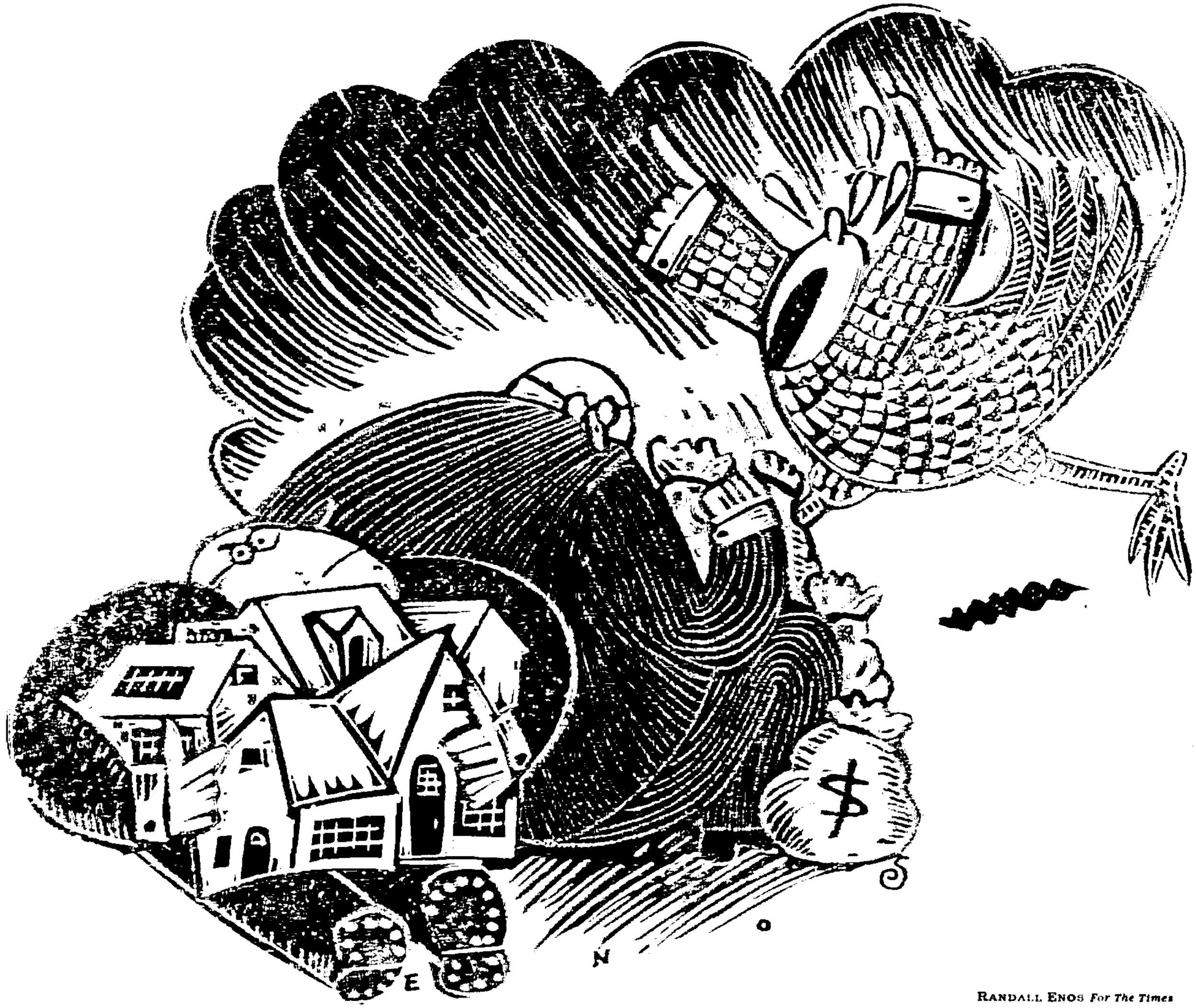
AFFORDABLE HOUSING

Builders Clucking Like Chicken Little

Profits are not the bottom line. What of the public good?

By PETER DREIER



RANDALL ENOS *For The Times*

Whenever public officials and community leaders propose a policy to make business act more responsibly — such as reduce pollution or improve working conditions — some business leaders react in horror that it will destroy the incentive to invest and hurt the business climate. Call it the Chicken Little syndrome.

The history of public policy includes many Chicken Little stories. The latest example is being told by the Central City Assn., one of Los Angeles' major business lobbies. Its subject is inclusionary zoning, a policy that requires housing developers to make about 15% of their units affordable to working families.

The goal is to relieve the city's severe shortage of affordable housing. Rents average more than $1,200 a month, and the median sales price of a home exceeds $350,000. Fewer than 40% of Los Angeles residents own their homes — one of the nation's lowest homeownership rates.

Carol Schatz, president and chief executive of the Central City Assn., is running around town warning that the sky will fall if the City Council adopts inclusionary zoning. Housing developers will no longer want to build homes in Los Angeles, she says. If they do, Schatz frets, they will raise the prices and rents of their expensive units to offset the losses from building units for schoolteachers, nurses, secretaries, factory workers, janitors and retail clerks. Inclusionary zoning is a "tax on the middle class," she complains.

That there is absolutely no evidence to support these dire predictions doesn't muzzle Schatz and her business allies. More than 100 cities and counties in California — including San Diego, San Francisco, Pasadena, Sacramento and Santa Monica — have adopted inclusionary zoning, and houses are still being constructed in those cities.

Housing developers initially grumbled about having to build more affordable units. They also warned that the requirement would undermine new housing starts. But developers soon learned to live with the new rules and have continued to build profitable residential projects.

In its own reports in 2003 and last year, the Central City Assn. cited not one city or county where inclusionary zoning had a dampening effect on housing construction. Significant residential development proceeded apace, and rents and prices weren't raised to subsidize the affordable units, in large part because demand set prices at their highest level.

The proposed inclusionary zoning ordinance for Los Angeles incorporates enough incentives to make housing development profitable, which explains why some private developers have broken ranks with the industry's lobby groups. They know that making money and contributing to the public good are not incompatible.

The Central City Assn. and Los Angeles Area Chamber of Commerce have pushed the Chicken Little button before when opposing social legislation.

In 1996, the chamber released a report warning that the living-wage ordinance then under City Council review would cost taxpayers more than $130 million in tax increases and program cuts, force city contractors to downsize, eliminate about 3,000 low-skill jobs and cripple local job-creation programs.

The next year, the council adopted an ordinance that required about 1,000 firms with city contracts to pay workers at least $7.25 an hour, plus family health insurance and other benefits, or $8.50 an hour with no benefits. Wage and benefit levels have since increased steadily.

A recently published report by two University of California economists for the Los Angeles Alliance for a New Economy, a nonprofit policy research group, showed that business leaders were crying wolf. Surveys of workers and firms affected by the living-wage law, as well as of companies in similar industries outside the law, found, among other things, that the pay for an estimated 10,000 jobs increased significantly, and that firms cut only an estimated 112 jobs — fewer than 1% of jobs affected by the living wage.

Local public officials are often reluctant to accuse business lobbies of bluffing — or lying — when they claim a government policy will undermine "business confidence" and push companies to relocate or curb expansion plans. For government officials and staff to negotiate with business on an equal footing, they cannot rely solely on businesses and developers (or their consultants) to provide information, as is too frequently the case.

They need to understand that although some businesses are mobile, others are tied to the local economy. That knowledge would spare cities costly bidding wars and prevent businesses from playing municipalities off each other to attract private investment.

Shortsighted business lobby groups and their political allies dominate debates over what constitutes a healthy business climate. They should not have a monopoly on what it means to be pro-business. Some business leaders understand that a healthy business climate, among other things, is one in which people earn enough to cover basic necessities and some extras, can afford to pay for housing, work in safe conditions and breathe clean air. Government's role is often to use its leverage to ensure that all businesses live up to this responsibility.

In the struggle to balance private profit and public interest, advocates of a living wage, more affordable housing and a cleaner environment should have a say in what constitutes a healthy business climate, one in which the nation's — and our city's — economic prosperity is widely shared.

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