Pittsburgh's Tax Reform Movement

by **Dan Sullivan**

(This is the first in a series of articles by this author.)

Few are aware that Pittsburgh was the site of the first tax revolt in the United States. Still fewer realize that Pittsburgh today has a unique property tax system—a tax system which saves money for homeowners, workers, and active businesses, but penalizes those who hoard land and keep it out of use. How this system came about is the subject of our first report on the Pittsburgh Tax Reform Movement.

Pittsburgh's Struggle Against Land Monopoly

Land Monopoly Takes Hold

Pennsylvania had been given to William Penn, solely as an individual, by Charles II of England, in payment of a debt of about 16,000 pounds owed to Penn's father. Much of this land was taken by the Pennsylvania government with the "divesting acts" of 1779. However, the Penn heirs were paid 130,000 pounds (a tidy profit) and allowed to retain possession of several "manors."

What is now the Golden Triangle of Pittsburgh was once just a small part of a Penn manor. The Penns had it subdivided and sold shortly after the revolution.

Great fortunes in land began with purchases from Penn heirs for nominal considerations. General James O'Hara, Pittsburgh's first great real estate operator, made millionaires of some of his descendents through "judicious investment in land."

In addition to a number of strategic downtown parcels, O'Hara purchased from the Penns a large tract extending from the Allegheny River to the Monongahela. He also bought lots on the North Side and South Side, and in the Allegheny Valley near the present boro of Aspinwall.

His granddaughter, Mary E. Croghan, inherited a third of the O'Hara estate. At the age of 16, she eloped with Captain Edward H. Schenley of the British army. They moved to England and became Pittsburgh's first great absentee landlords.

Most of the lands of Pittsburgh were grabbed up by army officers who had come west on British expeditions ahead of the civilian population. John Ormsby, who came to Pittsburgh with General Forbes in 1758, bought almost all of the South Side between the Smithfield Street Bridge and Beck Run. His son Oliver (for whom Mount Oliver is named) used the rents from South Side properties to buy up more land. The site of the Oliver Building downtown was purchased by Oliver Ormsby in 1800 for $170.

Land is the foundation on which most of Pittsburgh's great fortunes were built. General O'Hara himself became Pittsburgh's first great industrialist when he began manufacturing glass in 1795.

Pittsburgh landowners were very hospitable to industry, for it attracted workers from the settled Atlantic Coast and immigrants from abroad. Even when infant industries were losing money, landowners were reaping windfalls in rent from the workers. They often invested portions of this rent money in losing industries "for the good of the local economy."

By keeping most of Pittsburgh's land idle "for future development," giant landowners were able to create a shortage of available land, and to extract artificially high rents from workers and businesses alike.

This anti-development policy was reinforced by a property tax system designed to punish landowners who developed their property. Under this system, land was classified as "urban," "rural" and "agricultural." Urban land, where the working people lived, was assessed at 1.5 to 2 times the rate of underdeveloped or vacant lands. It was a speculator's dream come true.

Opposition to the Landowners Grows

After the Civil War, the problems of land monopoly and the plight of working people became increasingly important issues nationally. But in Pittsburgh, land ownership was so concentrated, and property tax laws so unfair, that progressive politicians were openly hostile to the landed estates. In 1872, Henry W. Oliver, President of common council, referred 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 past thirty years."

Resistance to the land monopoly was bolstered in the 1880's by the growth of labor movements across the nation and by the writings of economist Henry George.

George became a hero of the Knights of Labor. His first major book, *Progress and Poverty* became the best selling economics book of all time. In it he showed how the monopolistic nature of capitalism and the exploitation of workers was due to the private monopolization of land.

"When non-producers can claim as rent a portion of the wealth created by producers," said George, "the right of the producers to the fruits of their labor is to that extent denied."

George went on to show how monopolization of land would lead to the systematic monopolization of industry. As a deterrent to land monopoly, George proposed a land value tax—a tax based on the market value of land. George wanted a land tax so great that land prices would be drastically reduced, and that all other taxes would be abolished.

Henry George's campaign for the "single tax" was viciously attacked, ridiculed and misrepresented by newspapers, politicians, and even university economists. But it was extremely popular with working people, especially people of Irish descent.

In 1886 Henry George ran for mayor of New York on the Labor Party ticket. Whether George won that race will never be known. The Republican courts refused to hear charges that the Democrats had rigged the election by destroying ballot boxes wholesale. Later admissions confirmed that this was the greatest case of election fraud in American History.

Although George campaigned vigorously across the United States, his ideas were thoroughly rejected. His proposed land value tax was not tried, even on a modest experimental basis, anywhere in the United States...except in Pittsburgh.

The Land Tax Reform Passes

In 1906, a coalition of Democrats and Independents elected George W. Guthrie as mayor of Pittsburgh, breaking an era of Republican control that dated back to the Civil War. Guthrie immediately undertook to reform both the political system and the tax system.

The defeat of the Republicans weakened the grip of the old guard within the party. But Guthrie could not legally succeed himself, and the Democrats didn't have another candidate strong enough to beat the Republicans. Fortunately, Guthrie's successor was liberal Republican William A. Magee, who embraced Guthrie's popular reforms and saw them enacted.

In 1911, Mayor Magee and Pittsburgh's city council abolished the old property tax system and endorsed the Keystone Party's proposal to enact a new system...one that would tax land at twice the rate of improvements.

The obstacle was to get authority from the state legislature to make the change. The Single Tax Club launched an energetic campaign on behalf of the reform. They won endorsements from the Chamber of Commerce, the Hungry Club, the Allied Boards of Trade, the Pittsburgh Civic Commission, the Board of Realtors, and two small, progressive newspapers—the *Pittsburgh Press* and the *Pittsburgh Post*.

So many of the giant landowners lived outside the area that the reform passed before opposition to it could be mobilized. A repeal effort was launched in 1915 by Mayor Joseph Armstrong, with strong financial and vocal support from Frank F. Nicola, president of the Schenley Farms Real Estate Company, and Edward F. Duame of the Commonwealth Real Estate Company, agent for the Schenley estate.

The repeal was urged on the grounds that the land tax was discrimination against landowners and "a decided step toward the single-tax theory of Henry George." It was accused of benefitting "the money-powerful skyscraper barons." Opponents of the tax claimed that "unimproved landowners are the poorest of property owners," and that the land tax was "unlawful, unjust, and unAmerican."

Former mayor Magee replied to these charges before the legislature. Magee carefully explained how the small property owner would save more on his building than he would lose on his land, and expressed sympathy for his opponents, "who come here on a question about which they know so little." Pointing out who his opponents represented, Magee fired a few blasts of his own. "They come here weeping and wailing, and you would think the small property owner would be wiped out of existence."

Both houses passed the repeal bill, but it was finally vetoed by Governor Brumbaugh. The veto was upheld, and the land tax survived its only serious challenge.

Effects of the Land Tax: 1913-40

Despite apprehension by the landowners, the land tax did not cause the price of Pittsburgh land to come crashing down. But it did have some very healthy effects on the local economy.

During the twenties, America was caught in an orgy of land speculation. (Much of this was perceived as stock speculation, as investors were gambling on corporations which in turn were buying up land.) Land in many cities had tripled in price between 1913 and 1925. As a result, the American economy suffered from a general inflation of over 70% during those twelve years.

But land values in Pittsburgh went up only 20%, despite high economic growth in the city. Opponents of the land tax complained that it had made Pittsburgh land undesirable, and that progress came to Pittsburgh in spite of, rather than because of, the land tax.

But between 1930 and 1940, the land price bubble deflated. Land prices came crashing down in every major city except two; Washington D.C., (where big government represented the depression's only growth industry) and Pittsburgh, where land prices were already reasonable. Pittsburgh's land prices fell 11%. Washington D.C.'s dropped 12%.

A Radical Mayor Promotes Georgism

The coming of the depression meant the rise of organized labor and the overthrow of the Republicans by labor-backed Democrats.

The first Democratic mayor of Pittsburgh was William N. McNair, a radical, militant Georgist. For many years, when the Democrats had as much chance of electing a Pittsburgh mayor as Republicans have today, McNair would run for office...any office...for the opportunity to talk about Henry George and the land monopoly.

When the Roosevelt landslide of 1932 made him mayor, McNair tried to use his office to promote Georgism. He opened schools and other public buildings to the Henry George School of Social Science. He required city employees to take a course in *Progress and Poverty* as a condition of advancement. he launched a series of court proceedings against large landowners who were delinquent in their taxes.

But McNair was too fanatic, even for his fellow Democrats, many of whom liked the land tax themselves. Worst of all, he was a fellow traveller of people like Frank Chodorov, the famous anarchist, and he was always doing things mayors aren't supposed to do.

Once for example, his opponents charged him with criminal conduct and obtained a warrant for his arrest, expecting him to post bail. But McNair put some apples in his pocket and put a copy of *Progress and Poverty* under his arm and had himself arrested. In jail, he made a speech to his fellow prisoners, explaining that they were not to blame for their predicament, as they were the victims of an immoral economy.

McNair got hit from so many directions there was nothing he could do. Newspapers ran accusations that McNair was nailing the small homeowner, based on actions his staff took against his will to sabotage his campaign; city council refused all his nominations for treasurer, bringing city government to a standstill; malfeasance charges were trumped up against him; and a "ripper" bill designed to abolish the office of mayor in Pittsburgh passed both houses of the Pennsylvania legislature. McNair resigned.

After the McNair episode, further advances in the land tax were not entertained, although every Democrat mayor except Flaherty and Caliguiri was openly supportive of the land tax.

In 1945, some real estate interests began talking about the possibility of repealing the land tax or putting legal limits on land tax rates. City Council responded with a unanimous resolution that "this Council strenuously oppose any attempt to repeal this beneficial legislation."

Mayor David L. Lawrence enthusiastically endorsed legislation enabling other cities in Pennsylvania to enact land tax. When he became governor of Pennsylvania, Lawrence called for all of Pennsylvania's cities to examine the land tax as an alternative to property tax, claiming that land tax "has been a good thing for Pittsburgh. It has discouraged the hoardling of vacant land for speculation and provides an incentive for building improvements. In the distribution of the tax burden it is particularly beneficial to the homeowners."

Oddly enough, there was no significant advance in the land tax for almost 20 years after Governor Lawrence's hearty endorsement, despite recommendations for the tax from municipal experts all over Pennsylvania. Finally, in December of 1978, Pittsburgh city council rejected Mayor Caliguiri's call for a 1 1/2% increase in the wage tax, and instead called for a near doubling of the land tax.

That confrontation between the mayor and the council was the source of new life for the land tax movement. How it came about and where it has led is the subject of the next article in this series, "A Fair Deal for the Working Man."

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