THE STORY OF PITTSBURGH'S TAX HISTORY
-- from 1914
Contributed by Edward J. Dodson, Cherry Hill, NJ

(Ed Dodson emailed GroundSwell that in the "research work he has accumulated is this story is of how Pittsburgh raised its revenue in the period before the two-rate tax was adopted. The author of this paper is Paul Underwood Kellogg (1879-1958), who began a long career of civic reform after graduating from Columbia University. Kellogg was one of the founders of the American Civil Liberties Union. He began work in 1907 on what became a six volume report called "The Pittsburgh Survey", funded by the Russell Sage Foundation.)

The following excerpt comes from Kellogg's book, "Modern View of Taxation".

"The local tax system which in our day resulted in inequalities dates back to a time when facilities for distributing municipal services were meager, and also to a time when a theory that taxes are payments for definite services rendered to individuals as such, was much more widely accepted than now. This was the principle at the bottom of the ward system through which, as the modern city grew out of what had been a small compact community, the childless downtown business districts came to pay but a trifle toward popular education, while neighborhoods meager in wealth but prolific in children staggered under the school load.

"This was the principle at the bottom of the land classification system through which, as suburban homes were brought within the sphere of municipal housekeeping, working people came to pay a half more for fire and police protection, sewerage, lighting, paving, and street cleaning, than their prosperous neighbors. Now, even if it had been possible to make adjustments that would have overcome these abuses, the taxing principle involved would still have been open to question. Since the {18}50's the trend among taxation experts has been away from the payment-for-benefit theory. Its fallacy is apparent in the light of the more recent definition of taxes. To attempt to define taxes for the tax payer, to be sure, is almost like giving a man with a jumping molar a theoretical description of toothache. Everybody knows taxes by practical experience. Despite experience, however, hazy ideas abound, and scarcely anything is as helpful in clearing them up as clean-cut definitions.

"In the older conception, as we have said, taxes were payments for definite services such as protection, security, justice, education; and there was a measurable connection between the charge and the benefit conferred. Taxes were a form of insurance, according to Montesquieu, who, a century and more ago, defined the revenues of the state as "part of the property of each citizen which he surrenders in order to insure the remainder." The more accepted current view, however, does not acknowledge a tax to be a payment for protection (continued on page 5)
or other service. No contract for protection exists between the state and the individual. The state can not be called upon to pay damages for failure to protect property. Besides, protection, justice, or education can not be measured or paid for like sugar or coffee. If there were a direct and ascertainable connection between the tax and the benefit conferred, then childless parents would not be taxed for school purposes; then the halt, the lame, and the blind who need protection most, would be taxed heaviest; and then the man whose life is saved by the fireman or policeman, would be taxed an infinite sum for the infinite service rendered.

"The view of taxes more in tune with modern community life is well stated in a recent United States government publication, thus: "Taxes are compulsory contributions of wealth, levied and collected in the general interest of the community from individuals and corporations without reference to special benefits which the individual contributors may derive from the public purposes for which the revenue is required or to which it is applied. Professor Bastable puts the same definition more briefly thus: "A tax is a compulsory contribution of the wealth of a person or body of persons for the service of the public powers." The idea of an exchange of services, a barter of benefits, between the state and the individual is absent. The government is expected, however, to use the contributions made by the individual for the benefit of all; that is, so as to advance the interests of all, regardless of who pays heaviest or who benefits most. This idea was undoubtedly in Adam Smith's mind when he laid down his first canon of taxation, which holds good today: "the subjects of every State ought to contribute toward the support of the government as nearly as possible in proportion to their respective abilities."

"Taxation according to ability to pay, proportional taxation, has long appealed to the spirit of fairness in this country. 'It is not the truth that the rich men should be penalized because they are rich, or the poor escape because they are poor. The economic conception is that the rich should pay much because it means little to them, and the poor should pay little because a little means a great deal to them. In short, the canon of general taxation is equality of sacrifices.' But the ability, or equality of sacrifice, accepted as a basis, what is the test of tax-bearing ability? One and another form of taxes have been tried until almost every evidence of ability, from the number of windows in peasant cottages or the amount of salt therein consumed, to the princely incomes of modern times, have been catalogued for government revenues.

"In the early colonies, determining tax-bearing ability was relatively simple. Land being plenty and to be had for the taking, and the wealth of all colonists thus being practically equal, their tax-bearing abilities were equal. A poll tax taking from each a uniform amount was just. Later, as population increased and commerce grew, some land was preferred over others; and the owners of the more favored sites had an advantage. Wealth distinction arose and the flat poll tax was supplemented by a land tax which took account of the greater ability of the owners of the more valuable land. With differences in land wealth came differences in tangible personal property, such as horses, cattle, and household goods. A personal property tax, therefore, proportional to the amount of such property, came into use.

Later, intangible personal property in the form of stocks, bonds, notes, and mortgages, assumed appreciable size, and ownership in these became an important evidence of ability to shoulder government expenses, and this class of personal property was taxed.

"Thus from early to late the principle that justice in taxation is obtained through contribution to the support of government in accordance with individual ability, has been generally recognized. Much of Pittsburgh's system proved to be an exception, as we have seen, to this general trend. Longer than any other great American city it taxed on a plan which claimed a basis in the benefit theory, but which violated the tenets of that theory; a plan which, when all was said and done, cut the wealthy man's taxes down because of his flowers, his shrubbery, the open spaces about his house, and the other evidences of his greater tax-paying ability; and which called upon the people of moderate means and less to make up what the wealthy escaped.

"The scope of this study properly closed with its demonstration of how a worn out taxation scheme was thus working social injustice in Pittsburgh. The report as it was drafted for practical use concluded with three major recommendations by which to remedy that injustice; namely, to abolish the land classification, abolish the ward rates, and abolish them both together. The tax law of 1911 eliminated the land classification; a new state code created a united school budget for the municipality -- and both were passed by the same legislature.

"Space should be given, however, to outlining a further constructive program promoted by some of the tax reform forces whose initial campaign proved thus successful. Their scrutiny of the distorted equilibrium which had existed in Pittsburgh between land and building taxes led them naturally enough to propose that the balance should be struck the other way.

"In a report made in December, 1911, the committee on housing of the Pittsburgh Civic Commission recommended that the legislature enact a law fixing the tax rate on buildings in Pittsburgh at 50 per cent of that on land, the reduction in the building tax to be made up by increases in the land tax. In order that the change might be made gradually and not occasion hardship, the plan in its final form provided that the 50 per cent reduction should be spread over thirteen years, the rate on buildings being reduced to 90 percent of that on land the first year, 80 percent the fourth year, and so on, making a 10 per cent reduction at the first of every cycle of three years. The proposal was thus not to stop at eliminating the classification plan, but to turn it inside out; from a policy discriminating in favor of land to go to one of discriminating against land.

"These civic bodies were (continued on page 6)
PITTSBURGH'S TAX HISTORY
(continued from page 5)

successful in securing the passage of this legislation in 1913 with the qualification, however, that it should not apply to the school tax. With 1914, Pittsburgh becomes the first large city in the United States to enter upon the experiment of halving the tax rate on buildings - a point which by the gradual stages set in the law will be reached in 1926.

"As has already been seen, the higher tax which for forty years had been levied on built up property in Pittsburgh tended to encourage the speculative holding of land out of use, to augment the sales price of available land, and thus discourage the location of industries in the city; to discourage building enterprises and thus perpetuate the ramshackle dwelling which held their tenants when workmen's homes are hard to buy or high to rent. High land cost and excess building tax have been the lot of householder and factory builder in Pittsburgh. The new plan does more than take the penalty off building houses and factories; it rewards that kind of enterprise by a lower tax the same way that Pennsylvania rewards industrial capital in exempting machinery from taxation. It will cut the tax on improvements in half and spread one part out as an additional penalty for holding land out of the market.

"In pointing out that the price of land in Pittsburgh is high in comparison with prices in many other American cities of about the same size, the Civic Commission cited two causes in addition to the peculiar topography. One-third of the city's acreage is, to be sure, made up of hillsides too steep to be built upon, but the two aggravating causes have their roots in the tax classification systems which has been described, one being the over-speculation in the years when large fortunes were to be quickly made in Pittsburgh land, the other, the ownership of great tracts by a few individuals.

"One the latter point the report stated:

"In this city as a whole, five families possess land assessed for 7.4 per cent of all the assessed land values in the city, but their assessed building values are only 36 per cent of their land values. These families own land assessed for 11 per cent of the assessed land values in the first and second wards, or in the retail, wholesale, and manufacturing district most in demand. Yet in these two wards the five families own land assessed for 12.7 per cent of the assessed valuation of the land. The sixth and twenty-third wards are the two with most area for residences. In the former, two families own 30 per cent and in the latter, one family owns 31 per cent of the assessed valuation of land.'

"Thus to natural tendency have been added unusual human forces which have placed the price of Pittsburgh land at a figure which is prohibitive to prospective industries and residents. 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.'

"Here, then, we have the extreme consequences of the old scheme of discrimination, which let real estate off with a half or two-thirds rate, and here also an argument which has large popular appeal in favor of the new scheme of land discrimination, which would make the land rate double. In so far as, in

the case of rented houses, taxes on buildings can be shifted to the tenants while taxes on the land stay with the owner, the advocates of the measure claim for it that it will lower rents and the cost of living, and is socially desirable. In so far as city land values are the creation of the community about them, they regard it as socially just. The reaction upon the city's prosperity was prophesied by the Commission in these glowing terms:

"Manufacturers can be induced to come to Pittsburgh by exemption from taxes. This has often been urged. The tax plan of this report offers a practical method for offering low taxes as an inducement. This plan would appeal only to those who will actually build industrial plants. The low tax is given only when buildings are put up; that is, only to actual benefactors of the city.

"The higher taxes on land would induce owners to place land on the market by making it harder to hold land vacant. As owners become more anxious to sell, the price of land would tend to decrease. Thus prospective industries could secure sites at more attractive prices, decreasing the interest item in fixed charges. All this would tend to a great development of the city.

"Rents would be decreased by both the lower price of land and the lower taxes on buildings. How would this happen? A premium would be placed on putting capital in buildings and a penalty for putting it in vacant land. Therefore capital as rapidly as possible would shift from land to buildings and buildings would be erected to pay the increased taxes on land and to secure for capital the advantage of investment in buildings instead of land. Thus the law of supply and demand would bring down the price of land. As rent consists of interest on land value, plus interest and taxes in building value, the cheaper land and the lower taxes on building would decrease rents. All this would stimulate building, and building means labor well employed.

"Here is the solution of the housing problem. New houses at reasonable rents would be built on land vacant at present. The present most undesirable houses would be vacated. Their sites are those most convenient for industries. These sites would have to be improved to pay taxes or be sold at low enough figures to enable industries to use them profitably. So the two obstacles to Pittsburgh's program would be largely overcome, bad housing would be almost abolished, and factories no longer kept away by high price of land.

"Precedents for such taxation are many. Great Britain has recently levied new land taxes to force vacant land into use. The German cities of Hamburg, Frankfurt, and Cologne, followed by most large cities, have adopted this method of securing better housing, in some cities workingmen's homes are entirely exempt. The cities of Australia and New Zealand generally tax buildings at less than full rate. In America, the cities of western Canada have this plan of taxation. In no case has a city adopting this system gone back to the old one.' (continued on p. 7)
"As a proposal, showing the swing of the pendulum away from the entrenched evils disclosed by this investigation, the tax prospectus of the Civic Commission finds place in these pages. In the estimation of the writer the adoption of this second change in the tax system will work for the good of the whole community.

"To Hamburg, Frankfurt, and Cologne, and, in America, to Vancouver and other of the cities of the British Northwest which have adopted this plan of taxation, one would have to go for an inductive study of its results. Neither those results, nor a discussion of the taxation theories they involved, but the objective conditions to be found in taxes laid and collected in the city of Pittsburgh, were the subject matter of this inquiry, and the resulting findings have been set forth deliberately, opportunely, and to constructive purpose.

"There remain to be noted certain changes in public administration, which apart from whatever general tax policy is followed, are equally demanded by the conditions disclosed."

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