

## **Boom Towns: Restoring the Urban American Dream**

Stephen J. K. Walters

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The image of a boom town is commonly used to describe exceptional conditions through which a village suddenly becomes a city. Often such conditions are the discovery of mineral deposits that attracts industry and commerce. While in their booming condition, such towns are oases of societal flourishing relative to their preceding state. In *Boom Towns*, Stephen J. K. Walters, a professor of economics at Loyola University in Baltimore, explains that cities in general have the capacity perpetually to be forms of boom towns. Cities can serve as magnets to attract people and capital, thus promoting the human flourishing that has always been associated with cities at their best. It is different if cities are at their worst, as Walters explains in bringing Jane Jacobs's *Death and Life of Great American Cities* into his explanatory ambit. There are no natural obstacles to cities occupying the foreground of societal flourishing. There are obstacles to be sure, but these are man-made. Being man-made, they can also be overcome through human action, at least in principle even if doing so in practice might be difficult.

Walters's analytical framework is centered on property rights and the ownership of capital. The boundary between boom towns and bust towns depends significantly on how towns treat property rights and, thereby, the returns owners are able to obtain from their capital investments in a city. Such capital is immobile, which makes it potentially subject to banditry and extortion by city officials. To the extent cities practice such hostage-taking, investment in those cities will be discouraged and bust-like conditions will emerge. Walters uses recent experience in the presence of state-wide tax limitations in California and Massachusetts to support his thesis. San Francisco and Boston had experienced significant declines in population until tax limits were imposed at the state level. In consequence, the return to capital invested in those cities increased and the decline in population was reversed.

While security of private property is pivotal for the generation of boom towns, flourishing cities also require public property that is well managed and complementary to the commercial and industrial efforts of its residents. Cities, however, may manage public property badly, undermining flourishing in those cities. Bad management of

public property reduces the return to private capital just as surely as extortionate taxation does. Such bad management can take the form of lavish spending on public construction projects as well as failing to provide clean and secure public spaces. The latter example is illustrated by what is known as the “broken window fallacy,” whereby allowing broken windows to accumulate signals a weak resolve to provide security for property, which in turn induces deterioration within the city by reducing the value of property rights. Walters hits his target head on in stressing the pivotal significance of property rights in accounting for the condition of cities, with the margin between flourishing and deteriorating cities governed by how property rights are treated within cities. Walters’s analytical framework makes heavy use of Jane Jacobs’s *Death and Life of Great American Cities*. In places I think he asks this framework to bear more weight than it is truly able to support. In this respect, a form of flying buttress could be constructed from other work by Jane Jacobs. In particular, I would recommend *Cities and the Wealth of Nations* and *Systems of Survival*. I could even add a third book, *Dark Age Ahead*, for its ability to portray the world that could lie ahead of us if the insights contained within *Boom Towns* are ignored.

In *Cities and the Wealth of Nations*, Jacobs explained that societal flourishing is a by-product of flourishing at the level of cities. Flourishing starts at the level of cities and those who live there, and spreads upward to the extent a society’s institutional arrangements facilitate such a spread. It does not start at the national level and spread downward. This bottom-up direction of movement is the opposite of contemporary practice of practically unlimited national government, and also of most contemporary theorizing in political economy. There are different forms of federalism. One form can be called “competitive federalism.” Within this form, cities would be in open competition with one another, which would tend to promote flourishing by keeping taxes low and public property well managed. An alternative form can be called “cartel federalism.” Within this form, governments collude against taxpayers, and with the federal government serving as the cartelizing agent that promotes higher taxes and the mismanagement of capital, often by subsidizing particular forms of capital at the expense of other forms.

In *Systems of Survival*, Jacobs explained that societal flourishing depends on an appropriate pattern of interaction between what she

described as commercial and guardian moral syndromes and their carriers. Commercial carriers act within the framework of private property that promotes societal flourishing by continually deploying capital into uses with higher value. Guardian carriers act to maintain the system of private property against myriad forms of predation that would undermine societal flourishing. It should be noted that the distinction between commercial and guardian is not identical to the distinction between private and public. For instance, commercial entities engage in such guardian activities as auditing. Likewise, political entities engage in commercial activity when they sell public property. What is of particular significance in Jacobs's framework is her warning against the excessive commingling between the carriers of those syndromes that could generate what she termed "monstrous moral hybrids."

A monstrous moral hybrid is what we now live with within what has become a deeply entangled system of political economy. By entangled political economy I mean something analogous to quantum entanglement in physics, though in saying this I should also note that I do not think it is helpful to think directly of importing such ideas into political economy because doing so would ignore the unique position of human agency. Nonetheless, the analogy is worth reflecting on even if interaction among humans is not a simple extension of interaction among particles. In physics, entanglement means that you cannot describe the position of one particle without referring to the position of another particle, in contrast to thinking of those positions as independent of one another.

In political economy, entanglement means that what constitutes good commercial practice cannot be determined independently from the actions of political entities, and vice versa. Good commercial practice cannot be determined by consulting only production possibilities and consumer desires. It is also necessary to engage in political action. Commercial lenders, for instance, cannot determine their loan portfolios by referring only to market conditions and circumstances. They must also refer to the desires of political actors, as illustrated by forming loan portfolios that includes a significant volume of loans that reflect political and not economic calculation. Within a system of entangled political economy, politicians engage in business and business people engage in politics. The resulting monstrous moral hybrids point to looming *Dark Age Ahead* if the threads of entanglement continue to grow.

Adam Smith once noted that societal flourishing is easy as a matter of principle. Only three simple conditions are necessary: peace, low taxes, and a reasonable administration of justice. It would seem that societal flourishing confronts us with no deep mystery. Yet attaining that condition is far from automatic. Clearly, there is something about Smith's three conditions that make them hard to create or sustain.

For one thing, the relationship between liberty and democracy is a difficult and perilous one. They can be complementary under some institutional arrangements but not under all possible arrangements. For a liberal market order grounded on private property, the magic number is two. By this, I mean that most principles of economics can be illustrated by two-person interactions within a framework of private property. While many market transactions involve many parties, all of those parties choose to participate in those transactions. The voluntary participation treated in the simple model of exchange pertains just as well to multi-sided transactions.

In contrast, for democracies the magic number is three. Most principles of political economy can be illustrated only by referring to three-person interactions because three is the least number of people that are required to illustrate the democratic principle of majority rule. There are, however, two classes of ways by which three-person interactions can proceed. One way is through cooperative or consensual interaction. The other way is through majority faction of two against one, which modern public choice theory tells us can often involve one dominating two. The American republic was founded largely on a framework of cooperation and liberty, and has been transformed increasingly into one grounded on the shifting sands of faction and domination where a world of equal responsibility gives way to a world more accurately characterized by citizens becoming sheep to be tended by the one-time servants who have morphed into shepherds tending what they treat as *their* flocks.

This situation, moreover, was recognized by Benjamin Franklin in 1787. As he left the constitutional convention in Philadelphia, he is reported to have been asked "what kind of constitution did you create?" To which Franklin is reported to have responded "a republic, if you can keep it." Franklin's response is notable in several respects. One is that he clearly thought in terms of processes that evolve through time and not in terms of equilibrium. Another is that he recognized that a constitution of liberty could morph into a

constitution of servility. After all, maintaining liberty was a costly activity, as it required eternal vigilance—and more. Stephan Walters has sketched wonderfully the principles by which cities and, derivatively, nations can boom. These principles are easy to state, but the actions necessary to implement them come at a price that is embedded in the responsibilities that accompany active participation in democratic governance.

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