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in
San Francisco
reports

The battle over Prop. M

'THIS MAY BE the most important single vote you have ever been asked to cast on the future of San Francisco!'

So proclaimed the San Francisco *Bay Guardian* in urging a Yes vote on Proposition M, the citizens initiative for city planning.

For 17 years the newspaper had been the persistent voice of numerous citizens groups in their battle against the "Manhattanization" of San Francisco.

In its Yes on M campaign, the *Bay Guardian* detailed the disastrous effects that uncontrolled highrise development has had on housing costs, transportation, the quality of life in general, and on the poor and minorities who have been forced to leave the city because of rising costs and decreasing employment opportunities.

In spearheading the No on M campaign, San Franciscans for Responsible Planning, backed by over $500,000 of corporate and developer contributions, deluged the voters with billboards, full page ads, and four different pieces of campaign literature just a few days before the election.

No on M claimed that the proposal was "too extreme", "too costly", and that it would increase downtown growth and decrease business taxes for city services.

> This was in direct contradiction to the intent and purpose of Prop. M and in fact contradicted the No on M campaign's earlier fundraising literature, which warned that new projects would be halted and corporate fees and taxes increased if Prop. M passed!

Although polls taken just two weeks before the vote showed M leading 2:1, M lost by less than 2,000 votes in November 1983. It was a bold showing of how the growth/no growth debate still rages in this City of the Golden Gate.

The vote was split more or less along traditional liberal/conservative lines, although black districts, usually liberal, voted it down because it was opposed by prominent black politicians. Except for black neighborhoods, districts which supported M were those with high unemployment and high concentrations of non-white, low-income residents.

The 21 arguments in favor of M put forth in the voters' manual were supported with more than 250 individual and about 50 organizational endorsements identified with neighborhood and environmental concerns. Seven arguments in the manual stated the No position of the City Planning Commissioners, the president of the San Francisco Taxpayers Association, and about 40 other individuals.

San Francisco has been undergoing one of the most intense periods of development since the Gold Rush. Proposition M is the fourth growth-slowing initiative since 1971. Previous initiatives emphasized the harm done to the character of life and cost of living.

Studies commissioned by the Chamber of Commerce, a strong No on M voice, reported that "highrises are not only good for the city, they are necessary" and that limits placed on downtown growth would do "serious harm to the economic well-being of San Francisco".

The No on M campaign focused on the inappropriateness of "planning by initiative" and stated that Prop. M was in fact unnecessary because the basic issues were covered in the City Planning Department's Downtown Plan.

The planning commissioners gave their assurance that "the new Downtown Plan ... addresses the issues of employment, growth, office development, transportation congestion, urban design, open space, and preservation of significant buildings."

THE DOWNTOWN Plan backfired somewhat as an argument for continuing development since it made it clear that this would have many negative effects.

The Plan permits as much as 22m more square feet of downtown office space to be built in the next 15 years, bringing in about 100,000 more workers.

Fourteen new projects were proposed to help alleviate the adverse effects on housing costs, city services, transit, parking, and the quality of life in general. Yet absolutely nothing is said in the plan about who will pay the costs of the "vigorous management" that would be needed, though the cost estimate for transit improvements alone is $3.376 billion. This is more than the entire cost of building the new highrises that will make the transit improvements necessary in the first place!

Who will pay the bill? is the question that City Hall or the Chamber of Commerce cannot answer and that Prop. M attempted to address.

Downtown's share of the property tax load has been declining. Between 1965 and 1982, the percentage of the city's property tax burden paid by downtown fell from 21% to 14%, and the share paid by neighborhoods bordering on downtown increased proportionately. The San Francisco transit operating system's loss has gone from $8m in 1965 to $107m in 1983 – an increase of more than 1300% – while fares have increased 140%.

The downtown district's share of the deficit, according to city figures, is 54%. However, the district's share of contributions to the general tax revenue fund was only 37%.

In other words, the city in 1981 provided $107m to cover this operating deficit; downtown was responsible for $62m of that amount. Downtown's share of the general tax revenues for transit and all other city services combined was only $39m. City and state taxpayers consequently subsidized downtown's $23m a year transit deficit.

Add to that the transit improvements that the Downtown Plan says will be needed over the next 17 years and the result is a gargantuan $265m a year cost for transit operations and improvements alone.

Given this cost estimate and current percentages, the downtown area would be paying $125m less than its fair share, even before city services others than transit are taken into account. (S.F. *Bay Guardian*, Oct. 12, 1983, "The Vicious Spiral of Highrise Economics", by Tim Redmond).

Proposition M emerged against this background of downtown development's ever-increasing tax liability to the residents. It was not a development moratorium in the sense that there are no specific height and bulk limitations. A set of planning priorities were proposed to put the city and its residents before developers' profits. But most offensive to development interests was the Balanced Development Policy section of Prop. M, which would:

- Require that new commercial office development permit holders will cause to be built or rehabilitated additional affordable housing to accommodate the demand generated by the project.
- Require new commercial office development permit holders to pay for the costs of additional MUNI (transit) capacity.
- Establish a comprehensive employment and training program so that the greatest feasible number of new jobs accommodated by new commercial development goes to City residents, especially the long-term unemployed and underemployed.

Additional cost burdens of implementing and enforcing Prop. M were also to be paid by the fees of development permit holders. Many felt that Prop. M would in effect call a halt to downtown development.

It is unfortunate that San Francisco's citizen activists are not familiar with a simple yet powerful approach to equitable and just urban finance that Henry George, who became known as the "Prophet of San Francisco", advocated when he was a resident here more than a century ago.

He understood that the ultimate beneficiaries of urban development were the owners of sites which were increasingly more valuable by the combined efforts of city residents. Since site value was not created by any one owner per se, it was to be seen as a community or socially-created value. As such, the site owner should pay to the community a tax or rental fee based on the value of the parcel.

Since downtown land, when its value is accurately assessed, is vastly more valuable than residential sites, such holdings pay their proportionately fair share of costs for city services. For example, urban transit systems enhance land values in their vicinity. Increased revenue generated by the tax on these valuable sites would cover transit costs. Such an arrangement is permissible under California state legislation known as the Mills Act, a kind of special benefits district finance plan.

In fact, site or land value taxation is the ultimate urban finance tool in terms of the user-pay principle. Those making use of the most valuable urban sites pay the most. Such a measure takes the debate out of the superficial realms of growth versus no-growth policy, and instead answers the deeper ethical question of *who pays for* and *who benefits from* development efforts.

WHAT WOULD happen if San Francisco implemented the land value tax system?

Take, for example, the 195 acre parcel owned by Southern Pacific Company. At a value of about $250 per square foot, this parcel when developed as planned, will be worth at least $1\frac{1}{2}$ billion. Based on this land value, which is probably an underestimation, the economic rent of this parcel would yield over $150 million dollars back to the city each year – nearly three times the amount estimated under the current system.

In other words, just this parcel alone would generate 15% of the city's current budget of $1 billion.

Implement this policy throughout the city and we would have a well-funded local public financing system with absolutely no burden imposed on productive enterprises.

In a telephone dialog with the San Francisco *Bay Guardian*, James Bronkema, president of the Embarcadero Center, a major downtown development, listed the reasons for his No on M position. The conversation ended with Bronkema's statement, "I guess what we have is a philosophical dispute. I believe in the market, in free enterprise and the capitalist system. You are more concerned with social consequences".

What a dire dilemma! Negative social results seem inevitably to stem from a system that values freedom in production and exchange. Yet consider the contradiction of unemployed construction workers and our unmet housing needs. Due to a considerable yet seldom recognized dislocation of free market forces, local, state, or federal bureaucratic planning and an ever increasing cry for transfer payments have had to fill in the gap when free market practice falls far short of theory.

Recent efforts to curb governmental spending on social welfare have made it obvious that beneath the bandaids, wounds are still bleeding.

The income distribution in the United States today is percentage-wise about the same as that of India – the poorest 20% has 4% of the wealth while the richest 20% has 46%.

While we seem to have solved the production problem, the challenge of distribution, if unmet, can only result in a greater tearing of the social body.

Reports show a dramatic increase in the number of city dwellers going hungry despite federal and local food programs. The Census Bureau has revealed that the number of Americans living below the poverty line rose to 15% of the population, or one in seven, while corporate profits jumped 14.8%. Socialist planning, derived mainly from Marxist theory of the conflict between labor and capital, too often views business interests as the enemy camp. The possibility of political and economic freedoms combined with increasing social equality and benefits is seldom considered as even a theoretical possibility.

The progressive forces on *all* sides who can look seriously and honestly at the question of *who benefits, who pays* for developmental costs are coming much closer to the mark. Rather than focusing primarily on lists of social grievances, the costs/benefits question forces us to take a much deeper look at the simple ethics of fair play.

When phrased in this way, clarification of some of the underlying dynamics of the debate in San Francisco can be useful to local officials, business people, and citizens in other cities as well as they grapple with this persistently-divisive issue of growth versus no-growth.

Manhattanization

The aim: a 'Wall St. of the West'

THOSE CONCERNED with the "Manhattanization" of San Francisco trace this process back to a plan developed in 1945.

Heads of the Bank of America, U.S. Steel, Standard Oil, Southern Pacific, P.G. & E., Bechtel Corporation and American Trust formed the Bay Area Council which included the region's wealthiest and most influential businessmen and politicians, plus the president of the San Francisco Labor Council.

The predominate interests were land, natural resource and utility monopolies.

Their intent was to develop the nine counties around San Francisco Bay into a coherent economic unit, with a mass transit system connected to a world corporate headquarters in San Francisco. Thus did the desires of a few men and their companies for a Wall Street of the West mould and shape the environment and lives of the several million people.

Under pressure from the Bay Area Council, the California State Assembly formed the Bay Area Rapid Transit District (BART) with autonomous powers to pass laws, condemn and buy property, levy taxes, invest money, go into debt, set fares, and manage construction. The bond issue was barely passed by the citizens, despite a tremendous propaganda effort by the BAC.

Shortly thereafter, Bechtel was given the building contract with no limit set on the amount that could be spent. Since downtown development costs more in city services than it produces in taxes, and considering that transit needs are subsidized by those not in a position to benefit, the decades of power mongering by the BAC paint a particularly painful picture for citizen activists.

Such measures as Prop. M are proposed as the only known fair way out of the municiple finance debacle.

The dynamics of growth/no-growth issues, intense in their divisiveness, are not dissimilar to the forces at work in Central America and other Third World countries.

Here, as there, economic indicators can show growth in GNP and corporate profits while the well-being of the majority of the people steadily deteriorates. The forces backing the so-called development policies of downtown city centers are not simply those of businesses involved in the production of goods and services. They are rather monopoly land interests intent on extending their empire throughout the world.

Southern Pacific, for instance, was one of the predominant forces promoting the Yes on M, pro-growth side. Their landholdings in California alone exceed the amount of land under ALL homesites in the State and their accumulated holdings in the western United States total a land mass about the size of California itself.

Throughout the United States, a few hundred individuals and companies own a land mass the size of Spain and control an area the size of Europe (about 2bn acres) throughout the rest of the world (*Harpers*, "Land Rush", Jan. 1979).

'A new tax system – key to equal rights'

AS SHOCKING as it seems, recent research has shown that about 3% of the U.S. population owns 95% of the private land of the country. The point is not to single out yet another group of villains to blame. Rather, responsibility must be taken by all people of good will to rectify a wrong once recognized – namely, that monopoly land ownership is the underlying factor in the distortion of free market values.

It is time to acknowledge the limitations in the original agreements on which our country was founded, and to take bold steps to further extend our political ideals of equality down to the root economic level in affirming equal rights to the earth itself.

IN CALIFORNIA, 1% of the population owns two-thirds of the private land (Congressional Record, 1981, p. S-12323), but the concentration is even greater within counties.

Of seven counties surveyed (Center for the Study of Responsible Law, 1971), the top twenty owners held from 15-50% of the land.

These economic interests have greater political influence than their numerical strength could justify in a democratic system that included an economic ethic of fair play.

Thus, advocacy of land value taxation must be understood against this broad background of economic reality if its full powers and potential benefits are to be grasped. Although its positive impact has been conclusively shown in terms of municipal well-being and a fair cost/benefits ratio (see, for example, *Fortune*, "Higher Taxes that Promote Development", August 1983), it is much more than "just another good idea" for municipal finance.

The ethic on which it is based – that of equal rights to the Earth for ALL – is made real not by crudely dividing up the Earth or by ruthlessly nationalizing land titles, but by the relatively simple and harmless means of restructuring the tax system, starting with the property tax.

The corollary ethic, individual ownership rights to wealth that one produces (capital), is realized through the gradual elimination of taxes on labor while increasing the amount taken from the annual rental value of land and resources.

Such a step can be seen as an extension of the ideals and values upon which America was founded. Failure to implement such reforms means, inevitably, a continual erosion of freedom, with Marxism as the only known option for impoverished people.

● Full credit goes to the San Francisco *Bay Guardian*, a weekly newspaper, 2700 19th Street, San Francisco, California 94110, U.S.A., for providing the best coverage available on Prop. M campaign issues.