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POWER TO THE NEIGHBORHOODS: The Devolution of Authority in Post-Katrina New Orleans

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**POWER TO THE NEIGHBORHOODS:
The Devolution of Authority in Post-Katrina New Orleans**

SANFORD IKEDA
PETER GORDON

EXECUTIVE SUMMARY

Economic success depends on institutions that favor competition and openness to innovation. This is well understood in the private sector and could also be applied in government. For example, New Orleans faces the tough challenge of rebuilding after the Hurricane Katrina disaster. An influx of competition could improve the rebuilding process and the long-term life of New Orleans.

There has been substantial dissatisfaction with several rebuilding plans for post-Katrina New Orleans. This Policy Comment proposes various steps that policy makers might take in order to inject competition into local government. In particular, it shows how neighborhoods may improve their control over polices that influence their destiny.

While the current interest in neighborhood "citizen participation" may sound positive, it falls far short of the openness to innovation required for the rebuilding process in New Orleans. One way to encourage innovation is devolution. Many devolution options are possible—including a credible threat of neighborhood secession. Private neighborhood associations, the main option for devolution, could perform the functions of municipalities in many existing neighborhoods. This would inject competition and increase innovation in the stagnant environment of city government.

POWER TO THE NEIGHBORHOODS: The Devolution of Authority in Post-Katrina New Orleans

INTRODUCTION

NEW ORLEANS'S GEOGRAPHY and history make it unique in the urban landscape of the United States. Situated near the mouth of the Mississippi River, the city has had to defend itself constantly against the wrath of nature. Historically, its location has been a rich source of economic opportunity, but, since at least the 1990s, the city has experienced its share of economic malaise.

Cities like New Orleans exist because they facilitate economic transactions and allow many people to share these benefits. The most successful cities can be seen as designs without designers. They do not all look the same because they evolve differently. How cities evolve depends on many factors, some of which are largely beyond the reach of what human beings can affect (e.g., geography), while others are directly dependent on what people can do (e.g., tax policy). The destruction of New Orleans by Hurricane Katrina and its tumultuous aftermath, tragic though it is, offers an opportunity to break away from old ways of thinking and to implement more promising policies. These policies would benefit the inhabitants of New Orleans far more than those tried in the past or being recommended now.

Economic development rests on three principles: well-established institutions (e.g., well-defined and enforced property rights), entrepreneurial activity, and free trade. Therefore, the process of development largely depends on the nature of the institutions in place and the policies that governments implement. In the case of cities, property rights arrangements are often complex because of the high-density population. Policy makers are frequently tempted to use a one-size-fits-all planning method without paying attention to the circumstances of local people and differences across communities within a single city.

Urban planning and housing policy are perhaps some of the most blatant cases of interference with the way cities naturally develop because the proper matching of activities to sites (“location, location, location”) is so critical. Cities can be engines of growth as long as they are congenial hosts to entrepreneurial efforts. But this requires that entrepreneurs can select the locations that work best for them with relative freedom. They need the ability to decide the use of the land, that is, to buy and sell land easily—the antithesis of top-down land use planning. Even at the local level, central planning has well-known limitations. These limitations are not alleviated but instead intensified when central planning presents in its modern sugar-coated guise: government-initiated citizen participation.

Policy makers widely view government-initiated citizen participation and town-hall meetings not only as “democratic,” but also as a way to get all of the information necessary to make planning decisions—a veritable silver bullet for city planning. However, this system of citizen participation runs into many of the same problems as did the top-down city planning of the past.

Most urban-planning policies, whether they are top-down or based on some form of citizen participation, are an obstacle to urban success. It makes little sense to use them in the case of New Orleans. The rebuilding process after Hurricane Katrina has made the New Orleans area ripe for change. This paper proposes alternative, more promising policies for New Orleans's rebirth, in particular, various forms of the devolution of authority to the city's neighborhoods. These devolution policies range from neighborhood groups spontaneously evolving self-help voluntary efforts to an alternative proposed by Robert Nelson in his 2005 book *Private Neighborhoods and the Transformation of Local Government*. Given the comparatively open climate for policy change in post-Katrina New Orleans, such changes could prompt a

genuine rebirth of the city's communities and the potential re-emergence of New Orleans as a "living city"—one that generates its economic growth from its own local economy.¹

Private neighborhood associations (PNAs)—an important option discussed in detail in this paper and described in detail by Nelson—are organizations and governance structures that provide or contract for some or all of the services that a larger city usually supplies for its residents. Commonly found in the suburbs of large cities, such associations provide a model that could work well in New Orleans. By transferring some of the city's powers to neighborhoods where community ties already exist or are likely to emerge, this approach would respect the desire of New Orleans citizens to remain within the city (as opposed to moving to the suburbs). By bringing life back into the city's communities, this solution would create the conditions for greater economic activity and entrepreneurship, helping New Orleans cope with its decline and prompting an economic reversal. We favor alternate approaches such as this to city development because they respect owners' property rights and allow

section explains how and why many local (mostly suburban) communities in the United States have evolved toward PNAs. The fifth section lays out some proposals to try and limit the problems of various kinds of planning that have been attempted in New Orleans and elsewhere and provide an escape from the status quo through the development of communities similar to PNAs. Finally, section six addresses applying these policy proposals to New Orleans.

I Urban Planning: Rationale and Problems

THE PUTATIVE REASON for public policy in liberal democracies is to address significant social problems that the market—with its freedom of contract, private property, and rule of law—cannot handle. In the case of conventional land-use planning, it is thought that because private decisions about land use can affect parties outside that decision-making process, such as a complaining homeowner, government intervention would best serve the interests of the general public. That would be the case if, for instance, a homeowner is opposed to her neighbor selling his house to someone who wants to use it as candy store. Hence, a benevolent local government charged with promoting community-wide interests must be aware of and then act appropriately based on the most relevant and available facts of a given situation, which would include whether the economic benefit to the store owner, his customers, and others in the community outweighs the cost to the neighbor. This poses a serious challenge to both the incentives and the knowledge that citizens can reasonably expect local governments to have.

In cities across the nation, city planning is supposed to be accomplished mostly through a system that Cooper classifies as "government-initiated citizen participation programs" (GICPs).² Others note that the first federal mandates in this direction go back to the 1954 Urban Renewal Program.³ Berry celebrates "The Rising Power of Citizen Groups" as "The New Liberalism," which he dates to the early 1960s.⁴ But is citizen participation a promising reform? This seemingly democratic desire to

...At best, participatory planning is ineffective in revealing and implementing what citizens want; at worst, it simply legitimizes politics as usual by adding mere window dressing ...

for experimentation within and competition among decentralized units of local neighborhood governance to discover successful strategies.

The first section of this paper explores the advent of government-initiated city planning and the reasons why it has taken such strong root in city government decision-making, not just in New Orleans but nationwide. The next section describes the experience of urban policy in New Orleans since Katrina. The third section outlines post-Katrina policy efforts and describes the problems of government-initiated citizen participation. The fourth

1. This is how the noted urbanist Jane Jacobs defines a city. We borrow the term "living city" from Roberta Brandeis Gratz, *The Living City* (New York: Wiley, 1994).

2. Terry L. Cooper, "Critical Introduction," in *Neighborhood Government: The Local Foundations of Political Life* (Lanham, MD: Lexington Books, 2005).

3. Samuel D. Brody, Raymond J. Burby, and David R. Gottschalk, "Mandating Citizen Participation in Plan Making: Six Strategic Planning Choices," *Journal of the American Planning Association* 68 (2003).

4. Jeffrey M. Berry, *The New Liberalism: The Rising Power of Citizen Groups* (Washington, DC: Brookings Institution, 1999).

account for local preferences and norms simply adds the voices of more “stakeholders” to those of an established industry of lobbyists, consultants, lawyers, and facilitators that professionally navigates a complex regulatory and political process.⁵ We move in the wrong direction toward more, rather than less, politicization. The negative impacts of the supply of housing and diminished housing affordability are well documented.⁶ That is, while public policy is ideally supposed to take into account the “general welfare” of the community as a whole, policy makers are supposed to pay special attention to the demands of the inhabitants affected directly by a planning intervention. The attempted resolution, as we have seen, has been to implement citizen participation, or “voice.”⁷ But at best, participatory planning is ineffective in revealing and implementing what citizens want; at worst, it simply legitimizes politics as usual by adding mere window dressing to what remains essentially top-down planning.

In an ideal instance of GICP, a local planning authority would announce its plan to build a new park or mall, sometimes but not always in conjunction with one or more private developers. It would engage architects, engineers, and other consultants to formulate an initial plan and to produce an environmental impact study. This planning group would then meet with representatives of local community groups and other inhabitants of the affected location to set up meetings at which the general public, including but often not limited to locals, can view their plan. Over a period of weeks, months, and sometimes years, a series of such meetings would be held during which the planning group would present modified versions of the original plan, listen to the suggestions and demands for change, and further adjust the plan in response. The process would end when the planners felt that they adequately addressed local concerns or minimized the threat of litigation from proceeding with implementation.

We focus on this element of modern city planning because so-called citizen participation has become an unavoidable requirement of the planning process, in

part as a backlash against the heavy-handed policies of planners of the past, such as Robert Moses of New York, and also in part cheered on by the informed activism of Jane Jacobs and others. Since the mid-twentieth century, “the nature of the plan has shifted from an elitist, inspirational, long-range vision . . . to a framework for community consensus on future growth. . . .”⁸ The large-scale post-hurricane planning process now underway in New Orleans is fully a part of this modern trend.

Problems with Government-Initiated Citizen Participation

GOVERNMENT-INITIATED CITIZEN PARTICIPATION programs are in the tradition of the Progressives of the early twentieth century and rest on the premise that top-down planning can be “reformed” to make it effective. But this view ignores some fundamental problems. First, it is unlikely to remedy top-down planners’ information deficits. Indeed, government planners do not have access to the information that local market participants have. Moreover, unlike individuals in communities, planners do not possess the incentives to anticipate changes in local knowledge and learn from their mistakes. Second, the approach does not address the problems of politicization. In fact, an effort to recognize and include more “stakeholders” has the effect of limiting the rights of property owners. Government-initiated citizen participation has been part of the elaboration of zoning-code enforcement, which has morphed into the heavily-politicized modern “approvals process.” This approach has well-known shortcomings, including the tendency to encourage lobbies and other special interest groups devoted to purely political activity.

A system that devolves governance, i.e., effective collective decision-making, to the smallest and most feasible local units addresses this problem. The ills that plague political decision making are inevitable in any devolved governance structure, but closer-to-home politics within PNAs are less likely to be influenced by bureaucracies and special interests than conventional politics are.

5. Writing about “stakeholder capitalism,” Deepak Lal notes, “Equally tendentious is the claim that, because of the social cooperation required to obtain mutual gains in a business corporation, everyone is a *stakeholder*, who must be consulted and if necessary assuaged.” Deepak Lal, *Reviving the Invisible Hand: The Case for Classical Liberalism in the Twenty-first Century* (Princeton, NJ: Princeton University Press, 2006): 188.

6. Edward L. Glaeser and Joseph Gyourko, “The Impact of Zoning on Housing Affordability” (Working Paper 8835, NBER, March 2002); John M. Quigley and Steven Raphael, “Is Housing Unaffordable? Why Isn’t It More Affordable?” *Journal of Economic Perspectives* 18 (2004).

7. A. O. Hirschman, *Exit, Voice, and Loyalty* (Cambridge, MA: Harvard University Press, 1970).

8. Edward J. Kaiser and David R. Godschalk, “Twentieth century land use planning: a stalwart family tree,” in eds. Richard LeGates and Frederic Stout, *The City Reader 3rd* (New York: Routledge, 2003).

Before the rise of GICP in the mid-twentieth century, urban planners in the United States were able to proceed with little or no input from those living and working in the locations directly affected by a given project.⁹ So, where planners saw the need for a tax revenue-generating commercial development, for example, local residents may have hungered for a safer and better school. Where planners and residents happened to agree on the need for such a school, they might disagree on its size and location. And where they just happened to agree on its size and location, they might nevertheless have disagreed on its design and layout, and so on.

Thus, top-down planning has obvious shortcomings, most notably in the way it neglects the local knowledge of people on the ground—what Nobel laureate F.A. Hayek called their “particular knowledge of time and place.”¹⁰ Adding the trappings of democratic citizen participation through “community meetings” or focus groups does not address this basic problem. Indeed, it diverts attention from it. For one thing, choices made in political processes, such as through citizen participation, are made in a less continuous manner than they are in the market process. Political choices are made from election to election for example, and their limitations are magnified still further once we recognize that people’s knowledge is usually tacit and unarticulated.

Moreover, a democratic process such as GICP that tries to get input from as many people and groups as possible must first collect opinions from all of these groups. These opinions and preferences from interest groups and the public at large are often contradictory. Then, the decision-making body must condense this large bulk of often contradictory information into “a single policy platform, which will secure majority support.”¹¹ While compromise of this sort is the essence of political solutions, it simply compounds the difficulty of getting at local

knowledge relevant to achieving efficient land uses that enhance entrepreneurial success.

In contrast, in the market process “multiple exchanges between individuals and firms allow many different and often contradictory ideas to be simultaneously tested against one another without the need for majority approval of any particular course of action.”¹² The market is thus essentially experimental and open-ended in a way that those who favor politics as usual find dangerous or undesirable.

This is why we question the effectiveness of participatory planning in general and in the planning process for the rebuilding of New Orleans in particular. The extraordinary circumstances in post-Katrina New Orleans require new policy thinking. They also offer an unusual opportunity for an approach that addresses local knowledge problems more effectively than “town meeting” forums can hope to do.¹³ At the City Planning Commission’s final hearing on a plan for the rebuilding of New Orleans, one participant noted: “A hearing is a nice thing, but it’s not participation.”¹⁴

2

Post-Katrina Planning in New Orleans

THERE HAVE BEEN five major city-planning endeavors in post-Katrina New Orleans.¹⁵ These have been praised, especially the last two, for the extent of citizen participation,¹⁶ but by their nature, they remain essentially of the top-down variety.

The first plan was a FEMA initiative called Emergency Support Function #14 (ESF-14). Although it once employed a staff of 325 people, ESF-14 is now largely irrelevant. The second is an initiative of Mayor Ray

9. The most notorious, though by no means atypical, example is that of Robert Moses, the “master builder” of New York City.

10. F.A. Hayek, “The Use of Knowledge in Society,” *American Economic Review* 35, no. 4 (September 1945): 519-530.

11. Mark Pennington, “Citizen Participation, the ‘Knowledge Problem,’ and Urban Land Use Planning: An Austrian Perspective on Institutional Choice,” *The Review of Austrian Economics* 17, no. 2 (2004): 213-231.

12. Pennington, “Citizen Participation”.

13. For more on the role of local knowledge and community resiliency in the post-Katrina context, see Emily Chamlee-Wright and Daniel M. Rothschild, *Disastrous Uncertainty: How Government Disaster Policy Undermines Community Rebound*, Mercatus Policy Series, Policy Comment No. 9 (Arlington, VA: Mercatus Center at George Mason University, January 2007).

14. Unidentified participant, Unified New Orleans Plan public meeting, City Council Chambers, New Orleans, 7 March 2007.

15. The following draws heavily on the overview provided by Jedediah Horne and Brendan Nee, “An Overview of Planning in Post-Katrina New Orleans,” 2006, http://www.bnee.com/wp-content/uploads/2006/10/An_Overview_of_the_Unified_New_Orleans_Planning_Process.pdf, as well as from the New Orleans Plan Database at <http://www.nolaplans.com/>.

16. Abigail Williamson, “Citizen Participation in the Unified New Orleans Plan,” 2007, <http://www.americaspeaks.org>.

Nagin called the “Bring New Orleans Back Commission” (BNOB). Staffed by local notables and working in conjunction with the Urban Land Institute, the BNOB has fallen into disfavor, even with the mayor himself, for advocating shrinking the urban footprint for planning purposes and concentrating redevelopment and infrastructure spending on the areas of the city where population recovery would be most likely to occur. In spite of any of the merits of this proposal for the economic rebirth of the city, some of which we discuss later in this paper, the plan’s callous disregard for the feelings of community members resulted in a political disaster. Like FEMA’s ESF-14, it has become largely a dead letter.¹⁷

The third proposal, the so-called Lambert Plan, was backed by the City Council and is a good example of GICP in action. It sent teams of architects directly to 46 flood-affected neighborhoods, out of a total of the 76 independent neighborhoods recognized by the City Planning Commission, to solicit input directly from local residents and neighborhood groups and formulate a plan for that area based on the information gathered. Planners then were to knit these 46 independent plans into a single, cohesive, unified plan. This plan avoided premature political suicide by heroically and unrealistically assuming the viability of all damaged neighborhoods regardless of condition. However, the project failed to integrate the 46 plans into a coherent whole. According to Horne and Nee, “the final plans are a perplexing bundle of short and long-term public and private projects,”¹⁸ the result no doubt of the absence of clear priorities and a failure to engage the City Planning Commission during the planning process.

The fourth plan is the Unified New Orleans Plan (UNOP), which is funded primarily by a \$3.5 million grant from the Rockefeller Foundation and administered by a local New Orleans foundation, the Greater New Orleans Foundation (GNOF). Embraced by the Louisiana Recovery Authority and with direct ties to sources of federal money, as of early 2007, this is the definitive recovery plan. Like the Lambert Plan, citizen input and participation is central

to the UNOP planning process. However, rather than a neighborhood-level approach, the UNOP intends to produce separate plans for each of the 14 larger New Orleans districts. A Community Support Organization, staffed and advised by a local firm called Concordia Architecture & Planning, would oversee and knit together these plans. The UNOP promises to use the information gathered from the various public meetings held so far, especially under the Lambert Plan.¹⁹

The extraordinary circumstances in post-Katrina New Orleans require new policy thinking.

The latest twist in the rebuilding saga is a fifth plan that was announced by Mayor Nagin and his recently hired recovery chief, Edward J. Blakely, on March 29, 2007. With a far narrower geographic focus and more limited budget than the UNOP, but evidently based to some extent on the data gathered, the new plan proposes spending a relatively modest \$1.1 billion over 15 years on 17 selected areas scattered throughout metropolitan New Orleans but concentrated mostly in Orleans Parish. According to the *New York Times*, most of the money “will be used on citywide projects like park improvements and traffic lights.”²⁰ The plan calls for incentives for private developers and funds for libraries and clinics, with the hope that investment in these seventeen areas, which are each about a half-mile in diameter, will serve as a catalyst for what the mayor describes as “market-driven approach.” As we show in Section V, this is consistent with other statements that Nagin has made, at least since Katrina, in which he has expressed a preference for market-based development over local central planning.

Once again, our general concern is not with the particulars of each proposal, but with incentive and knowledge

17. There have been some recent calls in the blogging world to revisit this controversial and unpopular (at least among some groups) plan. See *The Moderate Voice*, <http://themoderatevoice.com/2007/01/04/politics/rebuilding-new-orleans-the-best-they-can/>.

18. Horne and Nee, “Overview,” 8.

19. The Bureau of Governmental Research, an independent, non-profit, non-partisan organization, has reached the following conclusion on the UNOP: “Unfortunately, the problems with the current Citywide Plan are so fundamental that they cannot be addressed through minor adjustments. Addressing them properly will require a return to the basic data, fresh analysis and an overhaul of the planning document.” Bureau of Governmental Research, “Not Ready for Prime Time: An Analysis of the UNOP Citywide Plan,” March 2007, <http://www.bgr.org/BGR%20Reports/unop/Not%20Ready%20for%20Prime%20Time.pdf>.

20. Adam Nossiter, “New Orleans proposes to invest in 17 areas,” *New York Times*, March 30, 2007.

problems associated with metro-level central planning that none of these plans adequately address, even those that implement GICP. Even the latest Nagin-Blakely proposal (the Blakely Plan) still attempts to allow City Hall to choose which projects will succeed (or “pick winners”), although perhaps to a lesser degree than the earlier proposals. In contrast to these plans, the next two sections of this paper develop an alternative, bottom-up approach.

3

The Development of Private Neighborhood Associations in the United States

MIGRATIONS TO THE suburbs and exurbs in the U.S. are well-documented. But when examined in more detail, many of these moves do not reflect a desire to leave the hustle and bustle of the city, but rather a desire to live in types of communities that cannot exist under the heavy-handed and heavily politicized administration of the city regulatory codes. Fifty-five million Americans now live in private community arrangements, usually in new suburban developments.²¹ This migration has been referred to as part of a “quiet revolution.” Most of the growth of these communities governed by some form of private neighborhood association has occurred since 1970.²²

In contrast, garden-variety neighborhood associations can be beneficial, but in order to achieve their full potential, urban policy must permit them to evolve within a very different set of parameters than those that currently exist. This means allowing neighborhood associations to incorporate as private neighborhood associations (PNAs), which serve not just as non-profit community groups but fill a real governance, and therefore economic, role as well. As we explain below, a PNA would in essence behave more like a firm operating in the market, able to use local knowledge and norms in a way that current planning approaches cannot. Many such associations looking after the pace and quality of local neighbor-

hood change are a better bet than any one-size-fits-all citywide set of rules, which special interests will almost inevitably capture.

The success of PNAs is easily measured by relative property values in the communities they govern. In this sense, a PNA is like a business, such as a private developer, except that it is run via neighborhood-level governance that must attract and retain customers, i.e., residents and mixed-use enterprises, by offering competitive services and charges. A PNA can range in size from a few dozen to several thousand households depending on factors such as local terrain and infrastructure and especially the type and scale of services the PNA chooses to provide (e.g., garbage collection, street paving, security, schools, commercial development, or sewers).

How Do PNAs Work?

UNDER CONVENTIONAL ZONING, changes in existing land use must pass through municipal zoning and other boards that have neither the relevant knowledge nor the incentives of those who work and live in a particular location to enhance the value of their property. Moreover, the residents affected by any proposed change will not necessarily receive all or any of the compensation that the zoning board demands in order for the change to go through. Nor would the locals be able offer inducements to help effect the changes they desire, but they would be able to do so in a PNA system.

Anyone who wishes to use land in a way that does not conform to the rules of the PNA, whether a local inhabitant or an outside investor, would have to negotiate directly with the PNA’s representatives; any compensation for changes made would go directly to the membership. As in any market transaction, whether the “exchange” is made—in this case whether land use changes are granted or prohibited—would depend on who is willing to sacrifice more, the advocates or the opposition.²³

21. Nelson has noted that the proliferation of small cities in suburban areas is more pronounced in the frostbelt cities; in the newer sunbelt big cities, political boundaries tend to overlap the developed areas, and many of the new units emerging at the edges of development have been privately run communities. Both suburbs and so-called edge cities thus require devolution of land use regulation, service provision, and property maintenance to private governance or something very similar. See Robert H. Nelson, “Private Community Associations: Decentralizing Local Government Privately,” (prepared for conference sponsored by the Lincoln Institute of Land Policy, Cambridge, MA, June 4–5, 2007).

22. At the same time, many people have moved into small cities, many at the urban edge. These have been described as “homevoter” cities and are similar to PNAs because their governance is mainly devoted to the maintenance of residential property values. Voter-homeowners look for expenditure and tax decisions by local governments that enhance residential property values. See William A. Fischel, *The Homevoter Hypothesis: How Home Values Influence Local Government Taxation, School Finance, and Land Use Policies* (Cambridge, MA: Harvard University Press, 2001).

23. This can be seen as a straightforward application of what is known in economics as the Coase theorem.

Economists have long recognized that this process simultaneously enables consumers to reveal how strongly they feel about buying a product and allows entrepreneurs to discover the knowledge and norms relevant to their economic decision.

Going this next step involves using contracts with secure property rights that allow neighborhoods, families, and individuals to explore and experiment with new ideas. This process has built-in feedback mechanisms (notably prices) that enable people to judge what ideas work best. For example, a PNA that provides streetlight service at a low cost might be doing something well. This allows communities, in the form of PNAs, to learn from one another rather than merely receive instruction from a central authority. (We provide examples of how this works in the next section.) The option of devolution of real authority to PNAs to make local development and land use decisions would encourage more of this kind of experimentation to discover good ideas and to quickly move away from bad ones. This is the essence of entrepreneurship.

The appeal of PNAs—as well as of small suburban homevoter cities—stems from neighborhood quality being a local collective good and the large stake residents have in developing rules to govern neighborhood quality and neighborhood transition.²⁴ Both entities emerge to protect the property rights of homeowners and to increase property values through the provision of specific “club goods” like garbage pickup and community recreational centers. Residents are ready to trade off rights for protections, but the precise nature of the trade involves complex choices. These are most likely to be carefully specified, vetted, and fine-tuned when they are close to home.

Most importantly, all of these developments compete with one another. The communities that create the most desirable arrangements see a reflection in their property

values. Through these arrangements, the homeowner becomes an entrepreneur. While cities, in general, do compete with each other for creative and productive inhabitants, this competition is more effective when it is decentralized and governance is devolved to smaller, more local units. Labor and capital can exit cities, states, and even countries, but they can even more easily exit neighborhoods. PNAs thus promote more competition among neighborhoods within a given city, creating a “race to the top” between communities.

Through these arrangements, the homeowner becomes an entrepreneur.

The explanations for the large migrations toward PNAs and homevoter cities are similar to the reasons that many businesses in urban commercial districts can, and increasingly do, provide local services and impose fees to cover the upkeep of common areas, all on the basis of voluntary choice via neighborhood homeowners’ associations and business improvement districts (BIDs).²⁵ Chicago’s Loop, especially its rejuvenated Michigan Avenue, as well as Midtown Manhattan, and many other prominent examples have been cited as BID success stories. In light of their understanding that local neighborhood quality was a collectively enjoyed good, property owners formed non-profit associations and agreed to assess themselves for purposes of area improvement. Shoup reminds us that these arrangements have become quite standard: “BIDs have multiplied rapidly since 1965 when the first one was established in downtown Toronto, and many cities encourage local businesses and property owners to create them. These organizations have a good track record, their legality is well established, and their operating principles are familiar to public officials and business owners.”²⁶

24. What we say about “residents” and “homeowners” in this section applies equally to commercial and other non-residential uses in the neighborhood.

25. Urban renewal projects (usually administered via the creation of urban renewal special districts) have been in use for many years and are attempts to fund local-area capital expenditures. BIDs expand this concept. They are attempts to focus local-area operating expenditures. But renewal districts have a history of being top-down and heavily politicized. (See for example Robert Caro’s classic description of how Robert Moses wielded so-called “Title 1” authority to pursue urban renewal in Robert Caro, *The Power Broker* (New York: Vintage, 1975). BIDs are more of a bottom-up phenomenon. Both organizations may have a role in the rebuilding of New Orleans, but the latter are more desirable because they tend to be less politicized. Healthy business districts can also nurture the human and social capital to form new businesses. (See below on the activities of the non-profit organization Idea Village which attempts to address what its founders see as a lack of such “social capital” in New Orleans, i.e., weak and strong ties among community members that can serve as conduits for human capital. See James S. Coleman, “Social Capital” in *Foundations of Social Theory* (Cambridge, MA: Harvard University Press, 1990).

26. Donald C. Shoup, *The High Cost of Free Parking* (Chicago: American Planning Association, 2005): 401.

As we have observed, the advantage that PNAs and BIDs have over the standard public policy model based on citywide policy settings is that community-level private initiative rather than citywide government action best addresses the problems of appropriate incentives and the effective use of local knowledge. First, the people whose economic interests are directly affected by a proposed change in land use, such as private investors and property owners, have an incentive to make sure the land is put to its most efficient use. Second, rather than operating through a centralized municipal zoning board in which the interests of materially affected inhabitants may or may not be heard, the members of a PNA, who would be the direct recipients of any payments made as an inducement to permit the change, would have the ultimate decision-making power. Whether this is voted on directly by the membership or delegated to various subcommittees or decided by fiat by a central board would be a matter for the PNA, based on its particular circumstances of time and place, to decide.

These are examples of what true community empowerment looks like: allowing individuals and their communities to make decisions themselves. This is superior to the citizen-participation model discussed earlier, which simply allows citizens to look and perhaps even feel like they are participating in the planning process. The PNA model allows real decisions to be made locally and with substantive community involvement through economic, rather than political, means.

4 The Nelson Proposal

AS NOTED ABOVE, BIDs are usually formed in already developed areas. They require the acquiescence of a large percentage—70 or 80 percent—of local landowners, depending on state and local laws. Responding to the rise of BIDs as well as by the popularity of suburban PNAs, University of Maryland economist Robert Nelson has developed the innovative idea that residents of older neighborhoods should have likewise the legal option of forming RIDs (residential improvement districts).²⁷ Thus, a RID is a type of PNA, but unlike BIDs, the formation of RIDs would require legal reforms to

give residents the option of forming the RID, which is tantamount to a partial secession from the city. We suggest that such legal flexibility would open the possibility for RIDs, alongside BIDs, and also for many hybrids that are not yet known and that would emerge as appropriate to local circumstances. This would open up opportunities for bottom-up innovation, which is much more promising than failed top-down central planning. The latter is flawed with or without citizen participation, not just in New Orleans—before and after Katrina—but in most other U.S. cities.

Nelson's approach involves amending state law to permit a supermajority of residents in a given area who would like to be responsible for local redevelopment to form some sort of association that would administer private governance. As with BIDs, RIDs would have the power to coerce a hold-out minority into joining the RID. Nelson recommends five steps that states can take to privatize existing neighborhoods.²⁸

1. A group of local property owners petitions the state to form an RID. The petition describes boundaries, services, assessments, and fees. Nelson suggests that more than 40 percent of owners representing at least 60 percent of the total value of existing neighborhood properties might be required to get an RID started.
2. The state government then certifies the petition and signatories.
3. The state authorizes a neighborhood committee to negotiate a service-transfer agreement with the city. Transfers of streets, parks, and public facilities may be included, and the state is the mediator.
4. The state schedules neighborhood elections, informs all homeowners of the election, and facilitates discussion and debate.
5. The state supervises the neighborhood election. Nelson suggests a required affirmative vote from at least 80 percent of the property values and 70 percent or more of the owners. If the initiative passes, all local property owners are required to join the RID.

27. Robert H. Nelson, *Private Neighborhoods and the Transformation of Local Government* (Washington, DC: Urban Institute, 2005). Robert H. Nelson, "From BIDs to RIDs: Creating Residential Improvement Districts," DeVoe L. Moore Center Policy Briefs no. 19 (April 2006).

28. Nelson, *Private Neighborhoods*, 266-7.

Developers of new suburban communities create PNAs before most of the units are sold because the process of constitution writing (getting everyone to agree to join the PNA) is recognized as difficult, involving what economists call transaction costs. The proposed five-step scenario for creating a PNA in an existing neighborhood uses coercion to overcome these transactions costs—requiring that all residents join even if some hold out. This sort of activity may be attractive if the alternatives are a logjam or more of the same in terms of conventional policies and programs. Such changes would establish and expand local property rights and in the long run could make older and troubled neighborhoods more attractive for employers and homeowners.

In addition to the clear benefits already discussed, replacing traditional zoning and citizen participation with PNAs (and RIDs) offers these advantages:

1. Unlike municipalities where special interests tend to capture many of the benefits of zoning, PNAs and their memberships would receive these benefits because they would be principals in negotiations for land use in their respective neighborhoods.
2. Private developers and smaller investors who seek changes in PNA rules would approach the relevant PNA, not the conventional governing authority, making any process of negotiation more likely to discover and address the knowledge and preferences of local inhabitants. Critically, this opens avenues to entrepreneurs and small businesses that are typically closed by a political zoning process. By devolving governance to the level of the neighborhood, the RID proposal is more genuinely democratic than so-called citizen participation.
3. Since land use decisions would essentially become market based, with the price mechanism assisting PNA members in making those decisions, the PNA decision-making process would be less politicized and more likely to address real local demands than decision citizen participation.
4. Finally, for the reasons given above, unlike traditional zoning/planning with or without citizen participation, the collective goods provided by a

given PNA or a combination of PNAs acting jointly would be more likely to suit those who use the relevant location.

Modern living cities compete for mobile talent and resources. Modern entrepreneurs base location decisions less on accessibility to ports, crossroads, or raw materials sites and more on the overall quality of the business environment and the availability of appropriately skilled workers. Facilitating such entrepreneurial location decisions often requires local governance to accommodate innovative arrangements that provide entrepreneurs and employees with a diversity of services and social capital at acceptable costs. PNAs and RIDs offer just such an alternative, owing to the way in which such a system would foster and encourage experimentation in promoting the economic interests—much as homevoter cities and suburban homeowners' neighborhood associations already do.

However, because each PNA would be relatively free to impose the number and types of rules it sees fit, some worry that neighborhoods would engage in objectionable discriminatory practices—a throwback to the “covenant communities” of the mid-twentieth century and earlier. Nelson responds that this view not only reveals a tendency to regard ordinary people as bigots, but more importantly ignores the role of “exit” or competition among communities in constraining the powers of local authorities.²⁹ Widespread and effective local governance would, as we have observed, offer a wider range of lifestyle choice to individuals, as the lower cost of moving from one private neighborhood to another increases the credibility of any inhabitant's threat of competitive exit. Moreover, imposing a uniform ideology or moral code across PNAs, except for the broadest strictures against aggression and fraud, is no solution, for it would make the attempt to form individualized neighborhood governance pointless.

While some PNAs may decide to stay close to conventional practices and contract with the city for most of its services, a more imaginative PNA may want to contract with a private architect to design its streets or hire its own utility consultants and construction companies to install and pay for its own infrastructure. A group of two or more PNAs may negotiate the construction of a

29. Nelson, *Private Neighborhoods*, 429.

much-wanted shopping center without the direct intervention of municipal government.³⁰ Unless a PNA completely secedes from the city, its inhabitants may still be required to pay taxes to various levels of government in addition to fees they owe to their PNA. In order to avoid paying twice for the same services, however, they would receive a dollar-for-dollar rebate from each government level for the collective goods and services that the PNA provides for itself.

Its residents and businesses would choose the degree of individual governance, from nominal autonomy to complete secession, that any given PNA has. While extreme, secession should remain an option to any PNA. This is not only consistent with the protection of free choice and private property, but the credible threat of secession and

While extreme, secession should remain an option to any PNA.

neighborhood autonomy, like the threat posed by private schools under a system of vouchers or tax credits, will help to maintain the quality of publicly provided services. Competition among neighborhoods already exists to a limited extent, in the absence of PNAs, when people try to decide where to live or work. Our proposal dramatically increases the options for potential homeowners and proprietors.

The City of New Orleans has been steadily shrinking since 1960. Since then people have been “voting with their feet” as they try to find better opportunities and safer streets in other cities. Under our proposal, with the possibility of genuine choice among a variety of economic offerings and governance structures between each RID, voting with one’s feet will not necessarily mean leav-

ing the city. In the space of twenty-four months, New Orleanians have had five major recovery plans put before them, and they are losing whatever faith they still have in their government after Katrina. After the devastation, however, New Orleans is now smaller and denser with a population whose median income is higher than before. Instead of looking for leadership to come from the top

5 An Alternative to Urban Planning Policy in Post-Katrina New Orleans

down, it is time to look from the bottom up.

EVEN BEFORE KATRINA hit, New Orleans was a declining city. A critical index of urban health is the size of the population. After peaking in 1960 at over 600,000, the population of the City of New Orleans fell in each subsequent decade, reaching about 450,000 just prior to Katrina. In addition, in 2000, New Orleans ranked first (among the forty largest U.S. cities) in terms of the proportion of individuals below the poverty level; its inner city poverty rate was second among the 100 largest U.S. cities.³¹ It also ranked first in the nation in “murder and non-negligent manslaughter” per 100,000 population in 2003.³² New Orleans’s current plight can be described as that of a cancer patient who has been hit by a car.³³ Finally, *Forbes* placed Louisiana dead last among all fifty states in terms of business climate even before the events of 2005.³⁴ These desperate times call, and we believe open the way, for fresh ideas.

A. Encouraging Signs

VARIOUS STILL SMALL developments bear watching, because they may offer some grounds for guarded optimism about the possibility of genuine reform in the current environment.

- **Market-friendly rhetoric.** Since Katrina, officials have

30. This is far from pie-in-the-sky in New Orleans. The *Times-Picayune* reports that Victory Real Estate Investments LLC is “working closely with the Mid-City Neighborhood Organization, to create a nearly contiguous 20-acre site for 1.2 million square feet of retail space for national chains that have until now been unable to find a home in the city.” Greg Thomas, “Giant Mid-City Retail Project Planned,” *Times-Picayune*, March 31, 2007.

31. The Brookings Institution, “State of the Inner City Economies, Inner City New Orleans Profile (pre-Katrina),” <http://www.brook.edu/metro/pubs/20050909PreKatrina.pdf>.

32. U.S. Census Bureau, Statistical Abstract of the United States, Table 296, 2006, <http://www.census.gov/compendia/statab/2006/2006edition.html>.

33. “...crippling problems that existed long before Hurricane Katrina are mostly being blamed for the city’s failure to thrive.” Adam Nossiter, “New Orleans of Future May Stay Half Its Old Size,” *New York Times*, January 21, 2007.

34. Kurt Badenhausen, “The Best States for Business,” *Forbes*, August 16, 2006.

sent out mixed signals about redevelopment. Some New Orleans politicians, however, have uttered statements that are consistent with letting at least some planning authority devolve to local communities. The *New York Times*³⁵ reported that Mayor Nagin and others have gone on record saying, “City Hall will not dictate where citizens can live;” “You can’t wait on government;” and “You have to figure out a way to partner with your neighbors.” These comments, as well as Nagin’s statement that he’s a “property rights person,”³⁶ should be viewed critically, but they kindle a glimmer of hope for greater tolerance for market-oriented policy change at the political level.³⁷

• **Greater flexibility in school choice.** Another possible indicator of openness to market-oriented policy change is that Louisiana may now be the only state that gives parents system-wide open choice as they consider a growing number of conventional or charter schools. Many new charter schools are now opening, replacing many of the District’s reviled public schools that were closed by the storm. There were just four charter schools in New Orleans pre-Katrina, but as of this writing, there are over fifty.³⁸ These new schools are likely to be an improvement over the old public system that was widely deemed to be dysfunctional and corrupt.³⁹ Better schools are, of course, essential to improve human capital and can be the basis for new community links between parents. They can also supply day-care services, allowing more parents to seek employment. They also could attract the interest of investors who state that private development funds have been on hold because of the widespread perception of poor local schools.⁴⁰

As indicators of political flexibility, we believe that these emerging bottom-up efforts and some accompanying political tolerance give some basis for a new flexibility

in public attitude towards a private role. They suggest a willingness on the part of local authorities to try new ideas under the current circumstances.

B. Devolving Governance in New Orleans: How It's Already Working

OUR APPROACH RECOGNIZES the superiority of bottom-up planning and the importance of local knowledge and initiative in the success of living cities. Rather than relying on citizens to give advice to an already politicized zoning board, this proposal allows residents more freedom to experiment and minimizes the influence of special interests in the planning process. As noted, developers would have to pay property owners, rather than influence politicians, in order to execute their designs.

Before outlining the changes we think are necessary to create an environment for sound long-term economic growth, it may be useful to look at three brief examples of limited bottom-up governance that actually exist in New Orleans right now. These can serve as a starting point as well as inspiration for and modest versions of the more dramatic reforms we propose.

• **Broadmoor Improvement Association.** One of the more auspicious examples of self-governance in the face of inept and threatening urban planning is that of the Broadmoor Improvement Association (BIA), originally established in 1930 and located in Planning District 3.⁴¹ Like New Orleans generally, more than two-thirds of its residents were African American, and most were lower middle-income. Katrina-related flooding damaged over 70 percent of the homes in the neighborhood. In the first months after the storm, perhaps in conformity with the

35. Adam Nossiter, “Bit by bit, some outlines emerge for a shaken New Orleans,” *New York Times*, August 27, 2006.

36. Charles C. Mann, “The Long Strange Resurrection of New Orleans,” *Fortune*, August 21, 2006: 98.

37. According to the *Times-Picayune*, “Nagin and others continue to argue that individual decisions and the free market—not central planning—will dictate what areas will be viable as the city recovers from Katrina damage.” Coleman Warner, “N.O. Planning Process Puts Residents On Edge,” *Times-Picayune*, August 31, 2006. Moreover, the City’s website describes in detail how the permits have been expedited. See <http://www.cityofno.com/portal.aspx?tabid=54>.

38. See Steve Ritea, “28 Charter School Applications Sought,” *Times-Picayune*, December 22, 2006.

39. “If outsiders had visited New Orleans the day before the storm, they’d have seen a school district already in distress. Nearly two-thirds of the parish’s public schools weren’t meeting state standards. The city went through 10 superintendents in 10 years; in 2003, one high school valedictorian needed seven tries to pass the state’s 10th-grade math test. Corruption was endemic.” Greg Toppo, “New Orleans Schools Aim Higher,” *USA Today*, June 11, 2006, http://www.usatoday.com/news/education/2006-06-11-parish-schools_x.htm.

40. This is already happening in this new environment. The *Times-Picayune* reports that “Louisiana’s largest private foundation plans to spend almost \$4.2 million to launch a public charter school support network in New Orleans to offer leadership training, guidance and business expertise to existing charters, along with consultation groups wanting to start more schools.” Darren Simon, “Foundation to Provide \$4.2 Million Help to Charter Schools,” *Times-Picayune*, March 8, 2007.

41. Adam Nossiter, “In New Orleans, Progress at Last in the Lower Ninth Ward,” *New York Times*, February, 23 2007.

ill-fated Bring New Orleans Back plan, the city threatened to raze the Broadmoor neighborhood and turn it into a park, unless half its residents returned within four months. In response, residents held meetings in a trailer to plan the revitalization of the neighborhood. Over the past two years, 55 percent of its former residents returned along with many new ones. Average home prices rose by over 50 percent between 2006 and 2007. According to the *New York Times*, “While New Orleans haggles over a master redevelopment plan, people in some neighborhoods like Broadmoor have been rebuilding on their own. They are forming partnerships with companies, universities and nonprofit organizations to

is the way in which Victory Real Estate Investments LLC, a Georgia development company, has been working with the Mid-City Neighborhood Organization (MCNO) to develop “a nearly 20-acre site for 1.2 million square feet of retail space for national chains that have until now been unable to find a home.”⁴⁴ According to Richard Stone, vice-president and director of marketing and commercial real estate for NAI/Latter & Blum Inc. Realtors, “New Orleans has been on the radar [of national retailers] for a long time. . . .” Katrina has made land available. The MCNO has been playing more of a watchdog than an activist role, however, as members of the city council are working directly with the developer. Under one scenario of our proposal, these roles would be switched. The MCNO would deal directly with Victory, and the city council or other relevant city agency would play the watchdog. Nevertheless, this example illustrates our point about the need for flexibility in land use for contemporary entrepreneurial development, both small- and large-scale. The aftermath of Katrina has opened up new possibilities in this direction.

People will remain in New Orleans if it is able to generate economic opportunities from other people and resources within the city.

help gut homes, assemble volunteers and finding pumping equipment.”⁴² BIA partnered with the Kennedy School of Government at Harvard University to help it write and carry out a rebuilding plan, and the association has received \$5 million in pledges from the William J. Clinton Foundation. Its members are working to create a community center and to start a charter school.⁴³ In the face of mounting crime, BIA has increased its voluntary neighborhood patrols and has even begun a program to assist police officers to move into the area. While these efforts in some ways reflect the level of desperation of people who want to stay in a city that has had a long record of inadequate provision of collective goods, they also demonstrate what ordinary people, with energy and local know-how, can do in what has been described as (perhaps as a result of confusion) “a very *laissez-faire* approach” by the local government after Katrina.

• **Mid-City Neighborhood Organization.** Another interesting and encouraging development from the viewpoint of local initiative and flexible governance

• **Idea Village Proposal.** People will remain in New Orleans if it is able to generate economic opportunities from other people and resources within the city. One example of the sort of experimental program that speaks directly to this approach is that of a local nonprofit organization called the Idea Village, established in 1999 to promote a culture of high-growth entrepreneurship in New Orleans. While we do not necessarily endorse any of their many activities and programs, one of them—their concept of a “Small Business Incubation Network” or BIN—intriguingly combines diverse elements and objectives largely consistent with our own proposal. The BIN seeks to “develop centralized amenities for neighborhood residents, jumpstart small neighborhood businesses with temporary business housing, technical and financial support, and create local job opportunities for community residents within the recovering businesses.”⁴⁵ They propose to partner with the New Orleans Area Habitat for Humanity (NOAHH) and Tulane University to create what they call neighborhood incubators “tied to the residential rebuilding plan that NOAHH will execute over the next five years.” From our perspective, it is significant that this proposal rec-

42. Nossiter, “Progress at Last”

43. According to *Gambit Weekly*, however, vandalism threatens to delay the opening of schools in the district. See Ariane Wiltse, “At Risk Schools,” *Gambit Weekly*, May 1, 2007.

44. Greg Thomas, “Giant Mid-City Retail Project Planned,” *Times-Picayune*, March 31, 2007.

45. The Idea Village Direct Connect Program, <http://www.ideavillage.org/>.

ognizes that any meaningful economic recovery entails the interdependence of economic opportunity, housing, and technical and financial know-how and that, in the spirit of both Jacobs and Glaeser, it explicitly takes into account the importance of a diversity of primary use.⁴⁶ This gets people into public spaces (broadly defined) at different times of the day and lays the foundation for safety, trust, and eventually a diversity of knowledge and tastes, upon which emerge opportunities for entrepreneurial discovery.

6 What Needs to Be Done?

IN THE MARKET, the mere threat of potential competition or new entrants is often sufficient to keep incumbent firms on their toes. In the same way, the mere credible threat of secession can have the beneficial consequences of keeping city government and other neighborhoods on their toes. In New Orleans's current circumstances, we envision three possible levels of reform: (1) starting a devolution; (2) further devolution; and (3) full devolution. We stress that given our comparison between current practices and the PNA approach, the present economic and political climate both demands and allows for the devolution of governance.

First, New Orleans will have to avoid the failed policies of the past, which would mean rejecting one or more versions of the UNOP, including the fifth and latest plan (the Blakely Plan).⁴⁷

Second, there is the issue of uncertainty. While more modest in scope and expense than any of the previous four attempts, there is an understandable lack of confidence on the part of many New Orleanians that the Blakely Plan will be the final and definitive one. Since Katrina, many plans have been undertaken only to be

later aborted, and this has cost New Orleanians a great deal of time, patience, and goodwill. Thus, there are reasonable grounds to doubt whether this plan—or indeed any top-down plan—will ever be officially adopted, much less implemented.

Third, the city has shown a wearying tendency to view top-down planning as the only serious option. We have already critiqued this approach in its various forms at some length. When myriad ever-changing individual plans compete for limited resources, historical experience and economic theory demonstrate that private property and decentralized decision-making is superior to top-down planning. However, in the chaos immediately after a disaster when resources need to be mobilized to achieve a single over-riding goal, such as the safe and orderly evacuation of an entire city, top-down planning may be effective. Even so, the failure of federal, state, and local governments to meet this challenge before and immediately after Katrina has been exhaustively chronicled: “New Orleans is a mess. It was brought to its knees by Katrina, and is being kept there by a toxic combination of federal neglect and colossal mind-numbing ineptitude at the local level.”⁴⁸

We bemoan the government failure plaguing programs such as “Road Home” that has forced tens of thousands of Louisiana citizens to endure housing uncertainties for over a year and a half. However, quite apart from the doubts we have expressed regarding the programs to be funded, we do not believe that a rapid influx of billions of federal dollars is conducive to the long-term economic health of the city.⁴⁹ With what Jane Jacobs has usefully termed “cataclysmic money” pouring into the city, constructing many large-scale projects at once can undercut the genuine diversity in uses and diversity in the vintage of buildings that serve as the matrix for a living city. (New ideas need the low rents that old, run-down buildings provide.) Such expenditures may produce short-

46. As reported in the *New York Times*, “Louisiana is getting more than \$10 billion in federal aid, but at Washington's insistence, almost all of the money must go for housing. . . . Less than 4 percent will be used for economic development . . . and only \$38 million has been set aside for possible grants to small companies.” The same article also cites Tulane University geographer Richard Campanella as observing that “to his surprise...the small independent businesses reopened first, not the national or regional chains, which presumably have more resources.” Leslie Eaton, “New Orleans Shops Struggle to Survive,” *New York Times*, August 25, 2006.

47. On May 22, 2007, the city planning commission approved the UNOP “but with a less-than-ringing endorsement” mostly owing to a “lack of sure funding” according to the *Times-Picayune*. See Bruce Egger, “City Planners Approve Rebuilding Plan,” *Times-Picayune*, May 23, 2007.

48. Bob Herbert, “Descending To New Depths,” *New York Times*, January 15, 2007.

49. Estimates of federal expenditures over the next several years into New Orleans alone range from \$7.5 to \$10.5 billion. The lower bound of \$7.5 billion for Road Home is from the Brookings Institution's “Katrina Index.” The upper bound given here is therefore likely an understatement of what the true cost will be. The Katrina Index, Summary of Findings: May 2007, (The Brookings Institution Metropolitan Program), <http://www.gnocdc.org/KI/ESKatrinaIndex.pdf>.

term and politically useful gains, but ultimately result in long-term stagnation.⁵⁰ Because of these factors, we do not recommend the status quo.

A. Starting a Devolution

WE HAVE SEEN the successes of the Broadmoor Improvement Association, as well as many other grassroots neighborhood and community groups across the city, in harnessing voluntary cooperation and in forming and regrouping critical social networks to revitalize one severely stricken area of New Orleans.⁵¹ We have also seen that state and local governments have taken a more tolerant and flexible attitude toward school choice. And we are guardedly encouraged by the actions of the various planning authorities at various levels in Louisiana in soliciting local input, in the form of neighborhood- and district-level hearings and meetings, to find solutions to local problems.

... instead of continuing the failed urban policies of the past, the mayor and city officials should redirect their policies towards encouraging the development of PNAs.

We believe that these developments offer hope not only for isolated parts of the city or select sectors of its economy, but also for the future direction of local policy seeking to achieve a broad-based, long-term recovery. But, while we applaud the current administration's language of a market-driven approach based on economic incentives to spur economic development, we believe that local governments must match the reality to the rhetoric. Trying

to guide New Orleans's renaissance with some version of the UNOP is far from a truly market-based policy for entrepreneurially driven development.

First, New Orleanians, especially elected officials unnerved by a changing electorate, should come to terms with New Orleans's smaller population and urban footprint. According to the *New York Times*, "... some economists and demographers are beginning to wonder whether New Orleans will top out at about half its pre-storm population of 444,000. ..."⁵² Moreover, what evidence that does exist indicates that locals agree and would prefer a smaller, denser city. As the *Times-Picayune* opined:

Parts of New Orleans that suffered minor damage during Hurricane Katrina and thus have the heaviest concentration of residents and open businesses should be given priority as limited money is directed to repair shattered utilities, streets and other infrastructure, most participants in a citywide planning meeting said Saturday. Nearly half of respondents also said it matters little or not at all whether New Orleans remains "the same physical size," perhaps addressing the inflammatory question of whether the city's geographic footprint should shrink to exclude some of the worst-flooded areas, which tend to include more black and poor residents.⁵³

While the respondents were not a representative cross-section of New Orleans's pre-Katrina population,⁵⁴ their views may be an accurate reflection of the sentiments of its current post-Katrina inhabitants.

The city now has a smaller population—255,000 as of January 2007,⁵⁵ about half of its pre-Katrina population—inhabiting about 40 percent of its former area with a disproportionate number of those displaced having incomes

50. Something like this seems to have happened in Kobe, Japan, in its rapid rebuilding after the 1994 earthquake. See Michiyo Nakamoto, "Japanese Lessons in Rebuilding," *Financial Times*, June 24, 2006.

51. A recent study by Chamlee-Wright identifies New Orleans area "pockets of resilience" that show evidence of what she calls "social capital regrouping." Most of the recovery to date has been in spite of government and on the basis of bottom-up social networking and regrouping initiated by individual citizens. She also looks for such efforts—as well as the openings of various large retail stores—to be "tipping points" that might break a massive coordination logjam. Emily Chamlee-Wright, "After the Storm: Social Capital Regrouping in the Wake of Hurricane Katrina" (Working paper, Mercatus Center, George Mason University, 2006.)

52. Adam Nossiter, "New Orleans population is reduced nearly 60%," *New York Times*, October 7, 2006.

53. Michelle Krupa, "Survey Backs Plan for Smaller Footprint," *Times-Picayune*, October 29, 2006.

54. The article goes on to note "about 75 percent of about 350 participants in the meeting were white, and 40 percent had an annual household income of more than \$75,000. Before Hurricane Katrina, the city was 67 percent African American and only 2 percent of residents earned more than \$75,000 per year, while 54 percent earned less than \$29,000 annually.

55. New Orleans Tourism Marketing Corp., "New Orleans as of March 2007." This includes the estimates for the population as of January 1, 2007, <http://www.neworleansonline.com/tools/factstats.html#recovery>.

below the local median.⁵⁶ Viewed in this light, New Orleans today is a slightly denser and perhaps somewhat wealthier city. This change can serve as a starting point for a new, living city that promotes the kinds of informal social networks and social capital that underpin successful entrepreneurial interactions.⁵⁷

Second, instead of continuing the failed urban policies of the past, the mayor and city officials should redirect their policies towards encouraging the development of PNAs. The first step would be to encourage New Orleanians to form neighborhood associations that could develop into PNAs. The neighborhood associations would then petition the City of New Orleans to endorse the creation of private neighborhood associations. Once it has endorsed the PNAs, the city should act only as a mediator between outside developers and PNAs and only when the PNA requests such a service. The governance rules and processes within the PNA itself would determine matters internal to PNA membership, such as changes in land use (which today would be considered matters going before the zoning board) and the structure of fees-for-services. For example, the Mid-City project described earlier involves the conversion of land from an existing medical center to commercial use. Such changes would be matters internal to the PNA or PNAs involved. While circumstances may sometimes require the cooperation of several PNAs, we do not presume to propose any particular organizational structure to handle such cases. Instead, we are confident that, given the self-interest of the PNAs and their respective memberships, the formation of ad hoc or permanent networks will occur as causes and conditions arise. The city should step aside unless specifically requested to intervene by the affected PNAs.

B. Further Devolution

WE HAVE ARGUED for the benefits of reliance on the market process over local central planning. We therefore urge the local planning commission to take the approach, given the current constitutional parameters below, that maximizes reliance on markets and limits the role of local planning. In particular, we favor the Sam Staley and Lynn Scarlett view that “[a]s a basic planning principle, growth

management should incorporate a presumption in favor of market trends and dynamic evolution” and “[l]imit the politically arbitrary nature of development approval by subjecting land development to administrative rather than legislative process.”⁵⁸ Moreover, “standing in public hearings should be limited to those directly and tangibly affected by the proposed development.” This suggests stopping and perhaps reversing the drift toward assigning stakeholder status to more parties, which results in the dilution of the property rights and interests of those directly affected by land use decisions and the expansion of the role of politics.

We note, however, that this proposal significantly reduces the decision-making power of local authorities. Thus, even if the proposal were implemented, there is little besides the goodwill of these authorities or their gratification at having increased the pace of economic development to guard against sliding back into “business as usual.” Few elected bodies are immune to the temptation to expand the scope of government intervention, especially through rent seeking.

In conjunction with the above policies encouraging petitioning and going beyond the Staley and Scarlett view, we endorse Randall Holcombe’s proposal that devolves governance even further via the division of labor between top-down government planners and private interests. Evoking an example of what might be called “thin-at-the-top planning,” Holcombe recommends that conventional planners should plan infrastructure, especially the roads and highways, and thus free land markets of most regulations. Private planners and developers could see published infrastructure plans as the rules of the game and plan land use and development accordingly. The highest and best use of most properties is to a great extent defined by accessibility. The role of the planning commission would thus be constrained to establishing these general rules of the game, including rules for creating PNAs, and the zoning board would have a diminished role as more of the authority and responsibility for land use and accessibility would fall to PNAs. Consistent with our earlier characterization of the “knowledge problem,” Holcombe’s approach would free regional planners from an impossible task because they simply do not have the

56. “Most of those who have not returned . . . are very poor and can be easily absorbed in places with vibrant job markets. . . .” Adam Nossiter, “New Orleans of Future May Stay Half its Old Size,” *New York Times*, January 21, 2007.

57. Jane Jacobs, *The Death and Life of Great American Cities* (New York: Vintage, 1961).

58. Samuel R. Staley and Lynn Scarlett, “Market-Oriented Planning: Principles and Tools for the 21st Century,” *Planning and Markets* 1, no. 1 (1998), <http://www-pam.usc.edu/volume1/v1i1a5s1.html#staley>.

local knowledge to assess highest and best uses for the large numbers of land parcels that most cities encompass. They certainly do not have the skill or the means to make these assessments for multiple time periods into the future.⁵⁹

Also, local government can pursue further devolution. While encouraging Nelson-type PNAs wherever citizens express interest by removing all obstacles, the city can also solicit neighborhood leaders and activists to undertake Broadmoor-type activities and to experiment with proposals such as those of Idea Village. For example, the city might set up a citizens' committee that would enjoy sufficient resources to contact personally the leaders of some or all of the now-defunct 300 community organizations identified by CityWorks (see below). They could inform these organizations of the costs and benefits of starting and running more active PHAs as well as encourage the more successful ones to share their experiences with the others.

Above all, the city should do nothing to discourage the formation of PNAs. It should avoid directing the development of neighborhoods without the active and direct cooperation of neighborhood inhabitants or by imposing a top-down organizational structure. Where PNAs do not emerge, the presumption should be that they are not needed there, but the city may stand ready to provide assistance, in the form of information and know-how, should a demand arise in the future.

In neither this recommendation nor the more dramatic reform we suggest below do we argue that the city should impose PNAs upon the population. We suggest only that the city may provide the information and expertise for establishing and running PNAs, perhaps with the assistance of established and effective community organizations, to the inhabitants of the city.

C. Full Devolution

TO TAKE FURTHER devolution to its logical conclusions, we recommend that the City of New Orleans permit neighborhood associations to secede from the city. New

Orleans as a city and as an idea is likely to persist for a long time, but this does not mean that there has to be a single New Orleans city government. Those who resist movements to secede often believe that a city is synonymous with its government, when in fact a city is primarily a vibrant community, or network of communities, of residents. What we advocate is the revitalization of the city through the devolution of its governance. By full devolution, however, we do not mean that all neighborhoods in a municipality be somehow compelled to secede, but only that any neighborhood therein have a credible option to secede, perhaps using the Nelson proposal for RIDs as a template.

Like most other states, Louisiana essentially prohibits the transformation of existing neighborhoods into PNAs in the manner we describe in the previous section. As a starting point, the Louisiana legislature should work with legal experts to determine how to repeal state constitutional prohibitions on such transformations.

CityWorks, a local non-profit organization created after Katrina that seeks to foster the “transformative rebuilding” of New Orleans, has undertaken a mapping project to identify the many neighborhood organizations that currently make up the fabric of the city. Thus far it has identified some 329 “neighborhood organizations”⁶⁰ that may be potential starting points for future PNAs. Whether these are, as currently constituted, the relevant units of devolved governance is an open question. What we are proposing, however, is not a specific microgovernance structure for the future of New Orleans, nor do we need to. If state and local regulations permit the secession option, over time PNAs would emerge or adjust toward whatever size and scope that is optimal for them to competitively provide services and administer charges or to formally or informally contract with higher levels of governance, other PNAs, or other groups for those services that they cannot yet provide for themselves on their own.

Not all small cities directly fulfill all municipal functions. Many choose to contract for some services with higher levels of government. Others fashion joint-powers agreements with neighboring cities on an as-needed basis.

59. Randall G. Holcombe, “Growth Management in Action: The Case of Florida,” in *Smarter Growth: Market-Based Strategies for Land-Use Planning in the 21st Century*, ed. Randall G. Holcombe and Samuel R. Staley (Westport, CT: Greenwood, 2001), 144-153. It is not uncommon for city and regional planning agencies to publish plans for 25 to 30 years into the future.

60. CityWorks has compiled a post-Katrina listing of “neighborhood organizations.” The number 329 given in the text includes the categories of typical, economic, security, community development, umbrella, and mandatory, but does not include project-specific/non-economic, defunct, not yet completed, and non-neighborhood groups. See CityWorks, “Directory of Neighborhood Organizations Orleans Parish,” (August 2, 2006), <http://www.city-works.org/directory.pdf>.

Likewise, with augmented flexibility at the state and local level, we would expect emerging PNAs to evolve so as to more effectively adjust to the local knowledge, norms, and preferences that only a competitive process reveals. Their scale and scope cannot be predicted; it can only be discovered through the experimentation that an open-ended system would allow.⁶¹

We recognize that the implementation of what we call “starting a devolution” will require significant political will on the part of local authorities and citizenry. That being said, we point out that further and full devolution, though requiring the most dramatic changes, are not only more likely to create conditions in New Orleans for a living city, but that the requisite constitutional changes and the networks of PNAs that will emerge as a result would serve as safeguards against a return to business as usual. Once the city devolves governance to this most basic level of collective decision making, ordinary citizens can begin choosing not only local fees and services but also how and whether their land will be developed, making it difficult for the system to backslide. In the post-Katrina economic and political environment, however, the public pressure for finding solutions that work means that both the possibility of making such fundamental changes and the need for them have never been greater.

CONCLUSION

BEFORE KATRINA HIT, New Orleans was a city in rapid economic decline. It was heavily dependent on external subsidies to keep its schools open and its roads paved. But Katrina has created—albeit at a price no sane person would have been willing to pay—a situation in which it is now more feasible to replace a stagnant, declining city with the foundation for a living city. This city would be one that fosters entrepreneurship-enhancing networks of social capital, does not rely on the subsidies of the federal government, and allows entrepreneurs to create meaningful economic opportunities for its residents.

Any real, long-term economic recovery must be driven from the bottom up. Fortunately for New Orleans, this is already occurring in some instances where government policies permit it to happen. We applaud such developments but believe they are only a taste of what is pos-

sible and achievable in a different policy environment. Going forward, policies should seek to enable local solutions to local problems (bottom-up) and avoid imposing large-scale plans on struggling communities (top-down), particularly when these plans attempt to pick winners or offer grand designs, whether based on town meeting-type “charettes” (GICP) or envisioned by well-meaning recovery experts. Local government involvement in the rebirth of New Orleans should be market-oriented (following Staley and Scarlett) with the limited but more realistic goal of facilitating private initiative and individual planning (following Holcombe). In short, we encourage a policy that more effectively harnesses local know-how and energy and that will enable ordinary people in New Orleans to make the land use decisions that will help them do extraordinary things.

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One of our proposals, based on Nelson’s idea of private neighborhood associations for established city neighborhoods, can effectively address these two points. Devolving governance and letting PNAs decide the degree of autonomy they find appropriate for themselves—from simply contracting with the city or private firms for the provision of collective services all the way to complete autonomy through secession—seizes the opportunity created by Katrina’s destruction. It promotes the formation of local social networks and bottom-up efforts that harness local ideas and abilities. It applies a well-established idea—that competitive markets tend to be more effective, flexible, and favorable to experimentation than monopoly in the provision of goods and services—to the choice of in which neighborhood to live and invest. And it will help New Orleans harness its famous creativity to unleash the entrepreneurial, risk-taking ventures that make cities thrive.

61. Nelson cites a recent instance in which 82 percent of the membership of a collectively owned trailer park in Palm Beach County, Florida, voted to sell their property to a developer. Transactions of this nature would likely become more common in our proposal as the level of devolution increases. Nelson, “Private Community Associations.”

There are several policy options to improve governance in New Orleans. Depending on the political will of state and local elected officials and the amount of change desired, the city could dramatically improve its organizational structure by devolving governance to the level of the neighborhood. Here are the three policy steps that the city government should follow:

1. The city should encourage the development of private neighborhood associations (PNAs). When the PNAs have started to develop, the city should act only as a mediator between outside developers and PNAs and only when a PNA asks for its help.
2. After the voluntary development of PNAs, the city government should stick to planning infrastructure, especially the roads and highways. The city government would simply establish the rules of the game. The authority and responsibility of the planning commission would fall upon the individual PNAs.
3. Finally, for the most effect, we recommend that PNAs have the legal option to initiate a process whereby they can secede from the City of New Orleans.

There is no guarantee that New Orleans will be a great city again, nor can anyone truthfully say what a revitalized New Orleans would actually look like. However, if the city continues along the path indicated by its current post-Katrina planning, its future will look much like its dismal recent past. Compared to the bleak alternative of restoring a failing city, our proposal offers a brighter future by taking governance out of the hands of the powerful officials and giving decision-making power to those who live and work in the neighborhoods that are the foundation of the new New Orleans. It will take time, but with a network of PNAs in place, there will be more and different kinds of communities, with a variety of rules, fees, and services among which people can pick and choose. In this way, as New Orleanians continue to vote with their feet, they will be less likely to leave the city.