Repopulating New Orleans

Our latest Nobelist in economics, Professor Thomas Schelling, offerred the following advice about New Orleans: "There is no market solution to New Orleans. It is essentially a problem of coordinating expectations...." By that he meant simply that each person's incentive to return home and rebuild depends on his or her confidence that others will do likewise. There must be "credible commitments," Schelling said. "But achieving this coordination in the circumstances of New Orleans seems impossible.... There are classes of problems that free markets simply do not deal with well. If ever there was an example, the rebuilding of New Orleans is it."

So economics has come to this. Schelling is a specialist in "complex market behavior using game theory." His current book is *Strategies of Commitment*. A reviewer praises him as one who "takes on practical questions." Apparently practical New Orleans is too complex for the most advanced modern theory. Only yesterday, the approved professional posture was not to recommend programs, but just advise timidly on how different ones might work, covering one's back with caveats. Now our top dog has gone the next step, and advises us that nothing can work, not even the market. A discipline with roots in Utilitarianism has morphed into Futilitarianism. Accordingly, "prestigious" graduate schools mill out neutered clones — we see them in the job market at this time every year — with templates and powerpoints for everything, and solutions for nothing.

Actually, there is a time-tested way to solve the problem that defeats Schelling and his "game theory." American urban settlers and investors have a long history of building cities by "coordinating expectations." In 1891 the traveling Lord James Bryce noted of Americans, "Men seem to live in the future rather than in the present... they see the country not merely as it is, but as it will be...." They achieved critical urban mass by faith in each other's intentions.

The mutual faith was economic more than theological. Bryce noted that in 1891 "State revenue is almost wholly direct, because of the commerce clause." The commerce clause blocked states from taxing imports, the major alternative to taxing property. And so "The chief tax is in every State (and locality) a property tax...." This property tax at that time fell mostly on land values, because that is most of what there was to tax. This was the mechanism for "coordinating expectations." Each landowner felt the pressure to use his land, knowing his neighbors felt the same pressure at the same time. (There were also pioneering religious and ethnic groups that fostered mutual faith, as the Greek Orthodox community is doing now in its small part of New Orleans. In "game theory" we are all greedy monads, so such things do not happen in the models.)

It's not that Schelling never heard of the stimulative effect of taxing land values. In 1971 I had the privilege of presenting it to a seminar at the Brookings Institution. I suggested raising the land tax, and lowering sales taxes, and taxes on buildings. Most attendees participated with at least mild sympathy, notably excepting Thomas Schelling. He objected that any change in tax policy would break the social contract, destabilize expectations, shatter investor confidence, and risk bringing the world down in ruins.

A year earlier I had spoken on the same point to a New Orleans civic group that sponsored a Brookings urbanism program. They were charming hosts, eager for ideas to clear "undesirable" neighborhoods, but obsessed with preserving *Le Vieux Carré* (the French Quarter) which they saw as unique, interdependent, wholesome, a money machine, and too fragile to survive competition that would replace it with the commonplace. Like Schelling, they chose stasis, with the results that we see today. Actually, there can be no stasis: buildings depreciate every year, and need constant upkeep, operation, adaptation to markets, and often replacement.

New Orleans also has a clutch of private universities where abstract thoughts soar into the rare, without relieving the commonplace squalor around them, any more than Yale, Columbia, Chicago, Penn, MIT, Duke, Marquette, Howard, Catholic, Hopkins, or USC uplift their respective neighborhoods. Tulane has long been the nursling of New Orleans's old power elite, and nursery of the new. Loyola has selected an extremist among extremist libertarians, Walter Block, for a distinguished named professorship. We are still waiting for some New Orleans professors to tell us how to save the City they serve.

A going city or region, destroyed by catastrophe, has an easier time returning to critical mass than does a new city or region flying blind. London renewed itself after the Great Fire of 1666; Northern New England after being ravaged in King Philip's War, 1675-76; Schenectady after Frontenac razed it in 1690; Lisbon after the quake of 1755; Dutch cities after flooding themselves out to balk successive Spanish, French, and German invaders; Moscow after 1812; and Washington, D.C., after 1813. In 1848, John Stuart Mill made a major point in his *Principles* on "the great rapidity with which countries recover from a state of devastation; the disappearance, in a short time, of all traces of the mischiefs done by earthquakes, floods, hurricanes, and the ravages of war." Since Mill there have been a series of such rebirths: Atlanta after Sherman; Chicago after 1871; swaths of Wisconsin after the epic 1871 fire named for little Peshtigo; Johnstown, PA, after its killer flood of 1889; San Francisco after its quake and fire of 1906; Flanders after World War I; Ventura County, California, after the St. Francis dam disaster; Tokyo after 1926; Nanking after Japan's soldiers raped it. After World War II came Germany's *Wirtschaftswunder*, and rebuilding of

Coventry, Rotterdam, Tokyo again, Hiroshima, Nagasaki, much of Russia, Anchorage after its quake, Kobe after its, and so on, and on.

Historian Alexander Gerschenkron popularized the "advantage of a late start" in industrial competition. Destruction provides that advantage: wipe out the obsolescent and depreciated old capital and the renewed city will embody the latest technology in its capital. The rioters and arsonists of 1967 boasted with some justice that they were doing "instant urban renewal." Burning and razing releases a vast and seasoned land area for the new. It couples the advantage of a late start with the forward inertia of an early start. We rightly deplore the human cost and suffering of such wild violence. It is better to adopt the kinder, gentler program of tax reform.

Permanent hazards may remain. Yet, Chicago was rebuilt on the foundation of its "stinking swamp," where Chicago architects pioneered the modern skyscraper on deep caissons. Tokyo was rebuilt at the confluence of four tectonic plates, and after 1945 with no navy or army of its own. San Francisco was rebuilt on the San Andreas Fault, and went high-rise on its crazy hills while level Los Angeles was still capping building heights and opting for sprawl. Much of the Netherlands thrives below sea level. Hong Kong grew capitalistically in the jaws of Mao, and Johannesburg amid newly empowered blacks with scores to settle.

After disaster, location remains, and location makes cities. Greater New Orleans was recently the largest port in the world, in tonnage. People, enterprise, and investment also make cities. Herein lies the greater hazard, for many American cities self-destruct without the bang of natural disasters, but with a whimper of futility, like Buffalo, Cincinnati, Detroit, Camden, or East St. Louis. New Orleans today has a kind of dynamism that those decaying cities lack. Demand for its real estate is holding up well, and rising in the unflooded areas like the Gentilly Ridge. Even in the flooded and abandoned areas there is strong demand from absentee speculators looking to hold for a free ride up the price elevator as the efforts of others bring back the neighborhoods. Yet, this kind of dynamism is worse than stasis. These absentee bottom fishers choke out other buyers aiming to commit their lives, to rebuild and reside and occupy and make neighborhoods. As "Each man kills the thing he loves," absentee investors collectively drive away the very people who could make their dreams come true. Many of them have no plans, but are waiting for other people's plans. This sort of "coordinating expectations" leads to collective failure. New Orleans' tax system, tragically, penalizes the builders and spares the free riders.

How did other cities come back? Born-again San Francisco, 1907-30, makes an edifying case study in success. What can it teach New Orleans? It had no State or Federal aids to speak of. The state of California had oil, but didn't even tax it — as Louisiana does. It did have private insurance, but so does New Orleans today. It had no power to tax sales or incomes. It had no lock on Sierra water to sell its neighbors, as now; no finished Panama Canal, as now; no regional monopoly comparable to New Orleans' hold on the vast Mississippi Valley. Unlike rival Los Angeles (whose smog lay in the future) it had cold fog, cold-water beaches, no local fuel, nor semi-tropical farm products, nor easy mountain passes to the east. Its rail and shipping connections were inferior to the major rail and port and shipbuilding complex in rival Oakland, and even to inland Stockton's. It was hilly; much of its flatter space was landfill, in jeopardy both to liquefaction of soil in another quake, and precarious titles (due to the public trust doctrine). Its great bridges were unbuilt — it was more island than peninsula. It was known for eccentricity, drunken sailors, tong wars, labor strife, racism, vice, vigilantism, and civic scandals. In its hinterland, mining was fading; irrigation barely beginning. Lumbering was far north around Eureka; wine around Napa; deciduous fruit around San Jose. Berkeley had the State University, Sacramento the Capitol, Palo Alto Stanford, Oakland and Alameda the major U.S. Naval supply center. How did a City with so few assets raise funds to repair its broken infrastructure and rise from its ashes? It had only the local property tax, and much of this tax base was burned to the ground. The answer is that it taxed the ground itself, raising money while also kindling a new kind of fire under landowners to get on with it, or get out of the way.

Historians have obsessed over the quake and fire, but blanked out the recovery. We do know, though, that in 1907 San Francisco elected a reform Mayor, Edward Robeson Taylor, with a uniquely relevant background: he had helped Henry George write *Progress and Poverty* in 1879. George, of course, is the one who wrote and campaigned for the cause of raising most revenues from a tax on the value of land, exempting labor and buildings. George, Jr.'s bio of his dad calls Taylor the only one who vetted the entire MS. George's academic biographer, Charles Barker, credits Taylor with adding style and class to the work, and some ideas along with it. Taylor's call for action appears in Book VIII, introducing "The Application of the Remedy." If you had been a partner in writing *Progress and Poverty,* and composed its call for action, and became reform Mayor of a razed city with nothing to tax but land value, what would you do?

Reams are in print about how Henry George was not elected Mayor of New York, but nothing about how his colleague E.R. Taylor *was* elected Mayor of San Francisco. While George was barnstorming New York City and the world, as an outsider, Taylor stayed home and rose quietly to the top as an insider.

In 1907, single-tax was in the air. It was natural and easy to go along with Cleveland (Mayors Tom Johnson and Newton Baker), Detroit (Mayor Hazen Pingree), Toledo (Mayors Samuel Jones and Brand Whitlock), Milwaukee (Victor Berger and Mayor Daniel Hoan), Chicago (Mayor Edward F. Dunne, J.P. Altgeld, Ida Tarbell, Henry D. Lloyd, Louis F. Post, Clarence Darrow, Edgar Lee Masters, Jane Addams, et al.), Vancouver (6-time Mayor Louis Denison "Single-tax" Taylor), Houston (Assessor J.J. Pastoriza), San Diego (Assessor Harris Moody), Edmonton, many smaller cities, and doubtless other big cities yet to be researched, that chose to tax buildings less and land more. It was the Golden Age of American cities when they grew like fury, and also with grace: "The City Beautiful" was the motif, expressed in parks and expositions like San

Francisco's 1915 Panama-Pacific International Exposition.

San Francisco bounced back so fast its population grew by 22%, 1900-10, in the very wake of its destruction; it grew another 22%, 1910-20; and another 25%, 1920-30, becoming the 10th largest American city. It did this without expanding its land base, as rival Los Angeles did; and while providing wide parks and public spaces. Indeed it had to pull back from the treacherous filled-in level lands that had given way in the quake. On its hills and dales it housed, and linked with mass transit, a denser population than any city except the Manhattan Borough of New York. For a sense of its gradients, see the chase scenes from the films *Bullitt* or *Trench Coat*. It is these people and their good works that made San Francisco so famously livable, the cynosure of so many eyes, and gave it the massed economic power later to bridge the Bay and the Golden Gate, grab water from the High Sierra, finance the fabulous growth of intensive irrigated farming in the Central Valley, and become the financial, cultural, and tourism center of the Pacific coast.

Mayor Nagin* of New Orleans tells the world that Katrina wiped out most of his tax base, so he is impotent. By contrast, in 1907 Mayor Taylor's Committee on Assessment, Revenue, and Taxation reported sanguinely that revenues were still adequate. How could that be? Because before the quake and fire razed the city, 75% of its real estate tax base was already land value.† San Francisco also taxed "personal" (movable) property, but it was much less than real estate, and "secured" by land. The coterminous County and School District used the same tax base. If we saw such a situation today we would say the local people had adopted most of Henry George's single tax program *de facto*, whether or not they said so publicly.

It was a jolt to replace the lost part of the tax base by taxing land value more, but small enough to be doable. This firm tax base also sustained San Francisco's credit to finance the great burst of

* Ray Nagin, Mayor of New Orleans, 2002-2010

† San Fancisco *Municipal Reports, FY 1906 and 1907,* p. 777)

civic works that was to follow. Taylor retired in 1909, but soon laid his hands on James Rolph, who remained Mayor for 19 years, 1911-30, a period of civic unity and public works. "Sunny Jim" Rolph expanded city enterprise into water supply, planning, municipally owned mass transit, the Panama-Pacific International Exposition, and the matchless Civic Center. S.F. supplemented the property tax by levying special assessments on land values enhanced by public works like the Stockton Street and Twin Peaks Tunnels. Good fiscal policy did not turn all the knaves into saints, as Gray Brechin has documented in *Imperial San Francisco*. Rolph burned out after 1918 or so, and fell into bad company with venal bankers and imperialist engineers. But San Francisco still rose and throve.

New Orleans has its own special problem, sited below the Mississippi River and its levees. Milton Friedman and his like-thinkers proclaim that markets have solutions for everything that governments botch. Building levees, however, demands cooperation guided by some overall authority, which is what governments are for. A levee protects the land behind it only by shunting water onto other lands, which then require their own levees to shunt the water back, and downstream, and even, as it turned out, upstream. Competition among levee-builders is no panacea, but an endless vicious spiral or "positive feedback loop." Over a century it has led step-by-step to levees four stories high. At one time some engineers, spurred on by ambitious local levee districts, thought that such levees would cause the River to scour its bed and sink down, but the opposite has occurred.

Analytically, the problem is analogous to that of rivals pumping water or oil from a common pool; or fishermen competing to take fish from a finite fishery. In those other contexts, private-property fanatics (i.e., most modern economists) see a "tragedy of the commons" and prescribe privatization, an idea that fits their doctrinaire thinking as comfortably as an old shoe. Levees, however, are there to protect lands already private, and that calls for different thinking.

Since the Mississippi watershed covers half the country, the central authority has to be Federal. In the great flood of 1927, Calvin Coolidge let Herbert Hoover make himself czar of the river system. Hoover, who fostered cartels in industry, declared that prosperity can be organized by "cooperative group effort and planning" — i.e. by coordinating expectations consciously, from the top down. It was too late, however, to keep the power elite of New Orleans, who ran Louisiana, from dynamiting the levee protecting St. Bernard and Plaquemines Parishes, saving the City by flooding the rednecks. These responded by electing Huey Long Governor in 1928, breaking New Orleans' hegemony for good.

Meantime, Hoover and a few rich power-brokers organized the Tri-State Flood Control Commission to coordinate efforts among at least Louisiana, Mississippi, and Arkansas. The upshot was to strengthen Federal authority by giving Federal dollars for levees without requiring any local matching. Coordination was achieved by making local governments plaintive supplicants (like Mayor Nagin and Governor Blanco) at the public trough, brokered by the highly politicized U.S. Army Engineer Corps. Over time this arrangement has entailed less coordination, and more pork-barrel subsidizing of complaisant corruption in local levee districts – the opposite of what San Francisco faced in 1907.

Hoover's czardom also came too late to allocate lands for a bypass or spillway, such as the broad one west of Sacramento that protects the lower Sacramento Valley. Too many oxen would be gored to make good politics. The New Deal did begin the massive program of reservoirs up north, to supplement the levees down south. Well and good, even if you harbor doubts about big dams, but they offered no protection against Katrina's attack from the south, any more than the guns of Singapore, fixed to shoot out to sea, could protect that city from the Japanese overland attack from the north in 1942. The overbuilt levees, legacy of 150 years of the slow vicious spiral of misdirected competition to beggar-thy-neighbor, finally betrayed the city.

What to do now? A strong dose of Georgist tax policy will revive the private sector of any city, and the surrounding rural areas too. As to flood control, we need an integrated system that will sacrifice some lands as spillways to protect others, and a tax system that will compensate the losers (including the landless) from the gains of the winners. Given such integration, engineers since James B. Eads in 1870 have developed workable plans for the whole river system. It would take a catastrophe to shock Americans into such a new mode of thinking – but the catastrophe just occurred, so let's get thinking.

— Dollars and Sense, *March-April, 2006*