REMAPPING DEBATE
Asking "Why" and "Why Not"

Left behind: San Jose and the broken promises of the neoliberal era

Original Reporting | By David Noriega | Corporate influence, Urban Policy

March 5, 2014 — San Jose, California, was ranked as the country's best-performing city in 2012. That was according to the Milken Institute, an economic think tank that rates metro areas according to job creation and other indicators of growth. The San Jose metropolitan area corresponds roughly to the Santa Clara Valley, popularly known as Silicon Valley — the engine of the ongoing tech boom.

The fate of San Jose reflects, in significant measure, the story of the inadequacies of the neoliberal model, even when applied to a wealthy region and city.

But things on the ground in San Jose in 2012 were not all right. Budget cuts and labor disputes had eviscerated the city's workforce. San Jose's police force lost a quarter of its officers, and its wastewater treatment plant faced serious staff shortages as engineers and technicians fled to neighboring cities that were not service-deprived. San Jose's Democratic mayor, Chuck Reed, driven by a single-minded focus on the city's expenditures to the exclusion of the revenue side of the budget, led a charge to cut pension benefits for city employees.

As economists continue to celebrate Silicon Valley's explosive creation of wealth and high-tech jobs, its biggest city — the third largest in California and tenth largest in the nation — tells a more sobering tale.

While San Jose has restored some basic services in the last year, it is still cash-strapped, and the battle over pensions goes on in the courts.

While the creation of private wealth has been resoundingly achieved, prosperity is ever more concentrated. In the same city that boasts census tracts with median household income as high as $125,000, signs of a deeper inequality proliferate: a vast homeless encampment along Coyote Creek grows ever more sprawling, and immigrant families crowd two or three at a time into single-family homes on San Jose's east side. More broadly, the government of San Jose and a large share of its people have grown increasingly isolated from the better fortunes of the region.

What could explain these contradictions? Remapping Debate's intensive two-month investigation has found that this isolation is, in significant measure, the story of the inadequacies of the neoliberal model, even when applied to a wealthy region and city. San Jose has been dedicated foremost to fomenting business growth and wealth creation on the assumption that broadly shared prosperity would follow. That promise of shared prosperity has not been delivered.

San Jose's ongoing attempt to pay for its budget deficits with the pensions of its workers is only the latest round in this pattern of upward redistribution. The attempted pension cuts follow other, post-recession austerity measures: San Jose now employs about 1,300 fewer workers than it did before the crash, and spends about 15 percent less per city resident.

Revenues have plunged similarly, about 12.5 percent per resident, yet efforts to find ways to fund the services that the city's residents need have been limited or non-existent. This neglect applies both to established means of raising revenue and to deeper changes to the tax code — changes on a level equivalent to the way San Jose's mayor is seeking to reform state contract law to more easily cut pensions.

Proposals to reform the tax code exist, beginning with changes to California's incongruous property tax system, which awards enormous benefits to commercial landowners. In San Jose, some of the wealthiest corporations in the world, companies like Cisco Systems and IBM, pay pennies — sometimes fractions of a penny — per square foot in taxes for some of the most valuable commercial land in the country. Other tech giants like Apple, Intel and Google enjoy similar rates nearby.

The revenue problem in San Jose is an old one. For decades, the city has been incapable of capturing enough of the vast wealth created in the region to sustain its burgeoning population. After World War II, San Jose exploded in size, pursuing a growth strategy that left it bloated with residential development yet short on industry. It became a massive suburb for the rest of the Valley. Then the national tax revolt kicked off in California in 1978 with Proposition 13, which permanently cut property taxes to the bone and made it extraordinarily difficult for local governments to raise revenues of any sort. California's tax revolt augured the anti-urban politics of the Reagan years, which saw a substantial cut in federal money available to cities.

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This laid the groundwork for a profound regional imbalance that exists to this day. Smaller cities in the Valley —the Palo Altos and Cupertinos of the region — boast deep wells of industry-generated revenue to service very small, mostly well-off populations; conversely, San Jose is burdened with a million inhabitants, many of them poor, and never enough industry or retail to support them. The smaller cities benefit from the arrangement, since much of the workforce for their companies, especially in the low-wage service sector, lives in San Jose. Over the last three decades, San Jose and its neighbors have pushed aside solutions that would have corrected the imbalance by, among other things, integrating the tax bases of the various cities in the Valley and the Bay Area.

Instead, San Jose responded to the tax revolt and federal cutbacks by casting itself explicitly as an entrepreneurial venture. Its paramount mission from the 1980s on was to attract and retain business investment—to facilitate the creation and growth of wealth. To this end, the city engaged in decades of high-cost, high-risk subsidies designed to attract business and its attendant class of creatives and upscale consumers. The subsidies went in two directions: large industrial parks mostly in the north, and a gleaming new downtown of office towers and luxury hotels.

By and large, the winners have been corporate interests, chief among them real estate developers, large commercial landowners, and tech corporations. Indeed, to the extent that there has been regional coordination in the Valley, it has been spearheaded by and molded to the benefit of the business class.

The entrepreneurial approach to local governance, of which Silicon Valley was an early adopter, is now the national norm. Increasingly, cities, regions, and states compete for mobile capital in a desperate game of tax incentive and subsidy one-upmanship that turns local and state governments into supplicants and runs the risk of leaving them starved.

This fear that those with capital can just up and run — the sense of panic at the thought that money and jobs and growth will go somewhere else — guides the thinking of local policymakers to an exceptional degree. It certainly does in San Jose and elsewhere in the Valley. Specifically, it short-circuits any policy approaches premised on asking more of the people who control the majority of the capital — those who can best exploit its mobility and regularly threaten to do so. Even though many of the technologies that allowed for capital mobility originated in Silicon Valley, the problems that such mobility causes extend far beyond the region, as do the most full-fledged solutions.

Meanwhile, metro areas around the country have dedicated themselves to trying to emulate the Valley's success. Places like Austin and Raleigh and even New York are seduced by Silicon Valley as economic metaphor, a sure-fire machine for the production of wealth. But Silicon Valley the place, that patch of land south of the San Francisco Bay between the Santa Cruz Mountains and the Diablo Range, is an object lesson in the downside of entrepreneurial government. The winnings have been uneven and the costs have been great. And within the Valley, San Jose has come to bear many of these costs: a prolonged fiscal crisis, a rapidly eroding middle class, and a disproportionate and concentrated share of the growing underclass that characterizes today's economy.

In Part 1 of this series, we examine the impact of San Jose's budget crisis on its residents, the current efforts at pension reform, and the corresponding lack of attention to solutions on the revenue side.

Part 2 looks at the history of economic and residential development in San Jose since the middle of the 20th Century, describing how unrestrained suburbanization, followed by a sharp turn toward neoliberalism, put the city where it is today.

Part 3 takes a closer look at the disparities and imbalances created by this history and by the neoliberal model, both within San Jose and in the region of Silicon Valley.

Finally, in Part 4, we explore different approaches to resolving the problems of the city and the region and report on why they have not been more seriously pursued.

Continue to Part 1 of the series.