REMAPPING DEBATE
Asking "Why" and "Why Not"

The delusions of an American Technopolis

Original Reporting | By David Noriega | Globalization, History, Urban Policy

Previously in our series: Introduction and Part 1

March. 6, 2014 — In the middle of the 20th Century, the Santa Clara Valley was known as the Valley of Heart's Delight. Before the suburban tract housing and industrial parks, the land was covered in rows of fruit trees; the nickname came from the perennial bursting into color of the orchards at bloom time.

> "This is one of the wealthiest areas in the country, but at the same time there's an acceptance that there just 'isn't enough' for a lot of basic social needs—even though there's always been enough for development." — Nari Rhee

The decades after World War II visited changes on the region so complete as to utterly transform it. The first seeds were planted by the Cold War defense and aerospace research complex, in the form of federal dollars injected into Stanford and other institutions nearby. What we think of as Silicon Valley industry originated in this period, with companies like Hewlett-Packard and Fairchild Semiconductor employing the engineers and businessmen who would go on to found Intel, Apple, and the rest.

In a parallel process some 20 miles south, San Jose, until then a midsize agricultural and commercial town, entered a twenty-year paroxysm of growth. A city manager named Dutch Hamann set about expanding the city in an unprecedented frenzy of suburban sprawl. Between 1950 and 1970, San Jose's population more than quadrupled, and its land area grew from 17 to 149 square miles. Hamann's team came to be known as the Panzer Division, conquering territory by annexing community after community, building new sewers and roads, and subsidizing construction on a mass scale.

San Jose in this era was an extreme version of what urban scholars call a growth machine: a coalition of government, developers, and real estate interests pursuing the shared goal of intensifying land use and raising property values. According to Terry Christensen, the San Jose State University professor emeritus of political science, the city was a "developer's paradise" endowed with the standard Sun Belt offerings: "a good climate, low taxes, plenty of land for low-rise, low-cost buildings, and an absence of unions." San Jose continued to grow in the decades that followed, but never with the unrestrained abandon of the Hamann years.

As growth slowed somewhat during the 1970s, the city began to see a steady and eventually astronomical rise in property values. In "Net Loss," a book about the sociopolitical consequences of technological change in Silicon Valley, Nathan Newman writes that this rise was fueled by technologies, most of them developed in the Valley, that allowed for global investment in property markets. "Investors in the United States and around the world were playing increasingly speculative games in the housing market, especially the booming growth cities of California," Newman writes.

For a time, this translated to rising revenues for the city of San Jose. Indeed, had the city been able to rely on steadily increasing property taxes, it might have remained a fiscally sustainable bedroom community for the rest of the Valley. But that possibility was revoked, suddenly and sharply, with the passage of Proposition 13 in 1978. The referendum altered California's politics and government finances profoundly.

Largely a response to the rising property taxes that came with the speculative surge in housing values, Proposition 13 capped property taxes at 1 percent of assessed value and prohibited upward assessments of land, other than inflation indexing, until property changed hands. Even adjustments to assessed value to account for inflation were capped at 2 percent a year regardless of whether the inflation rate was higher. Thus, even if a property's actual market value skyrocketed, the assessable value tended to remain low on the governments' books.

Lastly, Proposition 13 required voter consent (in most circumstances by supermajority) for the passage of any new taxes. The theory — which proved correct in practice — was that voters would be reluctant to take the active step of taxing themselves more. In short order, the law crippled the ability of every locality in California, and of the state itself, to raise revenues.

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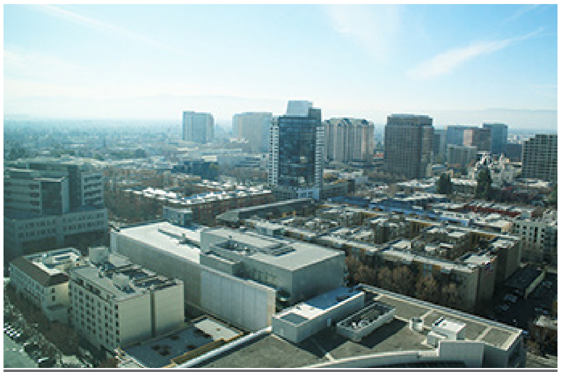
Almost immediately after California's tax revolt, the Reagan administration oversaw a drastic scaling back in the funds the federal government provided to cities and counties for social programs. These changes ushered in an era of "selective fiscal austerity," as described by Nari Rhee, a labor scholar and urbanist previously based at the University of California, Berkeley. (Rhee is now research manager at the National Institute on Retirement Security; she spoke with us in her individual capacity, not as a representative of her current employer.) The focus of local government moved decisively away from the provision of social services and toward "economic development," or the competitive drive to win business investment. While resources for the former became scarce and dwindling, money for the latter, in the form of development subsidies and tax incentives, was never in short supply.

Following the neoliberal playbook

Tom McEnery, a Democrat and businessman from a prominent local family, was mayor of San Jose through most of the '80s and into the early '90s. In 1994 he published a book narrating his experience and outlining his philosophy of local governance. "The New City-State" reads like an enthusiastic handbook for the neoliberal American mayor. "The modern city is like the modern company," McEnery wrote. "The new city-state is an entrepreneur." McEnery framed his approach as a positive response to the drying up of federal money, dependence on which had made American cities "like a heroin junkie on methadone, or a welfare queen addicted to food stamps."

The key mission of McEnery's "start-up city" was to court, cater to, and emulate the private sector. McEnery relied on many of the standard means to achieve this, like keeping business taxes low, if not waiving them altogether, and fostering close personal relationships with luminaries of the business class. But he also made shrewd and innovative use of redevelopment, a state-level series of legal and financial structures designed to foster local investment in blighted areas.



San Jose funneled billions of dollars during the '80s and '90s into questionable redevelopment, an important factor in the city's current fiscal straits.

The McEnery administration took large swaths of agricultural land in northern San Jose and, creatively stretching the intended legislative definition, declared them "blighted." This brought them under the purview of the redevelopment agency, which leveled the farmland and subsidized the construction of expansive industrial parks. In another inventive legal maneuver that pushed the boundaries of redevelopment, McEnery then diverted the revenues generated by this new industrial tax base into his one true ambition: revitalizing San Jose's downtown. The postwar decades of breakneck suburbanization had drawn the life out of the city's small but bustling center. McEnery, who grew up downtown and whose family had several commercial holdings there, had watched the neighborhood waste away. He resented Dutch Hamann's growth machine, so he set about creating his own.

During McEnery's administration, through the '90s and beyond, downtown San Jose was completely transformed, donning the appearance of a major urban center's commercial district: broad avenues lined with office buildings and luxury hotels, a convention center and a sports arena, and museums of art and technology. Some $2 billion went into this wholesale rebuilding of the city core.

McEnery's grandiose downtown vision sought to wrench the city once and for all out of its "identity crisis" by linking San Jose directly to the economic lifeline of the region's high-tech industry. Where San Jose had been a generic, if large-scale, suburb, "I intended to annex the virtual city of Silicon Valley, to make San Jose known as the 'capital' of that ethereal realm," McEnery wrote in "The New City-State." The guiding principle was that such a reinvention would benefit the community as a whole by growing the city's tax base, attracting and creating jobs, and turning San Jose into an economically vital urban center.

But in several crucial ways, redevelopment in San Jose constituted what Rhee describes as "a massive regressive transfer of resources." Redevelopment in California was funded by a mechanism called tax increment financing, whereby any increase in property taxes caused by a redevelopment project was funneled back into the redevelopment agency. This means that money generated by industrial growth did not go to school districts, to the state, to the county (which runs most social welfare programs), or even to the rest of the city's budget.

Instead, the money went to developers and real estate interests, directly or indirectly. In this crucial respect, McEnery's growth machine was not so different from Hamann's. "Redevelopment was a giant subsidy machine," said Bob Brownstein, the research director at Working Partnerships who was the city's budget manager in the mid-'90s. "It either subsidized the infrastructure or subsidized the development itself."

Much of this money went into direct subsidies to attract businesses like hotels to the city's core: press reports estimated $38 million to the Fairmont, $19 million to the Hilton, and so forth. The total of direct subsidies is at least in the tens of millions, and likely in the hundreds of millions, but the precise sum is unclear — the distribution of redevelopment dollars was notoriously opaque. "Reading a redevelopment budget was like reading an encoded document without having the code," Brownstein said.

The redevelopment fever marked the apex of what Rhee identified as the regime of selective austerity. In times of fiscal trouble, San Jose and the Santa Clara County would trim budgets for community centers, parks, and other social services. Yet, both because of the various legal structures protecting it and the zealousness and power of its champions, the redevelopment agency's profligacy tended to go undisturbed. Occasional but important exceptions came only after years of sustained pressure from grassroots advocates of causes like affordable housing and community development.

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California's current governor, Jerry Brown, ended redevelopment statewide in 2011. But the pattern of prioritizing economic development at the expense of social spending, according to Rhee, holds to this day, even if the mechanisms have changed. "The politics of selective austerity have deeply, deeply taken hold," Rhee said. "This is one of the wealthiest areas in the country, but at the same time there's an acceptance that there just 'isn't enough' for a lot of basic social needs — even though there's always been enough for development."

Do right by us, and everybody wins

In 1992, tech firms in Silicon Valley were going through a slump. Job growth was slow, venture capital was declining, and companies were spending less on research and development. In response, business leaders formed Joint Venture Silicon Valley, a coalition of corporate interests, most of them in high-tech. As Newman chronicles in "Net Loss," Joint Venture went on to play an outsize role in shaping regional politics for years to come.

The founding document of Joint Venture, a report entitled "An Economy at Risk," sounded a somber tone about the economic future of the Santa Clara Valley. Tech firms were restructuring to respond to globalizing markets and international competition, outsourcing manufacturing work and becoming, as they would describe it, nimbler and leaner. As such, cities in the region stood to lose the immediate economic advantages of having such corporations in their midst.

In light of these changes, Joint Venture presented three possible scenarios for the region. In all three, tech firms adapted to globalization and stayed profitable, but only in one would the benefits be shared throughout the surrounding communities. The report christened this scenario the "American Technopolis" — "a dynamic community that supports technology enterprises and retains value added, employment, and wealth." In the American Technopolis, "companies and the community both win."

By Joint Venture's estimation, the metrics of such broadly shared, regional success were employment growth, a rising per capita income, and investment in the types of public infrastructure that met the needs and expectations of the tech sector. One of Joint Venture's prescriptions for achieving this was the creation of a "pro-competitive" regulatory and tax environment, meaning few regulations and low taxes. Indeed, one of Joint Venture's early successes was winning a sales tax waiver for commercial and industrial equipment.

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> — Nathan Newman

In its other two scenarios — one a "High-Tech Manhattan" housing corporate headquarters, the other a "Virtual Valley" that remained more or less static — the report concluded that the region would lose out from the simple absence of growth. But what Joint Venture's predictions failed to specify was how, exactly, the benefits of corporate expansion would come to be broadly enjoyed by all residents of the American Technopolis. It simply assumed that growth would translate into broader opportunities.

The undercurrent guiding this entire conversation was the increasingly frictionless mobility of capital. As Newman writes in "Net Loss," "the implication was clear that companies in a thoroughly global economy would seek out other regions that would fulfill their needs if the Bay Area failed to do so …The reality was that while the economic action of technology innovation might be local, the power of corporations to pick and choose their venues was global and outside the control of the local actors who desperately tried to negotiate with these global partners."

This shift was accelerated by policy at the federal level, where the government not only failed to consider the downsides of globalization but worked actively to stoke it. "Financial deregulation in many ways disempowered localities," Newman told Remapping Debate. For a long time, capital circulated largely within regions, until arcane derivatives that became possible in newly deregulated financial markets dissolved geographic boundaries. "Everybody talks about how securitization — packaging mortgages into bonds and selling them globally — created this crazy casino economy. But it also meant that a lot of money would no longer be circulating locally."

There were many people in the Bay Area political scene, Newman said, who warned about the damage globalization would bring to localities and scrambled for ways to respond. They pointed out, for instance, that the ability to easily outsource labor would not only draw jobs away from the region but would also exert downward pressure on work standards, environmental regulations, and the like. But in and around Silicon Valley, elected officials — much like the corporations whose calls they were happy to heed — tended to embrace capital mobility as a cause for adaptation rather than a force to resist or curtail. This became especially true only a year or two after Joint Venture's report, as the dot-com bubble began to inflate over the Valley and record growth brought new, if fleeting, revenues to city coffers. "As the high-tech boom was taking off," Newman said, "everyone was just enjoying the ride."

Running in place

Around that time, San Jose became grew better at playing the economic development game. During the 1990s the city won its biggest trophies in the hunt for corporate headquarters: Cisco Systems moved to the northern industrial zone from Menlo Park in 1993, and the following years saw the birth of eBay and PayPal. Crowning the downtown vision of McEnery and his successors, Adobe moved to a brand new office tower in the city core in 1998, but only after it secured a $35 million subsidy.

Meanwhile, inflated by the dot-com boom, almost all of Joint Venture's predictions about regional prosperity came true: job growth, rising per capita incomes (accruing primarily in the tech sector), regional investments in light rail and other public infrastructure benefitting tech companies and their employees. This was the American Technopolis seeming to deliver on its promises.

But one aspect of Joint Venture's vision remained elusive: the notion that "the community" would win alongside the companies. Working Partnerships released a report in 1998 that pointed out a few important but underappreciated trends that accompanied the region's new levels of economic growth. Among them were rising income inequality, declining wages for much of the population, and rising housing costs. For most people not directly involved with tech, the report pointed out, these changes made life worse, not better.

> So why didn't the growth model that San Jose pursued for decades, a model whose principal focus was attracting business and raising the value of land and property, do better? "Over the long cycles of how cities evolve and devolve, that model feeds on itself, it undermines itself," said Chris Hoene.

The picture that emerged in the late '90s is much like the one today. "Silicon Valley is a very unequal region when measured by household income," said Chris Benner, who wrote the 1998 report and is now a professor at the University of California, Davis. "You have very few high-level, high-tech jobs, where people are making tremendous amounts competing in a global market around global industries. And then you have a growing number of low-wage service sector jobs." As the years progress, these two segments grow increasingly polarized and disconnected.

This drifting apart of the tech sector from the rest of the population was mirrored in the diverging fortunes of the smaller cities in the Valley and San Jose. Through the latter half of the 20th century, while San Jose ballooned into an oversized suburb, Palo Alto, Mountain View, and the rest kept small populations. At the same time, they hosted the birth and growth of what would become today's tech giants. Wealth flowed to these towns, where it accumulated and was invested into the kinds of services and amenities that San Jose would have mounting trouble keeping up: parks, libraries, police. (This divergence is examined closely in Part 3 of this series.)

By contrast, San Jose's aggressive pursuit of economic development throughout the '80s and '90s did not, in the end, do much to solve its longstanding fiscal problems. The new downtown became a carousel of short-lived retail establishments, never managing to retain any of the kinds of luxury shopping that makes a city thrive on a central commercial district. To this day, street-level stores open and close frequently, and vacancies are not unusual. Outside of days when events bring transient crowds to the arena or the convention center, downtown San Jose has the feel of an abandoned movie set: a series of structures built for a purpose that never quite materialized.

The fiscal picture was made worse by the fact that the redevelopment machine siphoned resources into high-capital projects, like the arena and the convention center, initiatives that cost more than they brought in. Even now, after Governor Brown shut down the redevelopment program statewide, the successor to San Jose's redevelopment agency still has close to $2 billion in outstanding debt, leaving the city and its residents stuck with bond payments that drain its treasury.

Worse, San Jose continued to grow, adding to the population needing basic services at a rate that still outstripped the revenues the city could draw to pay for them. The city was already on insecure footing when the dot-com bubble burst over Silicon Valley, so the recession that followed in the early 2000s hit the city especially hard. It was still reeling by the time the financial crash of 2008 pushed it about a hundred million dollars underwater.

So why didn't the growth model that San Jose pursued for decades, a model whose principal focus was attracting business and raising the value of land and property, do better? "Over the long cycles of how cities evolve and devolve, that model feeds on itself, it undermines itself," said Chris Hoene, the California Budget Project director. "Suddenly cities find themselves in a spot where they have to provide a high level of services, but they don't have the resources for it because they signed on to this low-tax regime. And then they're stuck."

Thus, through cycles of boom and bust, San Jose's patterns of development left it perennially unprepared to weather the downturns. "You know that line by Donald Rumsfeld that says, 'You go to war with the army you've got'?" Bob Brownstein asked. "Well, you face a recession with the tax base you've got. That has always been San Jose's problem."

Continue to Part 3 of the series