

# Incentive Taxation

CENTER FOR THE STUDY OF ECONOMICS

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## VICTORY IN CONNECTICUT!

On July 1, 2009, the distressed city of New London, Connecticut was authorized by state law to implement land value taxation (LVT). Governor Jody Rell signed into law SB379, the culmination of a two year long effort. It began with communication and data gathering with New London activists trying to save their city, led by ReNew London, directed by Art Costa. LVT was seen as part of a package that helps what should be a wealthy and prosperous small city for all. New London has a storied history that rises and falls with the changes of American economy: fishing, whaling, seaport, industrial hub, shield of the US during the Cold War, and now, today, a post-industrial obsolescence.

In that time, the population and the wealth of that city rose to the heights and then shriveled. From a high of 34,182 in 1960, the 200 population has declined to 25,671, a decline of 21.5%. Worse, the population's poverty has grown, with 15.6% of the population currently under the poverty level, compared to 7.6% of the state, indeed 7.5% of New London County. As ominous are home ownership rates: for a state and county average of around 66.7%, New London city has a rate of 37.9%, down from 64% in 1990.

The Center for the Study of Economics and the

Henry George Foundation was invited to speak with people in New London in January 2007. About 20 people, including the Mayor and several council members, attended the educational presentation that was held at the local public library. Press coverage was favorable - interest was piqued. New London as a city essentially agreed that any option that could help should be legal for the city.

Close communication followed throughout 2008 between CSE/HGFA and ReNew London. State legislators and statewide advocacy groups for the environment, economic development and urban revitalization were constantly met with an educated by a committed cadre of South East Connecticut activists with constant input, analysis and theoretical education.

Many of these organizations eventually signed on and endorsed LVT, both as an idea and a tool for Connecticut cities. Some of these were past allies from campaigns to enable LVT earlier in the decade, including the Connecticut Conference of Municipalities and the Connecticut Home Builders' Association.

These groups could be counted on as advocates in this new effort to help the economy

## Experience

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Phone: 215.923-7800

Editor: Joshua Vincent  
Founding Editor: Steven Cord

Editorial Advisor:  
H. William Batt, PhD,  
Barbara G. Maloney

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## VICTORY IN CONNECTICUT

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**Governor Nell**

*"The City Council of New London unanimously approved on October 9, 2008 a resolution requesting your support for enabling legislation which would allow all cities and towns the use, at their discretion, of a Land Value Tax process."*

Mayor Kevin J. Cavanagh,  
November 3, 2008  
letter to CT Legislators



**Golden Street  
New London, CT**

and provide a fairer tax system.

The 2009 endorsers included: AFSCME Council 4 (membership of 35,000), Connecticut Conference of Municipalities, Connecticut Sierra Club, Farmington River Watershed Association, Hartford Preservation Alliance, Home Builders Assn of Connecticut, New London Landmarks, New London Main Street, New London Economic Development Commission, Rivers Alliance, New London City Council, Southeastern Connecticut Sierra Club, and city delegations from: New Haven, Hartford, Bridgeport and New London.

The 2009 Legislative session saw three bills introduced: SB376, SB379, and SB392.

LVT advocates pushed hard for a more inclusive bill that would include all major towns and cities in Connecticut. These were the type of bills that had made it into the Senate in years' past. Testimony was heard on February 18, 2009, with support from a wide spectrum of allies, and the New London members of the LVT Working Group led by Art Costa. There were LVT advocates as well; among them Connecticut residents and Robert Schalkenbach Foundation President Gil Herman and Trustee Wyn Achenbaum. Former Henry George School Director, Cathy Orloff came from Providence, and Schalkenbach/CSE Board member Bill Batt sent testimony from Albany, NY. CSE and HGFA Executive Director Joshua Vincent provided expert testimony as well. See [http://cga.ct.gov/asp/menu/CommDocTmyBillAllComm.asp?bill=SB-00379&doc\\_year=2009](http://cga.ct.gov/asp/menu/CommDocTmyBillAllComm.asp?bill=SB-00379&doc_year=2009)

Testimony was generally well received. Only one member of the Planning Committee sought to challenge both in the testimony and the concept. It is your writers' view that as he represented a wealthy-off, vaguely rural area. It appears that his property perches on a hill overlooking the city of New Haven, and his concern was for his own private situation. After the legislative bargaining was done, it was the Pilot Program alone that has survived for the moment. Options for other cities to adopt similar measures will await their appeals, likely next year. Yet, New London has a good victory, and has raised the issue of LVT in Connecticut to high visibility. This at the very time when the economy, property taxes, and the injustice of tax burdens is hitting the richest state in the country. Already a June presentation at the Connecticut Assessors' "Summer School" at UConn brought some pleasingly strong interest in getting the local option for their cities.

LVT might be an idea that can't be stopped.

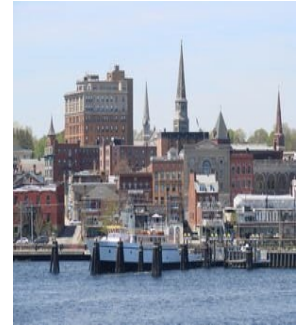
What will happen? We anticipate the Secretary of State's approval of the Pilot design. Several LVT options are open - rate changing, assessment exemptions on all buildings, a combination of the two, or perhaps a more ambitious plan to replace income tax receipts by an annual remit of

## VICTORY IN CONNECTICUT

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land values. Some in council will want to apply it only to the Central Business District.

Right now, New London and other “poor” Connecticut cities are sitting on a pile of socially created economic rent that is passing through to absentee landlords and corporate welfare overlords. Social and economic indicators show the city is continuing to decline as homes and neighborhoods crumble, while privilege, monopoly and wealth are given away to entities like Pfizer Corp. This LVT victory is a small step in education and implementation to help these cities realize that the rules of the game can change to the benefit of all.



**New London, CT**

## GLASGOW RESOLVES TO ADOPT LVT

CSE's working relationship with the Scottish Green Party to help implement land value taxation (LVT) at the local level is bearing fruit.

Facing paralysis from the Scottish government at Holyrood, the Glasgow Council has made the courageous decision to move forward with a sensible launch of LVT.

Why should Glasgow be the nexus of such a move? Because it has always been a city of great wealth and staggering poverty. In the late 1800 and early 1900, Glasgow was a hotbed of LVT activity. Visiting the British Isles a century ago, the American economist and reformer Henry George made one of his greatest calls to action against poverty in [Glasgow in 1884](#):

Let Glasgow Flourish, he proclaimed:

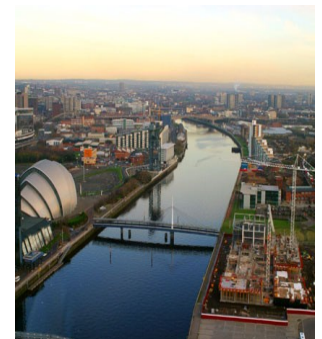
*Here you have a great and rich city, and here you have poverty and destitution that would appall a heathen. Right on these streets of yours the very stranger can see sights that he could not see in any tribe of savages in anything like normal conditions.*

Winston Churchill looked to the same solution, as noted in his 1906 speech in Glasgow:

*“No view of society can possibly be complete he declared, ‘which does not comprise within its scope both collective organization and individual incentive. The whole tendency of civilization is, however, toward the multiplication of the collective functions of society. The ever-growing complications of civilization create for us new services that have to be undertaken by the State, and create for us an expansion of the existing services. There is a growing feeling, which I entirely share, against allowing those services which are in the nature of monopolies to pass into private hands... which I am convinced will become effective in the present Parliament, to intercept all future unearned increment which may arise from the increase in the speculative value of the land.”*

*“Here you have a great rich city, and here you have poverty and destitution that would appall a heathen. Right on these streets of yours the very stranger can see sights that he could not see any tribe of savages in anything like normal conditions.”*

Henry George, Economist and Reformer 1884



**Glasgow, Scotland**

Source: <http://news.scotsman.com/politics/Scotland39s-biggest-city-backs-plan.5404468.jp#4165682>

413 S. 10th Street  
Philadelphia, PA 19147 USA

Phone: 215-923-7800  
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## LAND VALUE TAX...STRATEGY TO FUND TRANSPORTATION?

A recently released study of "Value Capture" by the Center for Transportation Study (CTS) at the University of Minnesota, under contract to the **Minnesota** State Legislature, acknowledges that application of a land value tax (LVT) is a valid way to fund transport both with respect to its administration and economic efficiency. The Report is an extensive and well-documented review of how transportation infrastructure can be funded through recapture of the rents created by the presence of those services. In fact one of the authors relied upon CSE Board member Bill Batt during parts of the study's preparation.

Although impartial and comprehensive, the report was unfortunately confused about one critical point: whether the revenue stream's incidence would be progressive or regressive. It relied on an old and fundamentally flawed **Pennsylvania Economy League (PEL) study of Pittsburgh LVT in 1985** (*Weir and Peters, 1986*) report. Subsequent studies done by Pittsburgh City Council staff, as well as CSE Trustees Dr. Herbert Barry and Daniel Sullivan have shown that their conclusions in this regard were wrong, and may be responsible for those arrived at by the CTS. The earlier study assigned blighted, absentee-owned, residential properties to a "low income" category when they were in fact part of the business model of prosperous operators in the real estate and banking sectors. When owner-occupiers were identified as a subset of study, the benefit of LVT was clear, thereby clearing the way for an enlightened tax policy.

What this error shows is that it is easy to be lead astray in tax incidence studies. One needs first of all to assure that intra-municipal assessments are sound, and only then can further analysis be performed. Impact studies performed by CSE after strict scrutiny of such factors have confirmed the progressive nature of LVT many times, and the general conclusions can be accepted with confidence. To illustrate: in 2008, an initial shift to LVT in the impoverished neighborhood of Tioga in Philadelphia tells us that 62% of parcels would save and 38% would pay; when we filter for owner-occupiers that number of savers climbs to 70.6%. When we filter again for residential parcels only, that number climbs further to 76%. Other studies show similar patterns.

The failure of neighborhoods or of huge government investments can frequently be laid at the feet of the absentee ownership patterns, and checking for such factors is crucial for any complete picture of LVT.

Should we applaud the CTS for its work? Yes. Yet, we need to remind this team and future researchers that any smart growth programs will always be hindered without identifying factors such as who has title to the land to be improved. Adding that factor to previous LVT studies or to this current study would lead the researchers to a sounder conclusion.

To download the study, go to <http://intern2-cts.software.umn.edu/Research/Featured/ValueCapture/index.html>