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## Blocking Progress In New Orleans

**Robert Reich****February 16, 2006**

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**More than five months** after Hurricane Katrina—and almost five months of political verbiage and posturing and name-calling and blame-mongering—New Orleans is still a wreck.

Two thirds of the Big Easy's pre-Katrina residents continue to live in exile; only a handful of schools have reopened; only a third of the city's former hospital beds are available; two-thirds of its buildings are still without electricity. Two hundred thousand homes and business properties are in ruins.

The next few months will be a turning point. Either there will be a raft of personal bankruptcies, foreclosures and bank failures, followed by the permanent closing of much the city, or—what? Free-market fundamentalists say New Orleans just has to wait until capital and people return. But it's been five months and they haven't returned. Why should they be expected to?

Yes, residents and businesses moved back to Chicago after the Great Chicago fire, and they moved back to San Francisco after the 1906 earthquake. But the citizens and merchants who had occupied these cities before the disasters had few alternatives afterwards. And most of the capital needed to rebuild these cities came from local investors who also had few alternatives but to put their savings back into the cities their savings had been in before.

Today it's different. People can move far more easily. Former residents of New Orleans are now scattered across much of the United States. Former businesses are gone. Capital is now global.

New Orleans faces two chicken-and-egg problems that Chicago and San Francisco didn't have to face, and private markets don't know how to remedy. The first is how to get people to live in places where there are no jobs because there are no people living there. The second is how to get capital to rebuild damaged buildings in neighborhoods that are worthless because so many buildings are so badly damaged.

There's no private market renewing New Orleans because nobody has an incentive to move back or reopen a business or invest, because no one can be sure there will be enough other people moving back, reopening and investing to make it worthwhile.

This is why an idea now being pushed by Republican Rep. Richard Baker, who represents Baton Rouge to the north of New Orleans, is so sensible. Baker wants to create something called the Louisiana Recovery Corporation. Essentially, it would buy property and mortgages at 60 percent of their pre-Katrina values, package them together in parcels that might be attractive to private developers, and then auction off the packages. The resulting revenues from developers would then replenish the fund.

The developers would have reason to rebuild their parcels and generate jobs because they'd own enough property to recreate small neighborhoods and shopping areas. In other words, they could overcome the chicken-and-egg problems.

The Bush administration opposes the Baker plan, maybe because it sounds too much like

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government meddling in the free market. Someone should tell the White House there's no free market in much of New Orleans to meddle in.

This isn't some left-wing wacko idea. Baker himself has 91 percent lifetime approval rating from the American Conservative Union. Yet even he knows where there's no market, the only way you get one is if some government body creates it.

If America could rebuild Europe after the Second World War with the Marshall Plan, we can certainly rebuild New Orleans with a revolving loan fund that will probably end up paying for itself.

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