The Powers That Be
Local Government Decisions Helped San Francisco Rebuild from 1906 Earthquake; Today's Policies Hinder Healthy Housing Market Development

Trends

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It was by no means certain that San Francisco would recover from the devastation of 1906. Sited on a narrow and hilly peninsula that stuck out into an unbridged bay, its location was far from ideal. The survivors of the earthquake and fire who temporarily moved to Berkeley and Oakland had to ferry to their new homes. The rail lines that served Northern California terminated across the Bay from the City, so that rail cars, too, had to be expensively carried by special ferries to the East Bay. Water was in short supply, which contributed to problems of fire suppression. Much of the rebuilding would have to be undertaken on shaky landfill. Following a period of vigilante justice, crime continued on the fog-shrouded streets that remained. Virtually no financial help was to come from the federal government. Rebuilding the city promised to be Herculean task.

What San Francisco had going for it was citizens with a can-do spirit; a cadre of businessmen experienced with small and medium-sized mercantile, banking and financial businesses; and a mayor with a unique understanding of municipal finance. The businesses that pitched in to rebuild included the Levi Strauss Co., which was already 56 years old when the earthquake hit, and the Bank of Italy, which was renamed the Bank of America. Shipping and stevedore firms were able to catch the first Asian trade boom after the State of California stepped in to rebuild the shattered port.

But San Francisco made its own big break when it elected Edward Robeson Taylor as Mayo in 1907. As Mason Gaffney wrote in the March/April 2006 issue of *Dollars and Sense* in an article subtitled "How did San Francisco do what economist says New Orleans cannot?," Mayor Taylor had a unique understanding of how to raise funds and encourage development because he had helped Henry George publish his seminal book, *Progress and Poverty*, in 1879. George's popular book advocated a single tax on land to raise money for public expenditures, while simultaneously providing a strong incentive for private development.

Because many of San Francisco's structures had been burned down or badly damaged, the fiscal policy of heavy reliance on the property tax inaugurated by Taylor was mainly a tax on land. This policy faced the owners of vacant or underutilized ground in San Francisco with a "use it or lose it" choice. In addition to providing a strong development incentive, the proceeds of this property tax financed the rehabilitation of public infrastructure and provided the city with the credit-worthy reputation it would use to build the bridges, water system and other public infrastructure that enabled the region to become an economic powerhouse. Private property owners reacted to the choice of paying dearly for vacant land, fueling a construction boom that created many of the buildings today's conservationists are fighting to preserve.

Mayor Taylor did not run for re-election, but he backed election of James Rolph Jr., who remained the mayor of San Francisco from 1911 until 1930. But the development-encouraging, money-raising policies established by Taylor launched San Francisco into a period of recovery and growth. The population of the city grew by 22 percent from 1900 to 1910, another 22 percent from 1910 to 1920, and 25 percent more from 1920 to 1930. Competitively priced but profitable neighborhoods were built to house the middle-class artisans, merchants and workers in the factories, offices and docks of San Francisco. By 1930, the development-encouraging fiscal policies set in place in response to the earthquake had enabled San Francisco to become the tenth largest city in the country.

But that was then. Today, the option of relying primarily on the property tax no longer exists, as the voters of California eviscerated that tax in 1978. Worse yet, rather than encourage residential development through pro-housing zoning policies, the City has been using inclusionary zoning in a vain effort to slow the squeezing of the middle class out of San Francisco. Starting with a relatively mild requirement for the provision of some below-market priced housing in 1992, the City has raised the proportions of such "affordable" units that must be provided as a condition for the approval of new construction. In August of this year, the San Francisco Board of Supervisors jacked up the requirement for low and moderate income units built on-site from 10 percent to 15 percent of new residential construction. If the affordable units built to meet the ordinance are constructed off site, 20 percent must be sold or rented at affordable prices.

Inclusionary zoning creates the opposite result from the reliance on a land-centered property tax championed by Mayor Taylor. Even under the old inclusionary zoning rules, the development of rental units had become infeasible. The results of a study commissioned by the City to look at the new inclusionary provisions suggest that it will make further development of most condominiums impractical. The new inclusionary ordinance, however, does grandfather in the condo units permitted but not yet built. This works to assure developers of the units now approved and in the pipeline won't have to worry about competition from new applicants for permits when they set prices for the grandfathered market units.

A recent study by University of Texas researchers James Galbraith and Travis Hale found that San Francisco and the counties around it have seen a dramatic increase in the number of high income residents. The fact that, in the face of restrictive residential zoning policies, the middle class is being priced out of the City should surprise no one. But unlike the pro-development policies adopted after the 1906 earthquake and fire, the jacked-up inclusionary zoning policies certified by Mayor Newsom in August 2006 stifle future residential development and discourage market competition.

I do not know whether the passage of the new land use policy that was billed as creating housing for middle income households was an act of cynicism or naiveté. But its result will be to help preclude the type of middle class housing availability and economic revival that was kicked off by the policies established in response to the earthquake and fire that hit San Francisco 100 years ago.

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