Lancaster's future development. My findings were based on a sampling of one hundred fifty representative properties.

Lancaster's central business district has been bedeviled by many of the problems typical of cities throughout America. The suburbs have been drawing out the middle class and well-to-do, and their place has been taken by poorer people with less purchasing power. Many competing shopping centers now ring Lancaster. Federal urban renewal has not been of much help yet; a vast portion of downtown was cleared about four years ago but has remained so until quite recently — redevelopment has been tied up by lack of financing and red tape. And in the residential areas, urban renewal has meant Negro removal.

My survey indicated that most Lancastrians would receive tax reductions because practically all properties in residential areas would pay less under the Graded Tax. But in the central business district, where the really high land values are, most properties would pay more.

Would Lancaster benefit from the Graded Tax? We can only speculate at this time — present policy makers don't have the advantage of hindsight as will future historians (and hindsight is always 20/20) — but it would seem that by untaxing improvements, we would make them less expensive. My survey did indicate that the biggest tax gainers by far would be apartment houses and there would be real inducement to construct some new ones on the edge of the central business district, thus providing new customers for the stores there. Finally, most of the savings reaped by homeowners will be spent in the downtown stores. If we want to spruce up our downtown areas, improvement tax abatement should be of help.¹⁷

Perhaps the time has come for historians to re-examine the ideas of this native son of the Keystone State. We can safely discard, I think, Henry George's economic analysis. We needn't regard the land value tax as a single tax — even the income tax can't be that anymore. But we can still ask ourselves George's old question: should the

¹⁷ See Steven Cord, "Expected Effects of the Graded Tax on Lancaster's Future Development" (Phoenix: Lincoln Foundation, 1967), 15 pp.

government tax what individuals have produced, namely income and improvements, or should the government rather tax what it has produced, namely land values? In evaluating Henry George, we might look into the more recent judgments of urban tax authorities concerning the economic desirability of a heavier tax on land values. This is especially important for Pennsylvania historians, because his ideas are still a live issue in this state.