REMAPPING DEBATE
Asking "Why" and "Why Not"

Forging a different path

Original Reporting | By David Noriega | Alternative models, Role of government

Previously in our series: Introduction, Part 1, Part 2, and Part 3

March 13, 2014 — So far, our series has focused on diagnosing the existence, consequences, and causes of San Jose's chronic maladies. In this final installment, we turn to the question of the appropriate prescriptions.

Sticking with the longstanding approach — each city fending for itself, catering to corporate needs, living subservient to the whims of mobile capital, ignoring the revenue side of the equation — does not seem likely to change the prognosis for San Jose. After all, the city has tried this approach for decades, and it has not worked to maintain a robust level of needed government services (and a well-compensated workforce to provide them) or to promote regional equity across Silicon Valley.

> Incentives are an expression of the notion that local governments are duty-bound to cater to the needs of the corporate sector. "That notion is so generalized and insidious," Nari Rhee said. "Everyone seems to have internalized that this is the way it works."

Some people are fatalistic about the status quo, not imagining that there is an alternative path. As San Jose's mayor Chuck Reed said in an interview: "If we had the same jobs-to-housing ratio that Palo Alto has, we wouldn't be having this conversation, because we would be like Palo Alto — we would be rich." As for those rich cities: "Good for them. We just don't happen to be one of those cities."

But there is plenty that could be done to move toward a system less characterized by social Darwinism, and we begin to explore some of those possibilities here. They include sharing revenues equitably throughout the region; efforts at the national level to deter jurisdictions from handing out incentives — either on their own initiative or as the result of not-very-subtle blackmail — to attract or retain corporate employers; and, in California, modifications to Proposition 13 to restore to localities greater flexibility in meeting their revenue needs.

Typically, local officials have given aid and comfort to the maintenance of the status quo not only by participating in interregional and intra-regional competition, but also by reinforcing the sense either that the status quo is beneficial, or that there are no practical alternatives, or both. The emergence of local leaders prepared to break from that line would be an important step toward serious consideration of the alternatives.

Creating more winners than losers

Before he became a full-time professor at the University of Minnesota, Myron Orfield spent a few years in the 1990s studying metropolitan areas around the country and proposing ways to alter that seemingly inalterable reality: that, within the same regions, some jurisdictions are rich while others are poor.

> "If an entire area is stronger, and the citizenry is stronger, then everybody's better off." — Myron Orfield

Orfield was a state legislator in Minnesota at the time and had been instrumental in creating an integrated regional government for the Twin Cities metro area. In 1998, at the behest of an Oakland-based nonprofit, Orfield turned his attention to the San Francisco Bay Area. The same problems showed up there as elsewhere: deep fiscal imbalances between cities, intertwined with self-reinforcing segregation by class and race. The inequalities between San Jose and other cities in the Valley were an important subfactor in this regional picture.

Orfield proposed a solution relying on a mechanism called tax-base sharing. Under this system (which was critical to the regional integration of the Twin Cities), municipalities pool a portion of their revenues, which are then distributed among them by need. The fundamental principle was one of fairness and equity — the idea that, "People of moderate means should not have inferior public services because they cannot afford to live" in rich communities, as Orfield wrote in his Bay Area report, and that "public services such as police and fire, local infrastructure, parks, and particularly local schools should be equal on a metropolitan level."

As with similar proposals across the country, Orfield's Bay Area plan drew a fair measure of local attention but was stymied by the opposition of the more fortunate cities — those who saw themselves as being on the wrong end of the redistribution. Bob Brownstein, the former San Jose budget director, said Orfield's was not the only proposal of its kind, nor was it the only one to meet this end. "I've seen it happen at least three or four times," Brownstein said. "It always fails, because the current situation benefits some people and is bad for others."

Specifically, small cities in the South Bay with powerful tax bases benefit from the fact that many of the people who work in their cities, contributing to those tax bases, live in San Jose, which has to pay for their services. "A city like San Jose says, 'Look, we're the bedroom community. We're going broke because of it. Share your taxes with us.' What do you think those other cities say?" Brownstein asked. "It's the worst idea they ever heard."

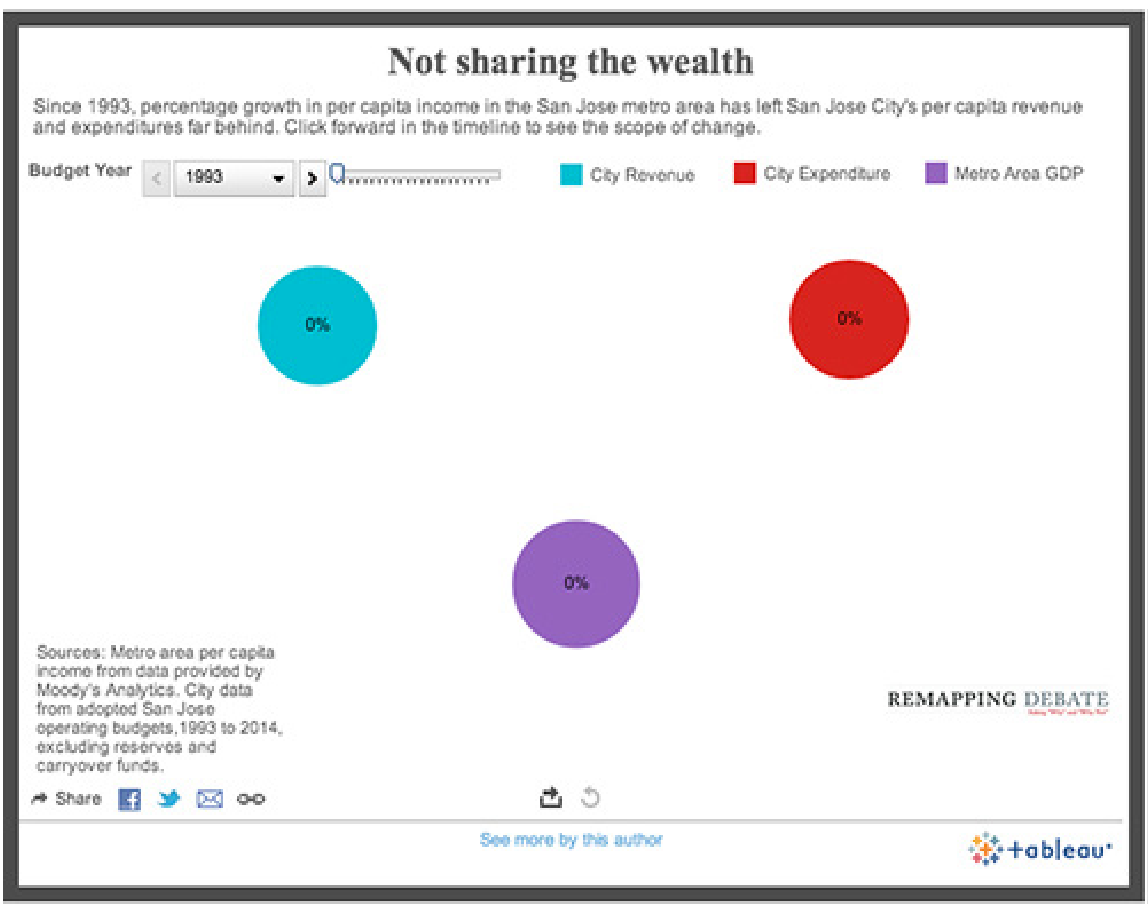
But, Orfield said, this resistance doesn't change the fact that tax-base sharing results in far greater equity and economic well-being throughout an entire region, not just those jurisdictions that get a greater share of the pie. Beyond the principle of it, equitability makes economic sense: less race and class segregation translates into a broader base of workers and consumers participating actively in a regional economy. "If an entire area is stronger, and the citizenry is stronger, then everybody's better off," Orfield said.

Even in strictly fiscal terms, the benefits shared widely among a large group of people and jurisdictions are far greater than the relatively minor losses suffered by rich cities. Orfield prepared several specific scenarios for tax-base sharing in the Bay Area, in some of which as much as 70 percent of the region's population would pay less in taxes but receive more in services. "There are just more people who win than lose," Orfield said.

And even the losers are not actually losers. The insular, small cities that control bountiful tax bases would see such comparatively small drops in their resources that they would be highly unlikely to see any actual decline in services. This is especially the case within Silicon Valley, where the prosperous cities are very prosperous indeed — where a city like Palo Alto, in other words, can afford it. "Overall they would be better off, and in general they have a lot they could share," Orfield said. "They wouldn't even know it was missing."

Just say no

The temptation to play the business incentive game has become deeply embedded in local and state decision-making, so much so that the offering of incentives seems more like a reflex than a considered decision. Nevertheless, there is another course. Chris Hoene, the executive director of the California Budget Project, pointed out that the jurisdictions that make up a region have the capacity to agree amongst themselves to refrain from offering any kind of incentive. This prevents them from competing against one another in the way that, for example, San Jose competes with Palo Alto.



Imagine, Hoene said, “if you took San Jose and Palo Alto and Santa Clara and the cities and counties in the region, and they all said, ‘Look, let’s agree that nobody’s offering sales tax rebates, nobody’s offering business tax incentives,’” and so on. The result would be a pact in which the region would collectively leverage the advantages it already has in a way that didn’t undermine the revenues of individual cities desperate to attract companies within their own municipal limits.

Such an alliance would have the potential to be particularly effective in Silicon Valley, since countless factors other than the tax system have long attracted companies to form, settle, and grow there. “It wasn’t a favorable tax system that led to the growth of the Silicon Valley,” Hoene said. “It was universities, clusters of entrepreneurs, venture capital…The tax system was a minor issue there.”

The war of the regions

There is great concern among area politicians in Silicon Valley that companies will choose other places to expand their operations, or that new companies will decide to settle elsewhere in the first place. Those fears are significantly exaggerated when compared with actual evidence. The Public Policy Institute of California, for example, analyzed detailed business surveys and concluded that these decisions are usually based either on macroeconomic conditions or on independent corporate strategies. California-based companies that choose to expand in other states, for example, usually do so because they want to operate in diverse locations, not because these locations offer better tax incentives than California.

But it certainly is true that companies try to stoke fears of flight in order to get incentives, and that real poachers are out there hunting. “[Companies] will play that card up in the negotiations,” said Hoene, “They’ll look at three plots of land in three jurisdictions. These are corporate lawyers and accountants — they’re very effective in saying, ‘We need the best tax deal you can give us.’ And local governments fall all over themselves in many instances to meet those demands.”

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As for poaching, it has become increasingly common for politicians to aggressively court companies before they even express any intention of moving. In February of 2013, as part of an ongoing campaign to lure companies to Texas, Gov. Rick Perry went on a California tour. The trip included a special stop in San Jose with the explicit purpose of convincing tech firms to defect. His pre-trip pitch included a radio spot claiming that, “Building a business is tough, but I hear building a business in California is next to impossible… Come check out Texas.”

One way to keep local and state officials from being so willing to play the incentive game is to reduce the pressures compelling them to do so — something that may well require action on the federal level. Greg LeRoy, the executive director of Good Jobs First, a group devoted to scrutinizing subsidy deals, said such an intervention could come in the form of withholding federal money.

> "Pointing out the downside of the status quo: You are drowned out unless there are some people with more visibility making those arguments." — Peter Fisher

"Our modest proposal is to use federal dollars as a kind of carrot to get the states to quit raiding each other actively," LeRoy said, referring to job-poaching campaigns of the Rick Perry variety (which are common well beyond Texas). "It's based on the precedent of the way the feds got the states to raise the drinking age by holding back 10 percent of highway trust funds," LeRoy added. The federal government could do the same with block grants from Housing and Urban Development, or funds from the Departments of Labor or Commerce, "to certify that the state is not using the taxpayer's resources to actively pirate from other states. That would cool off a lot of the direct solicitations, the targeted recruitment."

There are different tacks such incentives could take, beyond simply putting a halt to active poaching. There could be strict requirements — far stricter than currently exist — for states to track and disclose the precise economic results of specific subsidy deals, like the number of jobs actually created (rather than moved from state to state). The hope is that these or similar moves would quell what LeRoy's group has dubbed the Job Creation Shell Game, thus empowering states and localities to more actively pursue revenue measures without the paralyzing political squabbles over job flight.

Countering the status quo

There is a frequent complaint amongst those who advocate for a stop to the tax incentive game, along with those pushing for an overhaul of California's inadequate revenue system: not only are elected officials reluctant to act on these problems, they are generally unwilling to even speak about them.

It may seem obvious, but that silence reinforces the public sense that the status quo represents the right path — that there aren't any downsides to the present way of doing things, nor any practical alternatives. The silence heightens this impression all the more when contrasted with the same politicians' practice of claiming that a strategy focused on maximizing new corporate investment will yield rewards for local residents.

Sam Liccardo, a San Jose city councilmember who is also running for mayor, offered a characteristic view. While Liccardo has strongly supported the mayor's efforts to cut worker pensions, he also agrees that the city does not bring in enough revenue. He would thus, in principle, like to see the tax structure reformed in some way — yet this simply isn't something that is talked about.

Liccardo said that it is remarkably uncommon for local officials in California to engage in discussions about the way the state's revenue system leaves their cities with inadequate resources. Asked whether such a discussion, especially coming from many local officials at once, might be a first step toward changing the boundaries of public debate, Liccardo was dubious: "I'm not sure it changes the dynamic any." He, like other officials, also pointed to the fact that most levers for structural reform exist beyond the local level; since these issues are "legislatively out of [his] hands," decrying the state's revenue system and the interstate race to the bottom, even though he objects to both systems, thus falls low on his list of priorities.

Peter Fisher is research director of the Iowa Policy Project, and a longtime critic of how municipalities play the incentive game. He sees public officials speaking out against the status quo as a necessary element of creating a broader public debate and of considering alternative practices. "I spoke up at a public meeting about this — there were several hundred people there. And somebody came up to me and said that's the first time they ever heard anybody say that maybe incentives aren't effective…You are drowned out unless there are some people with more visibility making those arguments."

> "The business guys, when they talk to me and my allies, they say, 'Just so you know, that's nuclear war,'" Goldberg said. "I take seriously that choice of words" — Lenny Goldberg

LeRoy of Good Jobs First described a part of the problem as "anxious politicians trying to look aggressive on the economy in a time of prolonged high unemployment." Many such officials, LeRoy said, "feel trapped in a game whose rules they never would have written. They sort of feel like they've got to do it because everybody else is doing it. But they don't like it, and they understand how distorted their perspective has been by the way the game plays out from their side of the table before the conversation even happens."

LeRoy, however, did cite one recent counterexample. Michael J. Madigan, the speaker of the Illinois House of Representatives, issued a written statement in December with an unexpected diatribe against corporate giveaways. Madigan was "channeling enormous public anger…from small business owners and working families who are making the connection between loose corporate giveaways on the one hand and higher taxes and declining public services on the other," LeRoy wrote in an email. When this happens, "it means politicians have figured out that defending the old way of doing things has a higher political cost than groping for Plan B."

The importance of engendering a broader debate

There are no signs that Madigan's action has yet had the effect of helping other officials around the country find their long-misplaced backbones. That's true even though Fisher pointed out that a politician wouldn't have to step up and say, "We're going to stop doing this altogether." Instead, Fisher said, we "just need people to say, 'We're going to be a lot smarter about how we do this, and we need to be much tougher negotiators and not give away the store and start scrutinizing these deals and developing some criteria.'"

Were a critique like Madigan's echoed broadly in California, that would quite possibly open up avenues for the kinds of substantial change required to address the immediate needs of a city like San Jose. Chief among them is the state's Proposition 13–based tax structure, whereby enormous corporations pay decades-old rates for their commercial lands. It is precisely such change that local officials like Liccardo are unwilling to demand for fear of losing business to places like Texas.

One important obstacle to such reform is the fear that the business community invariably stokes to prevent any serious debate, said Lenny Goldberg, director of the California Tax Reform Association. "The business guys, when they talk to me and my allies, they say, 'Just so you know, that's nuclear war,'" Goldberg said. "I take seriously that choice of words. A nuclear war is unthinkable. You can't do anything to provoke a nuclear war. That means you can't have a discussion."

Not having the discussion means that structural reforms remain unpursued and that subsidies and incentives continue unabated. It means, said Peter Fisher, that people won't "realize it's things like investments in quality education and quality of life…that is going to make the most difference in the long run. You are undercutting your ability to do that when you underfund the public sector because you've given all the tax revenue away to get jobs."

And it means that even more fundamental questions don't get asked. For example, said Fisher, it would be a "healthy view" to recognize that a region can prosper even if it isn't a growth machine. "Why do we need to grow rapidly?" he asked rhetorically. "Why wouldn't we be better off just making life better for the people that are here now?"

The current practice of providing incentives reflexively, important in and of itself, is also a signal of a deeper compliance. "The money winds up standing in for how accommodating the bureaucracy is going to be," said Nari Rhee, the urbanist and labor scholar formerly at the University of California, Berkeley. This, in turn, is an expression of the notion that local governments are duty-bound to cater to the needs of the corporate sector. "That notion is so generalized and insidious," Rhee said. "Everyone seems to have internalized that this is the way it works."