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Tales of two cities

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AMSTERDAM, The Netherlands. -- Like New Orleans, this city has had periods of past glory -- evident in its many well preserved buildings from centuries back. But it has also been subject to major floods and other calamities over the last 900 years.

That Amsterdam has managed to overcome similar adversity enables it to provide a role model for New Orleans as it attempts to recover from hurricane Katrina and a long legacy of corrupt government.

Both cities began as seaports built on marshlands created by nearby rivers, and both cities had periods where they were occupied by the Spanish and the French. Amsterdam (from the dam on the Amstel River) was founded in the early 1200s, about 500 years before New Orleans in 1718.

Amsterdam grew slowly until 1600 with a population of about 40,000 people. Yet, only 70 years later, it had a population of more than 200,000, a huge city for its time.

The 1600s were the golden age for Amsterdam. There was a great flowering of the arts. Rembrandt and the other Dutch masters plied their trade. And architecture, literature, philosophy, engineering and shipbuilding also flourished.

Perhaps, the greatest achievement of all was the formation in 1602 of the first public limited liability (and first multinational) company in the world -- The Dutch East India Company. The Company had more than 1,000 investors, 466 of them small investors. Many of these small shareholders were self-employed tradesmen or craftsmen. By 1669, the Dutch East India Company was the richest in the world with 50,000 employees, and an annual dividend payment of 40 percent. The company remained profitable until 1798 when it was dissolved.

The Dutch were in a war of independence against the Spanish from 1568 to 1648. At that time, Amsterdam had little in the form of external government. Thus the merchant classes were forced to create their own law and courts to ensure property rights and settle disputes, which became much of the basis for modern commercial law (the same process followed shortly thereafter in England). With development of the limited liability company and the common law, Amsterdam can arguably claim to be the founding home of modern free-market capitalism.

Amsterdam went into a long-term decline after military defeats in 1672, and rebirth did not begin until long after the fall of Napoleon and the exclusion of the French in the early 1800s.

Before their golden age, the citizens of Amsterdam had learned through trial and error that merely building on low piles of soil dug from the marshlands would result in their buildings sinking below sea level as the peat and soft material in the soil dried out (shrinking like a drying kitchen sponge).

As a result, most buildings in Amsterdam are on pilings or reinforced earth and are built above sea level, even though the sounding land may be below sea level.

The Dutch also learned that floods occasionally breached the dikes and levees so it was important to build in redundancy (more than one wall against the water) in case one or more dikes failed. After disastrous floods in 1953, the Dutch decided to build their sea and flood protection system to meet the conditions of a 1,000-year event, which in practice usually means four layers of redundancy. The Dutch also learned hundreds of years ago that wooden cities are fire-prone and wooden structures do not do well when flooded, and hence moved to masonry construction.

Much of New Orleans is below sea level because, when the canals were dug and the water pumped out, the land sank as it dried out. This great engineering feat of 95 years ago doomed the city. As New Orleans begins to rebuild, it should learn the lessons from Amsterdam: Only build above sea level, and on pilings if the soil is soft; build redundant dikes and levees, because if something can fail it most likely will if given enough time. (This should be paid for by those who choose to live there and not by those who choose to live elsewhere.)

New Orleans was once America's fourth-largest city and an economic and cultural tiger, but has long been in relative decline (the population has dropped steadily since 1965).

Even with the natural advantage of being the gateway to the Mississippi River, it gave away its lead to Gulf of Mexico ports like Houston and Tampa, who won the population and prosperity race because their state and local governments taxed less and were more competent and honest.

Amsterdam is again a dynamic and crown jewel of a city, because it learned from the mistakes of its own past. New Orleans can also once again become a great American city, particularly if it learns the right lessons from Amsterdam, Houston, Tampa and other successful cities in similar situations.

This means not only rebuilding properly in the right places, but importantly also developing competent and honest government culture with regionally competitive tax and regulatory policies.

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