REMAPPING DEBATE
Asking "Why" and "Why Not"

This valley is their valley

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

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

March 12, 2014 — Russell Hancock pointed out the window of his downtown office at a complex of three corporate towers, shining white and hive-like in the dry sun of the valley. “That’s Adobe’s world headquarters, right there,” he said. “And yet it’s a cocoon. You don’t see people coming in and out of that building.”

Hancock, the president and CEO of Joint Venture Silicon Valley, continued. “We used to have this theory that if companies located here, there would be a spillover effect: people shopping in restaurants and patronizing establishments and all of that. The new model is companies build these cocoons, and they put in the dry cleaning and the dentistry and the car washes and food and all of that inside the cocoons, and nobody ever leaves.”

“The middle class is shrinking, the lower end is growing, and technology isn’t a tide that’s lifting all of the boats in the way that it used to.” — Russell Hancock

Not long after it prophesied the arrival of the American Technopolis, Joint Venture began publishing a yearly Index of Silicon Valley, a detailed demographic cross section of the region that has come to depict a number of unsettling tendencies. “This valley, everybody thinks of it as highly prosperous, dynamic, firing on all its cylinders,” Hancock said. “That’s, of course, true. But it’s only true for one set of people” — the so-called “digerati,” the highly skilled, highly educated techno-elite, laden with disposable income. “This valley is full of them, but they’re the only ones who are thriving. The middle class is shrinking, the lower end is growing, and technology isn’t a tide that’s lifting all of the boats in the way that it used to.”

This kind of polarization is, of course, widespread beyond Silicon Valley and the San Francisco Bay Area. But it has particular salience in connection with this region, not least because that is where many of the technologies emerged that facilitated, among other seismic changes, the globalizing of labor and financial markets. And, because of the degree of wealth concentrated in the region, the South Bay is a particularly stark example of inequality. It is also a window into the spatial and political nature of that inequality — the ways disparities are arranged across the land in patterns of poverty and wealth, and how much this has to do with the ways cities and regions organize themselves along lines that deepen, rather than mitigate, those patterns.

Entrepreneurialism by default

In certain ways, Silicon Valley has followed a common pattern, one not unlike the failure of intra-regional cooperation that (as Remapping Debate has reported in the past) contributed heavily to the downfall of Detroit. "The functional economic unit is the regional economy," said Chris Benner, the professor of regional development at UC Davis. "But there are these separate cities. And the resources of that economic unit are not available equally to those who are living within it."

This means the various individual cities of Silicon Valley and the Bay Area are locked in a de facto competition with one another for those resources. There is a tendency in the Valley to underplay or deny this reality, and to focus instead on the region's coordinated effort to compete with other regions around the world bent on siphoning up a portion of the spoils of the tech boom. But as long as the municipalities of the Valley operate as individual entities, they will continue to do anything necessary to bolster their separate balance sheets, regardless of the consequences for their neighbors. Competition is the default state.

> "Strength builds greater strength. Families and businesses that have choices go to places where they can have low taxes and great services, and where they don't have to take care of poor people. And the more a place becomes like that, the more attractive it is." — Myron Orfield

In the resulting matchup of entrepreneurial cities, San Jose is the battered underdog — the jurisdiction always trying to keep its head above water, but getting weighed down more with each deal it makes. "The city has pretty much always been willing to give those big industry folks whatever they want," said Terry Christensen, the retired political scientist from San Jose State University. "That's always been our chronic problem: having to take whatever will come our way rather than setting the standards and choosing between companies."

The examples are numerous. There was a time around 2008 when San Jose thought it had scored a huge victory: Tesla, the hyper-luxury electric car manufacturer, agreed to move from San Carlos, a city 25 miles away in San Mateo County, to a plot of city-owned land in north San Jose. The move would bring the multibillion-dollar company's headquarters and a large assembly plant. The city's offer in the deal was substantial: a free 10-year lease on the land, with very low rates thereafter, and about $1 million in rebated development fees. Evidently that wasn't enough. In 2009 Tesla moved its headquarters, along with a smaller production facility, to the Stanford Research Park in Palo Alto, a perennial victor in the game of capital courtship.

Over time, a feedback loop arose in the way resources flow to the different municipalities and populations in the region. Smaller, more successful cities with stronger tax bases are able to invest more heavily in the services and infrastructure that, in turn, make such cities even more attractive. Less, then, flows to San Jose, which continues to lose fiscal resources to economic development subsidies that never seem enough to right the imbalance.

“There’s a momentum,” said Myron Orfield, director of the Institute on Metropolitan Opportunity at the University of Minnesota and a prominent figure in the field of regional governance. “Strength builds greater strength. Families and businesses that have choices go to places where they can have low taxes and great services, and where they don’t have to take care of poor people. And the more a place becomes like that, the more attractive it is — if you can afford to live there. Because usually the price of admission is huge.”

And so, Palo Alto spends about $2,400 of its general budget on each of its residents per year; San Jose spends about $900. This buys Palo Alto about 25 police officers per 10,000 residents; San Jose has enough for about 10. Palo Alto spends about six times more per resident than San Jose on parks and community services alone. “We have a children’s theater, we have a junior museum, we have an art center…We have a lot of things that a city our size wouldn’t normally have,” said Claudia Keith, chief communications officer for the city of Palo Alto. “I don’t think you’d find six libraries in too many other cities this small.” Indeed, you wouldn’t: most cities Palo Alto’s size (some 66,000 people) don’t have their own libraries at all, relying instead on county systems.

Even as countless municipalities across the state have privatized their utility systems piece by piece over the decades, Palo Alto has remained the only city in California that owns and operates its entire utilities suite — water, electric, gas, sewer, storm sewer, and trash collection. Never to be outflanked on the tech front, Palo Alto is en route to installing citywide fiber optic Internet.

Peaks and troughs

This fiscal asymmetry is intertwined with broader inequalities in the way wealth is distributed across the region. While many wealthy people live in San Jose’s upscale neighborhoods, they tend to cluster disproportionately in the smaller cities to the north and west. Palo Alto, Cupertino, and Mountain View combined, for example, have about 13 percent of the population of Santa Clara County, but 21 percent of the county’s residents earning more than $200,000 a year. Similarly, those cities have almost 19 percent of those who earn income from interests and dividends, but only 6.5 percent of people on public assistance.

On the other side of the divide, San Jose has about half the population in the county, yet it houses — mostly in poor neighborhoods on the east side — about 65 percent of the people who receive public assistance, and nearly 70 percent of the adult population without a high school diploma.

This social polarization is reinforced by the fiscal imbalance. “The most direct impact is going to be on the school system,” said Benner. In California, the state allocates money to schools based on attendance. “But what [an analysis of the budget] misses is that an awful lot of resources for the schools, especially for the extra things, come from the parents.” It is common in rich enclaves throughout the Valley for parent-run nonprofits to raise hundreds of thousands if not millions of dollars a year to supplement local schools. Needless to say, parents in poor neighborhoods cannot afford to raise such funds.

"That kind of inequality exists dramatically in Silicon Valley, where schools in East San Jose are simply not going to have the kinds of resources that schools in Cupertino or Sunnyvale will," Benner said. "And, of course, on top of that, when you're surrounded by other relatively wealthy families with highly educated parents who are actively involved in the school system, the quality of the education is going to be higher."

> "The functional economic unit is the regional economy…But there are these separate cities. And the resources of that economic unit are not available equally to those who are living within it." — Chris Benner

The concentration of rich and poor in different parts of the Valley has been accompanied by a squeezing of the middle class — between 2006 and 2012, according to Joint Venture Silicon Valley, the percentage of middle-income households in the Valley (defined as having incomes between $35,000 and $99,000) dropped from 40 to 35 percent. The clearest driver for this phenomenon is the steep and steady rise in the price of housing. According to Working Partnerships, since 2010, rent increases in the San Jose metro area have been the highest in the nation. Twenty-five percent of renters in San Jose proper pay more than half their income in rent; in Palo Alto, the figure is 15 percent. Housing values, too, have soared, pushing middle-class households almost completely out of the most expensive cities. Not even the people employed directly by these cities can afford to live in them: out of the thousand plus people who work for Palo Alto's city-owned utilities, only between 5 and 7 percent live in Palo Alto.

San Jose is, in large measure, the bedroom community for workers like these. But there, too, rising housing costs have squeezed middle-income families and, in many cases, displaced them outright. This creates a commuting pattern that Benner described as shaped like an inverted U: the large majority of those who commute into the Valley every day are middle-class workers, with very few commuters on the upper and lower ends of the income scale. "If you're wealthy, you can live in the Valley. High housing costs don't mean much to you," Benner explained. "But if you're middle class, you have to commute a much longer distance — you live out in Livermore or Tracy," cities on the periphery of the Bay Area. "Because your housing costs are lower, your transportation costs are higher, but you can afford the trade-off."

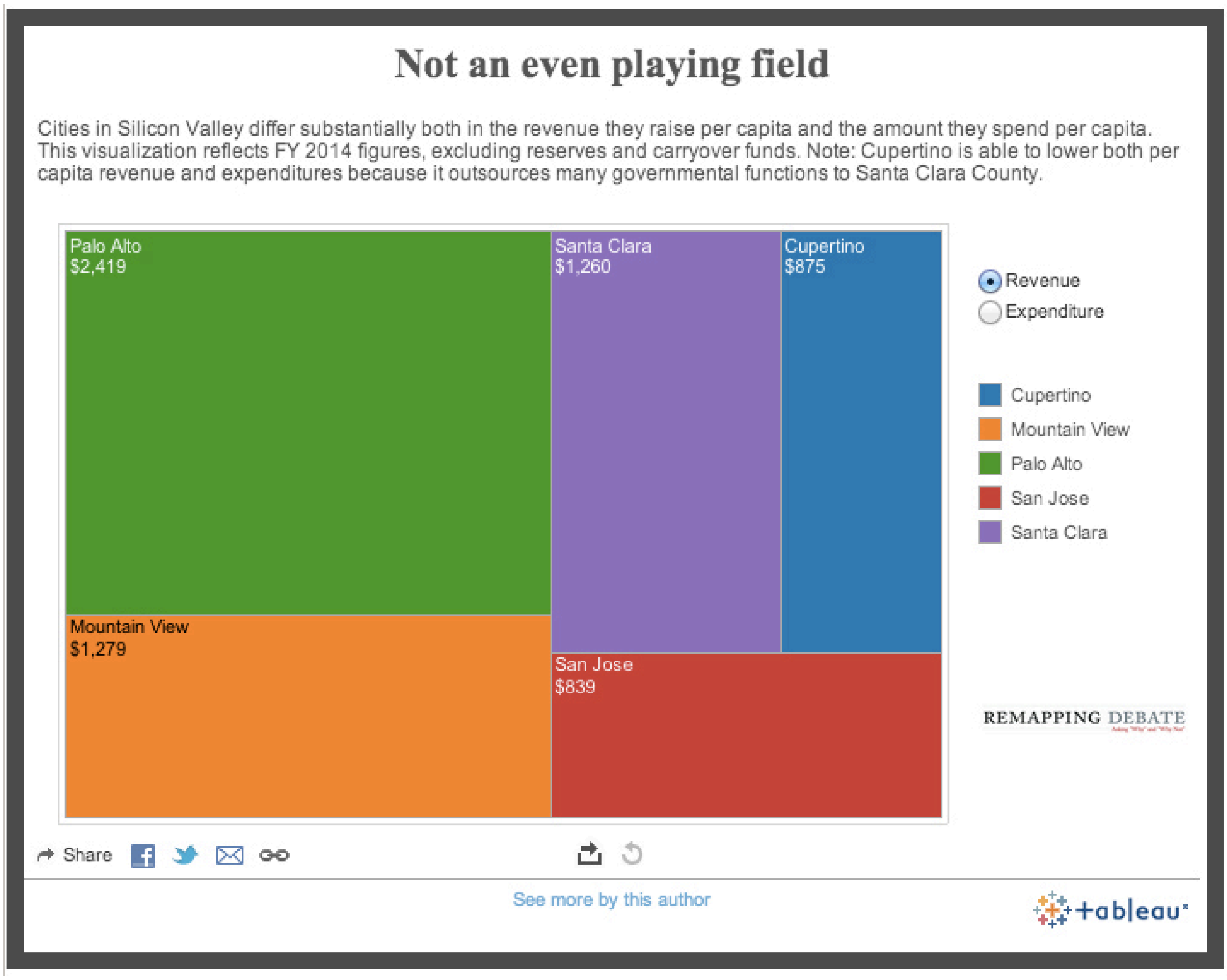
Then there is the bulging underclass, an increasingly stagnant group of low-wage, predominantly immigrant workers in the service sector. As Hancock described them: "The people who mow our lawns and clean our houses." According to Working Partnerships, the number of households making less than $10,000 a year doubled in the first decade of the millennium. Unlike people in the middle range, these workers cannot afford a long commute, so they need to live somewhere in the Valley, but they also can't afford the housing. "So how do you do that?" asked Benner. "Well, you double up, triple up, quadruple up."

Most of that happens in San Jose. On the east side, it is routine for multiple families to crowd tightly into a single home. Camille Llanes-Fontanilla, the executive director of a community nonprofit in Mayfair, a neighborhood on the Eastside, said overcrowding is ubiquitous. "A large part of our work is organizing, and that includes a lot of door knocking," she said. "We estimate that about 75 percent of all the single-family homes in Mayfair have three or four families each — at least." When Llanes-Fontanilla or one of her organizers walks into a home, they can tell more or less immediately that there are several families in the main space. "But a lot of them actually have back quarters, too, or people living in the garage."

Overcrowding reinforces the flow of poverty into the same parts of the city and the region. "People in Sunnyvale or Cupertino aren't going to let four families move into one house," Benner said. "It's going to be concentrated in places where there is already a certain amount of poverty." Thus, a disproportionate share of the region's ballooning underclass is absorbed into East San Jose — a neighborhood that for years was known by the Spanish nickname Sal Si Puedes, or Get Out if You Can.

Overcrowding also skews the statistics on household income. Though Mayfair's median household income, for example, is somewhere in the $30,000 range in the eyes of the census, that "household" might be measuring the incomes of several low-income families living together. In Llanes-Fontanilla's reckoning, most families actually have income close to $10,000. "You just need that many people in a house to be able to live here on those wages."

Even by the official measures, San Jose has a disproportionate concentration of low-income people: 57 percent of households and 63 percent of families earning less than $30,000 a year.



Cooperation, by whom and for whom?

Over the decades, several people have observed the imbalance in Silicon Valley and suggested some variation of the same fix: find ways to integrate the tax bases of the many municipalities in the Bay Area to defuse the competition and unwind the destructive patterns of wealth concentration and deprivation. (Orfield, the University of Minnesota professor, was among the proponents of these plans, which are discussed further in Part 4 of this series.)

Instead, Silicon Valley pursued a different kind of coordination: one spearheaded by business coalitions with the goal of making the Valley an ever more friendly place for business. Thus we have the mayor of Cupertino, Gilbert Wong, telling Remapping Debate that, rather than compete amongst themselves, the cities in the region "work together." They do so specifically under the coordination of the Silicon Valley Leadership Group, a major business coalition founded in 1978 by David Packard, of Hewlett-Packard fame. Tellingly, the core intention is to "sell" the region to businesses that might consider settling or growing there—or elsewhere.

"We have to work together to be competitive," Wong said. "If one of our cities can't accommodate a company, we don't want them to go to Austin, Texas, or to the [Research] Triangle in North Carolina. So through the Leadership Group, and through the chambers of commerce in the cities, we've been working together as one entity to sell Silicon Valley."

A regional light rail line stops directly outside the headquarters of Cisco Systems, the networking equipment company. Throughout Silicon Valley, regional investment in public infrastructure has been skewed to the benefit of the tech sector.

Yet the competition within the region necessarily persists — indeed, Wong tacitly described as a victory the moment in the 1990s when Steve Jobs abandoned south San Jose as the proposed site for a new Apple Campus, choosing Cupertino instead. Such competition will exist as long as the municipalities within the region continue to monopolize their own tax bases, Orfield said, turning them into "warring fiefdoms." Without fundamentally altering the framework, "how else are they going to get money?" Orfield said. "They have to use their land use plans to compete."

In addition to the standard suite of tax and regulation causes, business coalitions in the Valley, like the Leadership Group and Joint Venture, do advocate for regionally coordinated investment in programs intended to raise the overall quality of life, most notably mass transit and affordable housing. But some in the Valley like to point out that having regional investment largely shaped by corporate interest groups means that such investment, unsurprisingly, often winds up skewed towards the interests of corporations.

Nari Rhee, the labor scholar and urbanist formerly at UC Berkeley, pointed to the example of regional mass transit. The Leadership Group has long been a champion for light rail across Santa Clara County, largely because of longstanding complaints from tech workers about congested highways. While there is certainly nothing inherently objectionable about putting money into light rail, there are important agendas embedded in the specific ways the money is raised and allocated.

The Leadership Group has on several occasions successfully lobbied for countywide sales taxes to support light rail. This is in part because, under California's constricting revenue system, sales taxes are among the few easy options available. But this does not change the fact that sales taxes, as Rhee points out, are regressive: they disproportionately affect people on the bottom of the income scale, who devote larger portions of their earnings to basic purchases.

Then there is the question of how the money is allocated. A 2012 study by a group of community foundations in the region found that transit authorities subsidized light rail lines at twice the rate that they subsidized bus routes. This is in spite of the fact that buses are used far more heavily, mostly by low-income people in places like East San Jose who have little choice but to use public transit. Light rail, in contrast, mostly serves higher-income, long-distance commuters like tech workers.

Thus, even a goal as laudable as mass transit can become, in its way, a mechanism of upward redistribution: money is extracted disproportionately from the many to fund projects tilted to the benefit of the few. "When it comes to their priorities," Rhee said, "high-tech companies are perfectly happy to socialize the costs, to make sure everybody pays."

That, Rhee said, or they prefer the sort of charitable donation "where they can give the money on their own terms." As is the case with affordable housing, for which the preferred solution among the corporate sector is donating voluntarily to nonprofit housing trusts.

This is emblematic of the Leadership Group's wider view of the region's inequality problem. Remapping Debate asked Kirk Everett, the Leadership Group's vice president of government relations and tax policy, whether his organization's member corporations felt a sense of responsibility toward the growing disparities in the Valley. "Absolutely," he said. "There is a responsibility for our companies to step up — from foundation level work to philanthropic investments." Everett and other Leadership Group spokespersons stressed, for example, that many companies had expressed a commitment to strengthening public education in science and math.

Again, the preferred method is voluntary contribution — funding for teacher training programs, in-kind donations of equipment, and the like. However, the Leadership Group opposes solutions whereby structural changes to the property tax code would have large corporations paying significantly more money directly into the school systems. "It's tricky for us to focus on property tax in a vacuum," Everett said, explaining that a "holistic" view is necessary. "You almost have to look at the entire picture of what the contribution is from the business community — from the philanthropic standpoint as well as the tax base."

A precarious state

As with regional light rail, nobody necessarily objects, in principle, to philanthropic donations to teacher training programs or housing trusts. Rather, it is the fact that they occur in a larger context of government disinvestment in the kinds of public goods (like good schools and affordable housing) that might better attack the root causes of polarization. This is an integral part of the larger ideological turn in the Valley toward “entrepreneurship” as a model for governance, in which social problems have corporate solutions and government exists primarily to allow the unfettered functioning of corporations. “It’s all in one piece,” Rhee said. “There’s the voluntary, corporate investment, then there’s the socialized costs around things like transportation, then there are the public subsidies to the corporate sector. And this is all happening within the context of the systematic erosion and degradation of public goods.”

And so the public sector, at least in San Jose, strains to remain functional. The people who most frequently encounter its dysfunction are those who live and work in already underserved parts of town — people like Tamara Alvarado, who runs the School of Arts and Culture at Mexican Heritage Plaza, a complex of performance spaces that the city built in Mayfair during less straitened times. In 2007, the city turned over control of the center to Alvarado’s nonprofit, which charges private schools to use the auditoriums in order to fund cultural programs for poorer youths. Over the course of a recent month, five streetlights went out one after the other on a stretch of road leading to the plaza. Alvarado called the city.

“They told me it would be 12 months before they could fix the lights,” she said. “Other executive directors of other cultural facilities don’t have to deal with this.”

The city, Alvarado said, had arrived at such a precarious state that the panic and acrimony over police staffing levels were overshadowing a deeper, more mundane and insidious degree of malfunction. “We need to have a bigger conversation about our city,” she said. “Where is the conversation about livability? Where is the conversation about keeping somebody like me here? Rent is becoming an issue, even for me and my family, and I’m not working at Baja Fresh earning minimum wage. And when we have families working two jobs, and they still need to live with another family — what does that say about our city?”

Continue to Part 4 of the series

This content originally appeared at http://www.remappingdebate.org/node/2206