

---

Land Speculation in Southern California: Energy Monopoly, Fiscal Crisis and the Future

Author(s): Michael F. Sheehan

Source: *The American Journal of Economics and Sociology*, Jan., 1983, Vol. 42, No. 1 (Jan., 1983), pp. 67-74

Published by: American Journal of Economics and Sociology, Inc.

Stable URL: <https://www.jstor.org/stable/3486323>

---

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



is collaborating with JSTOR to digitize, preserve and extend access to *The American Journal of Economics and Sociology*

JSTOR

# Land Speculation in Southern California: Energy Monopoly, Fiscal Crisis and the Future

By MICHAEL F. SHEEHAN\*

ABSTRACT. Increasing automobile *traffic* congestion and longer trip times on interurban *trolley lines* in *southern California* after the second world war led to the construction of *freeways*. The trolleys were denied access and the efficient *electric railway system* was sold to *bus lines*, partly as a result of a conspiracy between *bus manufacturers*, *tiremakers*, and *oil companies*. This produced "the golden age of land speculation" in the region. Floodplains, earthquake zones, blowsand areas and the tops and sides of crumbling cliffs were dotted with *sprawled residential developments*. The *energy crisis of 1973*, produced by the oil companies and the *Arab oil cartel*, turned boom into bust. As inflation and rising *taxes* produced by soaring property values put intolerable pressure on urban *homeowners*, they forced legislators to limit increases in *assessed values* and to restrict *government spending*. Now the public is challenged to produce order out of fiscal chaos and speculative ruin.

## I

### The Era of Freeways, 1946–73

THE PACIFIC ELECTRIC RAILWAY'S interurban lines in southern California, founded in 1901 by Henry Huntington and used by him to manipulate land markets so that he could achieve a large fortune—much of his total accumulation—from speculation in the land his lines brought into development, lost out in competition with automobiles in the Twenties and Thirties. Growing automobile traffic led to road development, and grade-level auto crossings lengthened trip times for the trolleys to such a degree that passengers more and more turned to the automobile for commuter transportation.

The war years were only a reprieve for Pacific Electric. During the second world war automobile traffic was limited by wartime restrictions on civilian allotments of gasoline while military and war-related needs for resources expanded at a rapid pace. Federal expenditures in California were large, many people being attracted to war plants, population expanded rapidly and by 1945, when the war ended, total personal income had more than tripled.

\*[Michael F. Sheehan, Ph.D., is assistant professor, Graduate Program in Urban and Regional Planning, University of Iowa, Iowa City, Iowa 52242.] For the historical background of the situation analyzed here, see my previous paper, "Land Speculation in Southern California: The Roles of Railroads, Trolleys and Automobiles," *American Journal of Economics and Sociology*, Vol. 41, No. 2 (April, 1982), pp. 197–209.

*American Journal of Economics and Sociology*, Vol. 42, No. 1 (January, 1983).

0002-9246/83/010067-08\$00.75/0

© 1983 American Journal of Economics and Sociology, Inc.

Wartime rationing held this vast increase in purchasing power in check until 1946. But as soon as controls were lifted its flood burst upon the consumer markets, particularly those for housing and automobiles. Southern California now found itself at a transportation crossroads. The margin of habitation had been extended about as far as possible without some fundamental change in either the technology or organization of transit.

During the war, under the pressure of war industries, large areas of Los Angeles and Orange Counties had rapidly filled in between the "fingers" of the resurgent Red Car lines. Yet this new proliferation of people and automobiles, with its attendant increase in congestion and transit delays, tended to shrink the margin of habitation. Automobile commuters, trolley-interurban commuters and mixed mode commuters were all affected. As travel times increased from outlying areas, land rents increased proportionally in favor of developments closer to the industrial and commercial areas of Los Angeles. This tended to favor pre-existing small scale landowners over developers concentrating on the construction of larger tracts in bordering areas.

For many reasons, not least among which was the strength of the freeway-automobile lobby, the problem was resolved in favor of the construction of a vast system of high speed, continuous right-of-way freeways through and around the four-county area, to be built, for the most part, with federal funds.

The implementation of the freeway plan would provide for a large increase in speed, a drop in travel time and a vast extension in the commuter margin of habitation. This created large new opportunities for speculation in the belt between the old and new margins for those who were equipped to influence the local decision-making process with respect to the provision of local services. In order to facilitate this process of manipulating the provision of local infrastructure, a large number of new municipalities and special service districts, with bonding powers, were incorporated in the post-war era. In this manner developers were able to purchase land in areas with little to recommend them at first glance, at low prices, and then through the control of a sympathetic local administration, have roads, sewer lines, water, etc., provided at public expense.

All that success required was for the prior owner to have underestimated the developmental potential of this land, and for the necessary extensions of infrastructure to be forthcoming at public expense, or at least provided at close to cost by regulated utilities.<sup>2</sup>

The result of these new incentives was to produce the sort of developmental pattern that one would imagine. New developments rarely sprang up where

they were “expected” (except where the land was owned by the developer *a priori*), since land prices there were sure to be higher. Instead they most often arose in locations discontinuous to existing development. This is to say that these incentives for placing housing tracts where they were least expected produced the modern phenomenon of leapfrogged developments, just as the interurban lines of the previous generation tended to produce development along relatively narrow corridors, in “string of pearls” fashion.

Patterns of leapfrogged developments impose certain unique and substantial costs on the public. All network utility costs will be higher due to the expanded nature of the grid to be served. Transport costs, including energy, time, and pollution, will be greater than they would have been, given more compact development, especially in terms of future costs.

In 1947, however, there was still an alternative to the strictly automotive development of the freeway system. During the planning stage of the Hollywood Freeway the Pacific Electric presented a plan whereby the freeway would be constructed so as to allow a double-tracked trolley right-of-way down the median. If successful, the Pacific Electric argued, this model could be used for the construction of the other freeways still in the early planning stage. The plan was summarily rejected ostensibly because of its “exorbitant” costs, \$20 million.<sup>3</sup> Thus at a time when interurban automobile traffic was to be accorded the benefits of fast, uninterrupted rights-of-way at public expense, the electric interurbans were to be consigned to continued decline on crowded city streets.

From 1947 to 1953 many of the less viable lines were converted to buses or eliminated altogether. Several of the most popular lines, however, were able to survive and earn a profit. Key among these was the Pasadena line, also serving Glendora and Monrovia. Service was brought to a precipitous halt, however, when a large section of the line was condemned for use as right-of-way for the San Bernardino Freeway.<sup>4</sup>

By 1953 Pacific Electric had had enough. Its parent company, the Southern Pacific Railroad, agreed to sell what remained of the system to Metropolitan Coach Lines, which intended the rapid conversion of the electrified portions of the system to diesel buses. Thus the Pacific Electric passed from the scene, leaving the freeway and the automobile in uncontested control of the situation.

From the local perspective, and with the benefit of hindsight, the choice of the automobile over a mixed auto-electric rail system appears to have been the result of a series of unfortunate choices by men who were doing their best in the public interest.

Yet there is evidence that there was more to the decline and elimination of the electric trolleys in Los Angeles and elsewhere than initially meets the eye. In 1938 a consortium of companies led by General Motors, Standard Oil of California and Firestone had decided to eliminate electric trolley systems nationwide in favor of transportation based on buses and automobiles, a changeover in which they all had an obvious interest.<sup>5</sup> Their efforts continued until 1958, when they were abruptly, but belatedly, brought to a halt by the Justice Department.<sup>6</sup>

In Los Angeles, it had, in fact, been one of the subsidiaries of this misalliance of automobile, petroleum, freeway, bus, tire, military and real estate-developer lobbies which had finally bought up and decommissioned the electric line. Though this final dénouement did not occur until 1953, it is difficult to imagine that so powerful a combination, operating against the trolley lines since 1938, did not also have some impact on the outcome of decisions affecting the trolleys before 1953 as well.

## II

### The Era of Energy Consciousness and Fiscal Crisis

THE FIFTIES, SIXTIES AND EARLY SEVENTIES were the "golden age of land speculation" in southern California. Due to the rapid expansion and further proliferation of the automobile culture, the willingness of drivers to commute over longer distances, and the mutually satisfactory relationship generally maintained between developer-speculators and local officials with control of infrastructure, developments came to sprinkle the landscape even in the most unlikely places: floodplains, earthquake zones, blowsand areas, and the tops and sides of crumbling cliffs.

In 1973 this mode of development began to decline visibly. The first "energy crisis" was foisted upon the American public by the Organization of Petroleum Exporting Countries (OPEC) in conjunction with the major American oil companies. What the monopolistic Southern Pacific and Pacific Electric lines were to local developer-speculators in the age of rail, the oil companies came to be for the local developers in the 1970s. Through their economic power, the oil companies were able to require that increases in land values in relatively distant places be shared, with the lion's share going to oil. This was possible because consumers, since 1973, and especially since 1979, were actively discounting the prices they were willing to pay for distant housing by the energy costs of moving back and forth to work and play. This sharp increase in travel costs produced a substantial inward movement in the margin of commuter habitation.

The rapid rate of general inflation created by the cornering of the petroleum products market had other direct impacts as well. The most important of these was that property values rose rapidly relative to incomes for a majority of the population in southern California. This had two major results: new housing became less attractive; and property taxes on existing housing rose sharply relative to income. This second result put intolerable pressure on urban homeowners with real incomes already falling rapidly due to inflation. The upshot was Proposition 13 on the 1978 California ballot, limiting increases in assessed value to two percent per annum on properties which had not changed hands and requiring that to pass, local tax increases receive virtually unanimous consent at the polls.

Though the passage of this Amendment has had many effects in California, one of the most significant is that it has prevented local governments and special service districts from expanding infrastructure to serve isolated developments in the whimsical fashion of the last 25 years, if at all. The alternatives remaining to developers are, therefore: 1) to build where there is existing excess capacity in local infrastructure, though this will mean that speculative gains will have to be shared with existing landowners, because "surprise" will be impossible; or 2) to convince local politicians to provide new infrastructure out of operating budgets, *i.e.*, by diminishing the service level in existing areas of the city. The latter course is at best an interim measure, terminating as soon as replacement politicians can be installed in office. Otherwise the developer would have to pay for new extensions themselves, which would make the development uncompetitive in most cases.

Since developer-speculators have relied heavily on infrastructural subsidies from local taxpayers, they are particularly hard hit by tax restrictions imposed by constitutional amendment at the state level. One avenue of escape which has been attempted by developers and their politicians in the first two years after Proposition 13 was enacted has been to extract from the public, in the form of user charges, funds historically obtained in the form of property taxes; the increment thus attained is used to conduct business as usual. The public's response to this strategy was to place on the ballot an amendment limiting government spending regardless of the source of the funds (Proposition 4, November 1979).

With the inward shift of the transportation margin, the speculative interests have become, along with the public, the victims of the development pattern they helped create. The very efficient Pacific Electric was destroyed to encourage, *inter alia*, the sort of dispersed development now existing. In order to allow further development into outlying areas, a cheapening of trans-

portation is required and an electric rail system would be ideal.

Yet this pattern of dispersed development effectively precludes the conversion of the transport system to rapid transit. It would be very difficult and exceedingly expensive to re-convert southern California from total reliance on the automobile, not only because the automobile infrastructure must be depreciated and replaced with something new, but because the population is of such low density and great dispersion.

A rapid transit system serving the current population as well as the Pacific Electric served the population of its day, in terms of the percentage of the total regional population within walking distance of a train stop, would have to have a rail grid many times more extensive than the Pacific Electric's at its maximum, at correspondingly greater expense. In some ways this is perhaps just comeuppance to the developers, but it is as well a heavy load to bear for the general public, who implicitly put their faith in the developers and the latter's allies in government.

### III

#### The Future

LET ME SUGGEST by way of extrapolation: there will be four trends which will dominate the next stage of "development" in southern California.

The first will be the general exodus of the type of speculator who depends on local infrastructural subsidies for his success. Those who survive as speculators, as distinct from those who revert to real estate brokers or simple building contractors, will probably shift their locus of operations to other areas of the sunbelt where such operations are still encouraged.

Second, an effort will be made to bring jobs to the "bedroom" suburbs<sup>7</sup> in order to enhance their viability. This will tend to siphon new industry away from the old central cities.

Third, there will be a tendency towards inbuilding along transportation corridors. This will bring to the fore Gaffney's Problem Speculator, whose impact on the welfare of society is more subtle than that of the developer-speculator, though still pernicious.

Finally, as with the reinstated commuter service described in the first few lines of this paper, there will be a concerted effort to develop concentrated rapid transit corridors. This will encourage infilling and population concentration in the long run. However, the increases in rents due to improved transport of this sort will not be extended by Caltrans (California Transportation) in the public interest, nor by municipal and state treasuries through the property tax. In the most favorable scenario, the increases in rent will

accrue to a multiplicity of small landowners in the neighborhood of the corridors; while in the worst, they will benefit those speculators with either a good deal of insight or inside information.

## IV

## Costs of Sprawl

IN EACH CASE a major component of the rent of land within the margin of commuter habitation has been and is the capitalized value of the difference in the amount the individual landowner perceives that he will have to pay—directly and through taxes—for the infrastructure provided, and its value to him.

Historically, these infrastructural subsidies were capitalized into the value of the lands involved even before the infrastructure was installed, so certain were developers and homebuyers of its provision. This increment in land values due to the certainty of subsidized provision of necessary services and facilities was the “free money” which attracted developers to the manipulation of local government. As long as local services were the margin-creating factors, their provision controlled the rents to be earned.

With the activation of an aggressive policy on the part of those who control the price and provision of petroleum products, the distribution of land rents created by the subsidized provision of local infrastructure and local amenities has shifted dramatically in favor of the oil companies and OPEC. Clearly this is an unsatisfactory situation for the nation at large, and for automobile-dependent areas like southern California in particular.

Solutions to the problem might perhaps be found to lie in the following areas. First, the adverse flow of funds should be slowed by the imposition of excess profit taxes on the oil companies at the federal and state levels (and, where possible, at the local level). Second, provision of publicly financed capital facilities for outlying developments should be on a full cost reimbursement basis, in addition to service (as opposed to capital) provision billed on an incremental cost basis. Finally, the public should undertake the necessary capital improvements to provide a basic system of electrified rail rapid transit in the four-county area. Both the excess profits tax and the gasoline tax would be appropriate places to look for funding.

The experience of southern California over the last one hundred years has provided an interesting, expensive and painful lesson, in terms of scattered development, air pollution, energy costs and the destruction of a truly fine, energy-efficient and essentially pollution-free transportation system. The record is unenviable. The opponents are still the same: the monopolists, the



developer-speculators and the narrow, myopic or corrupt politicians. Southern California is faced with new challenges and opportunities; hopefully, past lessons have been well learned.

#### Notes

1. Walton Bean, *California: An Interpretive History*, (New York: McGraw-Hill, 1978), p. 357.
2. In this way of course, the speculator is grateful for the cost-based regulation of the privately owned utilities he must deal with, as this regulation is a safeguard of his right to appropriate all the increment to himself, without having to share with scavengers of superior means.
3. Spencer Crump, *Ride the Big Red Cars* (Costa Mesa, Calif.: Trans-Anglo Books, 1962), p. 206.
4. *Ibid.*, p. 202.
5. The sad story of their success has been told in detail in a number of places. Most completely and clearly perhaps by Bradford C. Snell, *American Ground Transport*, (Washington, D.C.: USGPO, 1974).
6. In 1949 the Justice Department indicted General Motors, along with certain large tire, bus and petroleum producers, for conspiracy to use National City Lines, a holding company, to buy, and then replace with buses, electrical railways around the nation. GM, *et al.*, in the end, paid a \$5000 fine while promising not to repeat their activities. (Snell, *op. cit.*).
7. A good example being the influx of light industry into the Rancho Bernardo developments between Escondido and San Diego on U.S. 395.

### *The World Dimension of Economic Freedom*

RESTRICTIONS on international trade permit short-term advantages; in the long run they retard growth. . . . By 1979 the average tariff levels in the developed countries stood at 10.6 percent, a dramatic drop from postwar levels. The cuts agreed to . . . will further reduce tariff levels to 4.5 percent by 1987. Though the world is not yet one market, we have progressed . . . toward that goal. [From testimony by the U.S. Under Secretary of State for Economic Affairs.]

MYER RASHISH