Repopulating New Orleans

How did San Francisco do what a top economist says New Orleans cannot?

By Mason Gaffney

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Our latest Nobelist in economics, Thomas Schelling, offered the following advice in the wake of Hurricane Katrina: "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 move home and rebuild depends on his or her confidence that others will do likewise. "But achieving this coordination in the circumstances of New Orleans seems impossible."

See also Primer on Henry George's "Single Tax" in this issue (also below).

So economics has come to this. Only yesterday, the approved posture was not to recommend programs, but merely to 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.

San Francisco after the great quake and fire of 1906. (photo: Arnold Genthe; courtesy of George Eastman House)

Actually, there is a time-tested way to solve the problem that defeats the most advanced economics theory. American urban settlers and investors have a long history of building and rebuilding cities by "coordinating expectations." In 1891 the traveling Lord James Bryce wrote 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, a mutual faith more economic than theological.

"The chief tax is in every State," Bryce noted in 1891, "a property tax... ." The property tax at that time fell in many places mainly on land values, because that is most of what there was to tax. This tax 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 the game theory Schelling & co. study, we are all greedy monads, so such things do not happen in the models—and who cares about the extra-modular [i.e., real] world outside the laptop?)

It's not that Schelling never heard of the stimulative effect of taxing land values. In 1969 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 listened with at least moderate sympathy, notably excepting Schelling, who 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.

In 1966 I had spoken on the same point to a New Orleans civic group, sponsors of a Brookings urbanism program. They were charming hosts, eager for ideas about how to clear "undesirable" neighborhoods but obsessed with preserving Le Vieux Carré, which they saw as unique, 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.

A going city or region, leveled 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; Schenectady after Frontenac razed it in 1690; Lisbon after the 1755 quake; 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 highlighted "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 then 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 the killer 1889 flood; San Francisco after the quake and fire of 1906; Flanders after World War I; Tokyo after 1926; the Mississippi Valley after the great flood of 1927; Nanking after Japan's devastating occupation. After World War II came Germany's Wirtschaftswunder, and the rebuilding of Coventry, Rotterdam, Tokyo again, Hiroshima, Nagasaki, and Russia after Hitler. There was Anchorage after its quake; Kobe after its; and on and on.

Permanent hazards may remain, as in New Orleans. Yet, Chicago was rebuilt on the foundation of its "stinking swamp," where the city's architects and engineers 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 Los Angeles was still capping building heights and opting for sprawl. Much of the Netherlands thrives below sea level.

After disaster, location remains, and location makes cities. Greater New Orleans was recently the largest port in the world in tonnage shipped. People, enterprise, and investment also make cities.

Herein lies the greater hazard, for many American cities wither away not with a bang but with a whimper, like Buffalo, Cincinnati, Detroit, Camden, or St. Louis.

New Orleans today has a kind of dynamism that those cities lack. Demand for its real estate is holding up, and rising in the unflooded areas like Gentilly Ridge. Even in the flooded and abandoned areas there is strong demand from absentee bottom-fishers looking 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 absentees choke out other buyers aiming to commit themselves—to rebuild and reside and make neighborhoods. As “Each man kills the thing he loves,” do-nothing 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. Coordinating expectations like those adds up to nothing. Tragically, the tax system in New Orleans—as nearly everywhere else—penalizes builders and doers, and spares free riders.

Consider born-again San Francisco, 1907 to 1930, as a case study in success. What can it teach New Orleans? It had no state or federal aid to speak of. The state of California had oil, but didn’t even tax it, as Louisiana (rightly) 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 dearly to its neighbors, as now; no finished Panama Canal, as now; no regional monopoly comparable to New Orleans’ hold on the vast Mississippi Valley. Unlike Los Angeles (whose smog lay in the future) it had cold fog, cold-water beaches, no local fuel nor easy mountain passes to the east. Its rail and shipping connections were inferior to the major rail, 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 to precarious land titles. Its great bridges were unbuilt, so 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 and irrigation barely beginning. Lumbering was far north around Eureka; wine around Napa; deciduous fruit around San Jose. Berkeley had the state university, Sacramento the capital, Palo Alto Stanford, Oakland and Alameda the major U.S. Navy 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, more than anyone else, 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 sales and buildings. (See “A Primer on Henry George’s Single Tax.”) In 1907, single-tax was in the air, and it was natural to go along with Cleveland (Mayors Tom Johnson and Newton Baker), Detroit (Mayor and later Governor Hazen Pingree), Toledo (Mayors Samuel “Golden Rule” Jones and Brand Whitlock), Milwaukee (the “sewer socialists” and Mayor Dan Hoan), Chicago (Mayor Edward F. Dunne, ex-Governor J.P. Altgeld, muckrakers Ida Tarbell and Henry D. Lloyd, editor

Louis F. Post, Nobelist-to-be Jane Addams, Councilman Clarence Darrow, et al.), Vancouver (six-time Mayor Louis Denison "Single-tax" Taylor), Houston (Assessor J.J. Pastoriza), 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 the grace of the popular "City Beautiful" motif.

San Francisco bounced back so fast its population grew by 22% from 1900 to 1910, in the very wake of its destruction; it grew another 22% from 1910 to 1920 and another 25% from 1920 to 1930, becoming the tenth largest American city. It did this without expanding its land base, as rival Los Angeles did, and without stinting its parks. On its steep gradients it housed, and linked with publicly-owned mass transit, a denser population than any city except the Manhattan borough of New York. 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, land value already comprised 75% of its real estate tax base. San Francisco also taxed "personal" (movable) property, but it was much less than real estate, and secured by a lien on land. The coterminous county and school district used the same tax base. They also made extensive use of special assessments on lands benefited by specific public works. In other words, San Francisco 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 the city's credit, allowing it to finance the great burst of civic works that was to follow. Taylor supported the next mayor but one, James Rolph (1911-1930), who oversaw a long 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. Good fiscal policy did not turn all the knaves into saints: Rolph eventually fell into bad company with venal bankers and imperialist engineers. But San Francisco rose and thrived.

New Orleans, sited below the Mississippi River and its levees, has its own special problem. 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 becomes a vicious spiral. Over a century it has led step-by-step to levees four stories high.

Analytically, the problem is analogous to that of rivals pumping water or oil from a common pool, or fishermen competing by taking fish from each other. In those other contexts, private-property fanatics (i.e. most modern economists) see a "tragedy of the commons" and prescribe privatization. Levees, however, are there to protect lands already private, and call for different thinking.

Since the Mississippi Valley 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. Hoover's approach achieved coordination by making local governments pathetic supplicants (like Mayor Nagin and Governor Blanco) at the public trough, brokered by the highly politicized U.S. Army Corps of Engineers. Over time this arrangement has come to entail less coordination and more pork.

Hoover's czardom came too late to allocate lands for a bypass or overspill, such as the broad one west of Sacramento that protects the lower Sacramento Valley. Too many oxen would have been gored. And last year the overbuilt levee system, 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 to benefit others, and a tax system that will compensate the losers from the gains of the winners. Given such integration, engineers since James B. Eads in 1870 have worked out 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 happened, so now let us think.

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A Primer on Henry George's "Single Tax"

By Amy Gluckman

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At the turn of the last century, Henry George and the "Single Tax" movement he inspired were household names. George's 1879 book *Progress and Poverty* captured the imagination of millions in the United States and elsewhere, who found in his ideas a blueprint for an economic system that would retain capitalism's productive dynamism and distribute its fruits more fairly.

See also Repopulating New Orleans in this issue.

To summarize George's political-economy: George began from the premise that the land, along with all other natural resources, is the common inheritance of all. No persons or firms should own land; they should only be able to rent it. Furthermore, that rent should be paid to the public, as the rightful collective owner of all land.

Individuals and firms should own entirely whatever results from their efforts to make the land productive, however, whether by farming it or building a factory on it. They should also own entirely whatever profit they can create through the investment of accumulated capital. (In other words, George was not a socialist.)

The single-tax program was George's plan for implementing this view. The "single tax" was to be a property tax, on land but not on improvements, at a rate high enough to provide adequate revenue to the government. These tax payments would represent the "rent" those who use the land owe to the public. At the same time, taxes on labor income and on capital earnings would be eliminated.

George argued that the single-tax program would boost the economy. A sound economic system encourages both work and capital investment, so governments should avoid taxing labor income or returns on capital. At the same time, a productive system discourages rentier behavior—holding onto resources like land, living off of rents or waiting for speculation to raise land prices. With a high property tax, he believed, land will tend to end up in the hands of those who can make it most productive.

Echoes of George's ideas can be found in many strains of progressive economic thought today. For example, activists have proposed creating a so-called Sky Trust that would collect fees from firms that emit carbon dioxide. These firms are using up our common inheritance of a low-CO2 atmosphere, Sky Trust proponents argue, so they owe the public a "rent" that would serve as both an incentive to clean up their emissions and a source of funds for environmental protection efforts or "dividend" payments to the public.

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