

COMMENTARY

Katrina: Private Enterprise, the Dead Hand of the Past, and Weather Socialism; An Analysis in Economic Geography

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ABSTRACT *The market, not the government, is that last best hope for actual and future potential victims of hurricanes. State subsidies have perverted locational settlement decision-making. They have acted in such a manner as to encourage people to build in more dangerous areas than they otherwise would have. By the government undertaking part of the costs of rebuilding in the aftermath of storms, it has encouraged irrational settlement patterns, which have led, in turn, to needless loss of life and wealth.*

KEY WORDS: Hurricane Katrina, free enterprise, economic geography, research and development

I. Introduction

The Gulf Coast area of the US has been subject to a series of hurricanes, most recently Katrina, which has killed an estimated several thousand people as of this writing. The storm missed New Orleans by a whisker and yet was responsible for mass devastation and flooding in this city. The Big Uneasy lies several feet below sea level and is surrounded on three sides by the Mississippi River (which wends all around it) and Lake Ponchartrain.

Even apart from such calamities, storms are a major inconvenience. They interfere with plans, meetings, seminars, writing, reading, classes, ordinary living, etc. Storm warnings present denizens of New Orleans with a stark choice: evacuate at great inconvenience and run the risk that the oncoming bad weather will veer elsewhere rendering such flight unnecessary, or stay put and brazen it out, and have to deal with flooding, lack of electricity, no air conditioning in 90 degree plus temperatures, to say nothing of actual loss of life and/or limb, either due to the storm itself, or to the aftermath, including looting, flooding, and loss of law and order.¹

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The present paper attempts to provide an economic and geographical analysis of this tragedy. Section II is devoted to a discussion of the role that free markets and reliance on private property rights could have, but were prevented from playing in the Katrina debacle. In Section III we discuss a theory of economic geography, focusing on the role that past decisions play in present settlements in geographical space. Section IV is given over to some speculations as to the role private enterprise can play in ameliorating weather conditions. We conclude in Section V.

II. Private Enterprise

First of all, the levees that were breached by the hurricane were built, owned and operated by *government* (Block, 2004); specifically, by the Army Corps of Engineers (Rockwell, 2005). The levees could have been erected to a greater height. They could have been stronger than they were. The drainage system could have operated more effectively. Here, the New Orleans Sewerage and Water Board² was at fault. It consists of three main operating systems: sewerage, water, and drainage. Had they been run more effectively, a lot of the inconvenience, fright, and even loss of life undergone in this city could have been avoided.

Then, too, public sector creation of these facilities may have fooled many into thinking they were safer than they were, in actuality. People were in effect subsidized by these governmental expenditures, and encouraged to settle in the Big Easy. Without this particular bit of public sector mismanagement, New Orleans would likely have been settled less intensively. (On the other hand, at one time this city was the largest in the South; statist negligence of a different kind—graft, corruption, over regulation—is responsible for it having a smaller population than otherwise.)

We should not be appalled with these failures. After all, it is only human to err. Were these levee facilities put under the control of private enterprise, there is no guarantee of zero human suffering in the aftermath of Katrina. No, what must enrage us is not any one mistake, or even a litany of them, but rather the fact that there is no automatic feedback mechanism that penalizes failure (Hazlitt, 1979), and rewards success, the essence of the market system of private enterprise. Will the Army Corps of Engineers or the New Orleans Sewerage and Water Board suffer any financial reverses as a result of the failure of their installations to prevent the horrendous conditions now being suffered by New Orleanians? Will they go bankrupt and no longer reduce the well being of society with their inefficiency as a result of loss of profits? To ask these questions is to answer them.

One crucial step forward then, would be the privatization of such enterprises as part of the rebuilding process.³ Perhaps a stock company could be formed; it is likely that the largest hotels, restaurants, universities, hospitals and other such ventures would have an incentive to become owners of such an initiative. Right now, the levees are run by the very same type of folk responsible for the post office and the motor vehicle bureau (Block, 2001c). We need take no position on whether levees are a good or bad thing; only that if they are to be built, this should be done by an economic entity that can lose funding, and thus put its very existence at risk, if it errs, and creates havoc. This can only apply to the market, not the state.⁴

This is neither the time nor place to examine in detail the case for private ownership of bodies of water such as the Mississippi River, Lake Ponchartrain, and, indeed, all oceans, rivers, seas and lakes,⁵ but the same principles apply here as they do to land. Suffice it to say that this is a question that should be explored, for it is no accident that where there is private property there is safety and responsibility, and where there is not, there is not.

Secondly, numerous roads, highways and bridges were washed out, collapsed, or were swept away. This makes it far more difficult for rescuers to get to the beleaguered city, and for refugees to leave. The enterprise that built, operated and maintained these failing facilities was government.⁶ Various oil drilling rigs also failed, and were swept away in the maelstrom. It of course cannot be denied that these were all private enterprises. One of them even collided with a bridge, greatly damaging it. However, there is a significant difference between the two types of events. The market test of profit and loss applies only to the latter, not to the former. Those oil companies that built their platforms more strongly will tend to grab market share from those that did not. No such regimen operates in the governmental sector. Imagine if the oil drilling rigs were all built by the state. They would have undoubtedly created far more damage.

III. The Dead Hand of the Past

It is by no means clear that there should even *be* a city in the territory now occupied by New Orleans.

Ideally, under a regime of economic freedom, what determines whether a geographical area should be settled at all, and if so how intensively? It depends upon whether or not, in the eyes of the human economic actors involved, the subjective costs outweigh the benefits. The reason no one lives in the north or south poles, and that population density in Siberia, Northern Canada and the desert areas of Nevada is very low, is that the disadvantages are vastly greater than the advantages in those places.

However, if government subsidizes building in areas in which people on their own would not choose to locate, then the populace can no longer allocate itself geographically in a rational manner. Similarly, if government declares drought stricken farmland an emergency area, and heavily subsidizes agriculture in such locales,⁷ there is also misallocation of settlement in this regard.

The Federal Emergency Management Agency (FEMA)⁸ was created as part of the US Department of Homeland Security only on 1 March 2003, but the federal government has been doling out gobs of money to inhabitants of areas struck by tornados, storms, snow and other inclement weather for years. Such declarations number in the dozens for 2005 alone.⁹ Southern Louisiana, Mississippi and Alabama have already been declared federal disaster areas. Tons of money will pour into these political jurisdictions. Thus, locational decisions are and will continue to be rendered less rational than otherwise, if people had to pay the full costs of their geographical settlement decisions.

It may well be that with the advantage of hindsight, the Big Easy is like several of these other places: not too cold, or drought-stricken, but too low, below sea level, and thus too much in danger of being flooded.

Mises (2003, p. 231) states in this regard:

Suppose that, making use of our entire store of technological skill and our present-day knowledge of geography, we were to undertake to resettle the earth's surface in such a way that we should afterwards be in a position to take maximum advantage of the natural distribution of raw materials. And suppose further that for this purpose the entire capital wealth of the present were at our disposal in a form that would allow us to invest it in whatever way was regarded as the most suitable for the end in view.

In such a case the world would certainly take on an appearance that would be very considerably different from the one it now presents. Many areas would be less densely populated . . . The great trade routes would follow other courses.

At first glance, this does not support a New Orleans with anything like its close to one half million population at its present location. Yes, this city is situated at the mouth of a great river, and offers a world-class port to international shipping. On the other hand as recent events have so tragically demonstrated, these benefits may be more than offset by the fact that it lies below sea level.

Does this mean that New Orleans would be doomed under a free enterprise system? This is quite possibly the case, if we could do everything all over again, and start off *de novo*, at the present time. But not necessarily, given that vast investment has already been made in streets, buildings, pipes, wires, parks, etc. Even though, perhaps, if we knew then what we know now, no city would have been erected south of Lake Ponchartrain, it does not logically follow that it would not be rebuilt by private enterprise at present, under realistic assumptions. Given that New Orleans is now located where it is, it is entirely possible that it is economical for there to remain a large human settlement in that area. What cannot be denied is that when government enters the picture, economic calculation of this sort becomes impossible.

Mises (2003, p. 234) continues his analysis:

With regard to choice of location . . . new plants appear most efficient in the light of the existing situation. But . . . consideration for capital goods produced in the past under certain circumstances makes the technologically best . . . (location) . . . appear uneconomical. History and the past have their say. An economic calculation that did not take them into account would be deficient. We are not only of today; we are heirs of the past as well. Our capital wealth is handed down from the past, and this fact has its consequences . . . (S)trict rationality . . . induces the entrepreneur to continue production in a disadvantageous location . . .

That is, New Orleans might well be a 'disadvantageous location' based on the assumption that we can, with hindsight, rearrange all previous locational decisions. But, we cannot do any such thing. Rather, capital (buildings, roads, pipelines, etc.) is bequeathed to us *at a certain location*. As it happens, lots of valuable capital is located in New Orleans. This fact would incline us to reinvest in that locale, storms

be damned. But only the free market can make such a decision on a rational basis. When government muddies the waters, this cannot take place.

The best way, then, to rationally determine whether or not the Big Easy should be saved, is to leave this decision entirely to free enterprise. To capitalist entrepreneurs, who, alone, can rationally make such determinations. As the Austrian side of the Socialist Calculation Debate¹⁰ has demonstrated, only with market prices can this be done. Moreover, private owners make such decisions with their own money, or funds entrusted to them; if they err, they alone suffer. They do not bring the rest of us down along with them.

IV. Weather Socialism

But there is a third element we cannot ignore: weather socialism.

According to an old adage, critics of government can properly blame this institution for many things, but bad weather is not among them. Wrong, wrong. At the risk of sounding out of step with the mainstream, the state is responsible not only for hurricanes, but for tornados, storms, typhoon, tsunami, excessive heat, excessive cold, too much rain, too little rain, floods, droughts, desertification, tempests, squalls, gales, rainstorms, snowstorms, thunderstorms, blizzards, downpours, cyclones, whirlwinds, twisters, monsoons, torrential rains, cloudbursts, showers, etc. You name any kind of bad weather conditions, and the government is to blame.

Why, pray tell? Because the state at all levels commandeers almost 50% of the GDP in taxes, and its regulations account for a significant additional amount of wealth not created (DiLorenzo & Bennett, 1999; DiLorenzo, 2004). If the voracious government left all or even most of the property created by its rightful owners—those who created it in the first place with their own efforts—the weather problem could undoubtedly be better addressed by private enterprise.

Let us consider the following argument, critical of the above claim:¹¹

Individuals would not be better able to protect themselves against natural hazards if they lost fewer resources to government taxation. For the bottom half of income earners today pay almost no taxes, which means that a reduced take by the government could affect them only indirectly, as lower prices flowing from increased capital investment. Because so many of its residents are poor, New Orleans was likely a net beneficiary of Federal money. So cutting taxes would cost New Orleans money, with very little chance that the funds, now restored to private hands, would be invested in New Orleans. So most residents of New Orleans would be worse off, at least in the short run, if redistribution programs were curtailed. Tax relief grows less and less attractive as taxes grow more and more progressive, while at the same time increasingly progressive taxation increases the number of places with a stake in maintaining the inertia of an inefficient settlement system.

Let me say the following in response. First, it is only with regard to income taxation that the poor pay very little; they pay a disproportionate share of other taxes, however. Since food, clothing, certain types of entertainment, etc. play a disproportionately high role in their budgets, government levies on these items impact

them heavily. Second, while income taxes are not directed at the poor, there is such a thing as tax shifting; it is by no means clear that the poverty stricken escape to the extent that would otherwise be the case were this consideration not taken into account.

Third, while, indeed, a rose is a rose is a rose, it is not the case that a dollar is a dollar is a dollar. That is, a dollar emanating from the government via the good graces of the ilk of FEMA, is not at all equivalent to a dollar in the private sector. All too many FEMA dollars find their way into the pocketbooks of politicians and their cronies. Then, too, there is outright waste as when tens of thousands of mobile homes, renting for an astounding \$3,000 per month and more, sit rusting far away from New Orleans, in the fields of Arkansas of all places. Even were these trailers delivered to their supposed relatively poor New Orleans recipients in a timely manner, which they certainly were not, this *still* represents vast waste. For it is unlikely that the recipients would have spent the money in precisely this manner. Which would be more valuable to you: \$10,000 cash money in your pocket, or a basket of goods costing just that much money on the market, consisting of, oh, say, a violin, a bicycle, a year's supply of ketchup, 100 meals at McDonalds, etc.? It is only in the unlikely case that the recipient would have spent the money in *precisely* this manner that there is no loss. But that would be a rare case indeed. But the same logic applies to giving people trailers, instead of the money they cost, even on the assumption of no vast price inflation suffered by inept and corrupt government purchasers.

Fourth, this objection reckons in the absence of the insight that in the market, the rich protect the poor as a sort of byproduct or externality. For example, the internal 'streets' in shopping malls are vastly safer than the outdoor streets provided by the government. The poor, along with everyone else, are of course welcomed to shopping malls. There, they enjoy the enhanced safety provided by relatively wealthy shopping mall owners. How would this work in the New Orleans case? If associations of private businesses (that is, wealthy people) were placed in charge of the levees, instead of the Army Corp of Engineers, it is likely in the extreme that the poor of the Big Easy would have been far better protected from Katrina than in fact they were.¹²

For what wondrous tasks does the government waste trillions of our earnings? Let me count a few of the ways. It subsidizes farmers who ought to be allowed to go bankrupt when they cannot earn an honest profit in this industry. As the number of farmers has declined over the years, the number of bureaucrats in the Department of Agriculture has increased. This constitutes nothing but welfare for farmers, and agricultural mandarins. Speaking of welfare, this is but the tip of the iceberg. Our masters in Washington DC distribute our hard earned money to recipients who parent children they cannot afford to feed, and to corporate welfare bums, mainly limousine liberals. Then there is the Department of Education (weren't the Republicans supposed to repeal this sore on the body politic?) that presides over a public school system that warehouses and mis-educates our children. Then there is our system of medical socialism that wastes yet more precious resources (Friedman, 2001). We don't have Hilary-Care, yet, but we are well on our way. Then, too, we must count government throwing our money at the Post Office, the Space program, ethanol, foreign 'aid', unemployment insurance, the list goes on and on.

The drug war incarcerates thousands of innocent people—who could be creating additional wealth—at a cost exceeding tuition and room and board at some of our

most prestigious universities. Last but certainly not least, speaking of war, the US has been bullying its way around the world for decades, creating untold havoc. Katrina can't hold a candle to our armed forces in terms of killing innocent people. There are no truer words than that 'War is the health of the State' (Rothbard, 1963).

Suppose that the 'public sector' were not wasting untold riches. What has this got to do with improving weather conditions? Well, a lot of the money returned to the long-suffering taxpayers (and much of the additional wealth created by the ending of economic regulations) would be allocated in the usual directions: sailboats and pianos, and violin lessons and better food and more entertainment, etc. But some of it would likely be invested in more research and development as to the causes and cures of unwelcome weather conditions. Is there any doubt that in 100, or 1,000, or 10,000 years—assuming the government does not blow us all up before then—we will no longer be plagued by uncooperative clouds? I don't say that if the state disappeared tomorrow the next day we would have clear weather (and rain to order from 2 am to 4 am), but surely the ending of the former would bring about the latter that much more quickly.

How would this work? Would not the problem of 'public goods' render the market a 'failure', as members of the so-called Chicago 'free enterprise' school of economics would have it? Their argument (Friedman, 1962, pp. 30–32) is that if I come up with a way to stop storms dead in their tracks, or, better yet, orchestrate matters such that they do not form in the first place, everyone else will 'free ride' on my innovation. The other beneficiaries will simply refuse to pay me for this boon I confer on them, so I will not invest any money on this task in the first place. And neither will you. So the private enterprise system cannot handle such challenges.

This thesis is highly problematic.

First of all, this task need not be accomplished on a for profit basis. Non-profit organizations, too, are part of the private sector of the economy. Just looking at the charitable outpourings to New Orleanians from all corners of the country, we can see that there is no shortage of benevolence and good will for the victims of Katrina. I should single out for special mention in this regard that 'evil' profit maximizing large corporation that grinds down suppliers, immiserates its own workers due to its anti union policies, bankrupts small grocers, and just all around exploits everything else it touches: Wal-Mart.¹³ This hated corporation contributed \$1 million to the Salvation Army¹⁴ for hurricane relief. More recently, Wal-Mart committed an additional \$15 million for this purpose. As part of this commitment,¹⁵ Wal-Mart will 'establish mini-Wal-Mart stores in areas impacted by the hurricane. Items such as clothing, diapers, baby wipes, food, formula, toothbrushes, bedding and water will be given out free of charge to those with a demonstrated need'.¹⁶

The point is, if we the people had vastly more money at our disposal than we do now, thanks to government profligacy with our funds, we would be able to donate some of it to the not for profit sector to engage in research and development for weather control.

Secondly, the market has a way of internalizing the so-called externalities that supposedly prevent firms from providing storm-busting services (see on this Barnett & Block, unpublished; Block, 1983b, 2003; Hoppe, 1989; Hummel, 1990; Osterfeld, 1989; Schmidt, 1991; Sechrest, 2003). Within limits, and depending upon technology, the purveyors of flood insurance (Hoppe, 2003) would be able to turn the rain

and wind on and off like a spigot, depending upon the locational densities of their clientele. For example, if in area A, 90% of the landowners are members of Hurricane Busters, Inc., and in area B only 10% are, there is little doubt as to which will be better served by this particular firm. Then, too, there will be not only social pressure, but economic pressure, for large firms in any geographical area to sign up for such services. Those that do not (particularly in states stretching from Texas to Florida, and most certainly in New Orleans) will tend to find their customer base disappearing.

As but one small instance of this phenomenon, companies with large parking lots have recently instituted reserved spaces for pregnant women and new mothers.¹⁷ No government agency forced them to do any such thing. (Prediction: the state will soon do just that, so as to garner credit for this very humane and profitable policy.) As this movement catches on, few will be able to resist. A similar situation is likely to arise with regard to protection from hurricanes. At the very least, if government would but get out of the way, it would clear the path for private enterprise to more quickly bring us the day when the Katrinas of the future will be obviated.

V. Conclusion

What is the libertarian position on the storm and its aftermath? No national guard or other representatives of the state should be brought in. They are in effect 'murderers and thieves' (Spooner, 1966). Instead, private police agencies, appointed by property owners, should deal with the looters. Further, no tax money should be poured into New Orleans. These are stolen funds, and should be returned to their rightful owners, the taxpayers of the nation. Of course, this applies, in spades, to those victimized by Katrina. But the refunds should be in the form of money to specific taxpayers, not generalized expenditures for rebuilding, which their proper owners may or may not favor. Instead, New Orleans should rely on private charity.¹⁸

Private enterprise should alone determine if the Big Easy is worth saving or not. Problems of 'transactions costs' will be far easier to overcome than challenges presented by an inept and economically irrational government. Possibly a Donald Trump type might try to buy up all the buildings at a fraction of their previous value, and save his new investment by levee building and water pumping. He wouldn't need to purchase 100% of all real estate. A lesser amount, say, 90%, might do, and he would only make his initial purchases subject to reaching this level. That is, he might first purchase options to buy.

Notes

¹ I have been a resident of New Orleans since fall 2001. Many of the considerations in this paper emanate from that experience. I wish to thank an editor for several suggestions that greatly improved an earlier draft of this paper. I alone of course am responsible for any remaining errors.

² See <http://www.google.ca/search?hl=en&q=New+Orleans+Water+Board&btnG=Google+Search&meta=>; http://www.bgr.org/budgets/s&wb/systems_description.htm.

³ If that indeed occurs; for more on this, see below, Section III.

⁴ The Edsel was at one time emblematic of the failure of the marketplace. This is a misinterpretation of colossal dimensions. Rather, it was a failed line of the Ford Motor Company, which was very quickly jettisoned: <http://en.wikipedia.org/wiki/Edsel>; <http://www.libertyhaven.com/>

regulationandpropertyrights/tradeandinternationaleconomics/risefall.html. Imagine, though, if the government were responsible for such a disaster. Then, there would be little or no economic incentives to cut one's losses and end this product that was rejected by consumers. One might reasonably think of the US Post Office as a governmental Edsel. See on this Adie (1988, 1990a, 1990b), Butler (1986), Moore, T. (1990), Moore, S. (1987) and Priest (1975).

⁵ But see on this Block (1992, 2001a, 2001b), Rothbard (1955, 1956, 1985), Whitehead and Block (2002) and Whitehead *et al.* (2004).

⁶ For a critique of road socialism, that is, government ownership and operation of streets and highways, see Beito (1993), Beito and Beito (1998), Block (1983A, 1996, 1998), Block and Block (1996), Caplan (1996), Carnis (2003), Cadin and Block (1997), Cobin (1999), De Palma and Lindsey (2000), Foldvary (1994), Klein (1990), Klein *et al.* (1993), Klein and Fielding (1992), Lemennicier (1996), Roth (1987) and Semmens (1987).

⁷ See <http://www.fsa.usda.gov/pas/publications/facts/html/EMProcess04.htm>.

⁸ See <http://www.fema.gov/about/>.

⁹ See <http://www.fema.gov/news/disasters.fema?year=2005>.

¹⁰ See <http://www.google.com/u/Mises?hl=en&submit.x=0&submit.y=0&q=socialist%20calculation>.

¹¹ This rejoinder was offered to me by an editor; what appears in the text is an edited version of the objection.

¹² Were any private enterprise half as inefficient as FEMA or the Army Corp of Engineers, there is little doubt they would have long disappeared from the scene in bankruptcy court. In the event, these two government agencies were given *additional* funds in the wake of their abject failures.

¹³ See <http://www.google.com/u/Mises?hl=en&lr=&ie=ISO-8859-1&q=walmart&btnG=Search>.

¹⁴ See http://www1.salvationarmy.org/usw/www_usw.nsf.

¹⁵ See http://www.walmartstores.com/wmstore/wmstores/Mainnews.jsp?BV_SessionID=@@@@1373085481.1125693890@@@@&BV_EngineID=cccaddfigldeijcfkfcfkjdgoodglg.0&pagetype=news&template=NewsArticle.jsp&categoryOID=-8300&contentOID=14890&catID=-8248&prevPage=NewsShelf.jsp&year=2005.

¹⁶ In contrast, I do not recommend the American Red Cross. I still have not forgiven them for being so politically correct that they accepted blood from homosexuals, and infected hundreds of people with AIDS (<http://www.aegis.com/news/sc/1992/SC921205.html>), many of them hemophiliacs (<http://www.aegis.com/news/lt/1993/LT931113.html>). Unhappily, from my own point of view, Wal-Mart, the evil firm that it is, sent another \$1 million to the Red Cross.

¹⁷ See <http://www.mises.org/story/1898>.

¹⁸ See <http://www.lewrockwell.com/akers/akers16.html>.

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