

Triumph of the City or, Call of the Entrepreneur for Ben, the Luggage Boy

Entrepreneurs in the exchange economies of cities create and coordinate economic prosperity. Around the world migration has pushed 300 new cities over the million mark. Opportunity draws the rural poor into cities to join the division of labor and global exchange. Sound legal institutions are key to thriving exchange networks, as is honesty, savings, and self-improvement.

Through the 1800s hundreds of thousands of young people were drawn from the countryside into New York City and to other American cities. Then, railroads lowered transportation costs to the ports of Europe in the late 1800s and early 1900s, and steamships lowered cost of crossing the Atlantic. Millions of Europeans migrated from Europe to American cities, moving from where land was relatively scarce to where labor was scarce and wages higher. Millions stayed in fast-expanding American cities, and millions more moved on to carve out farms and populate towns and cities across the west. The westward exploration was brought to life in the movie, book, and TV series, *How the West Was Won*.

What was life like for the millions of migrants entering New York City in the 1800s? Horatio Alger, Jr.'s many popular novels for young people drew from actual stories related to Alger in interviews with New York City bootblacks, errand boys, and luggage "smashers." Alger's "rags to riches" novels were eagerly read by millions of young Americans over the following decades. Most of us have heard of "Horatio Alger stories," but not many have actually read one.

A few months ago I read my first: *Ragged Dick or Street Life in New York with the Bootblacks*, a popular Horatio Alger, Jr. novel still in print. This short novel brings to life 1860s street scenes in a smaller but still vibrant New York City. Written for young people, Alger's novels are engaging, realistic, fun, and fascinating. They tell stories that ring true for all times and places. Success is rarely easy or sure, and depends on entrepreneurship and the virtues of honesty, discipline, savings, and self-improvement.

People know each other face-to-face in rural towns and villages, and become familiar with each other's reputation and character. But daily life in the city turns on exchanges with strangers whose character and reputation are unknown. In the village, daily life intersects with a few dozen family members and friends working alone or together, and exchanging goods, services, and favors. But in cities, cash and credit are king, and market prices

coordinate the complex exchanges among tens or hundreds of thousands of strangers.

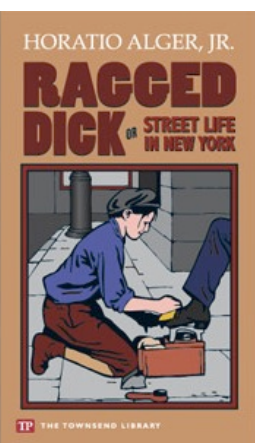
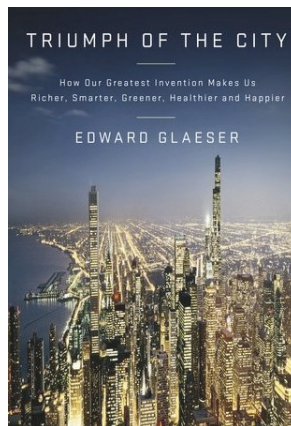
City people don't know more about the world (they usually know far less about farming, for example), but what they do know is more finely divided into skills distributed across dozens or hundreds of firms, factories, and industries. This deeper division of labor and wider scope of trade increases productivity, and allows marvelously complicated operations, from the design and assembly of watches, bicycles, and buildings, to the management and operation of factories and textiles mills.

The progressive power of cities pushing specialization, production, and exchange lifted living standards in western Europe over centuries. But such dynamic cities never fully developed in Russia, Asia, and India. Why? Limited legal systems were the problem, with, for example, restraints on financial institutions blocking large enterprises in the Islamic world (see Timur Kuran's book *The Long Divergence: How Islamic Law Held Back the Middle East*).

Since the fall of communism in Eastern and Southern Europe, the former USSR, and China, plus the shift from socialism in India and much of Africa, millions worldwide have streamed to fast-expanding cities. Lacking economic freedom and rule of law institutions, wealth creation in cities of the developing world has been much slower than it could have been. But in recent decades technology advances reducing the price of food, transportation, and clothing have partially compensated.

Edward Glaeser in *Triumph of the City* comments that there is "a lot to like" about the shanty towns of the developing world. These seem terrible places for poor and homeless families—and for the homeless without families—but compared to what? Compared to the reality of rural poverty in the developing world, urban poverty turns out to be an improvement for most. A Manhattan Institute review claims: "Even the worst cities—Kinshasa, Kolkata, Lagos—confer surprising benefits on the people who flock to them, including better health and more jobs than the rural areas that surround them."

It is very, very good news for the coming decades that hundreds of millions are finding a path to prosperity that often begins by looking for work in cities. Michael Cox used this example: imagine a few people dropped into a jungle with just one having a machete. That tool, like the early steam-powered technologies of Western Europe, enables cutting a path through the jungle more quickly. But, Cox notes, when others find that path, they can run along it, catching up even more quickly. China, India, Brazil, and Indonesia need not suffer through decades of heavily polluting "dark satanic mills" and instead can use advanced light industrial machinery built by foreign capital and expertise. As the developing world is finally allowed open access to modern technologies and factories, average labor productivity increases.



Agricultural workers move to higher-paying manufacturing jobs and many move on from manufacturing to still higher-paying service work. And back on the farm, new seeds, skills, and cell phones allows better yields and sales at higher prices.

Economist Paul Romer proposes “Charter Cities” to upgrade legal institutions and attract infrastructure investment in poor countries. (<http://chartercities.org/>) Hernando de Soto's Institute for Liberty and Democracy research documents the need for governments to recognize the informal law developing outside state legislation and regulation. DeSoto's research and public relations encourages governments to recognize informal legal norms that facilitate exchange and investment among the poor.

These issues matter because the nationalist delusion confuses thinking about international conflicts in Iraq, Libya, and Afghanistan. In these and other countries left over from colonial times, governments continue arbitrary economic powers created by colonial administration. It is up to tribes and clans living in within the borders of Libya to decide if they wish a future democratic nation-state called “Libya” to continue to rule them, or whether formal or informal alliances of regional cities might better suit them. Italy is less a nation-state than a gathering of territories (where many in the north would apparently prefer to be part of Austria...), and Greece prospered more as city-states.

Nationalists have long bewitched the public into believing nation-states are sources of stability and prosperity. Crises often bring evening news reports of government officials meeting, then announcing plans, initiatives, and policies, pretending they know what is going on and what should be done about it.

Congress, the Federal Reserve, and Federal regulatory agencies claim to be fine-tuning the economy, protecting workers and consumers from predatory businesses, and securing the general welfare. But how can these claims extolling the virtues and benefits of nation-states be evaluated and tested? Schools tend to present the history of expanding state enterprises and regulation in civics and history classes as natural and necessary. In speech and debate classes though, these claims are questioned and energetically debated.



Not states but cities are the dynamic engines of economic development. People gathering in cities enable ever more gains from trade, gains from specialization and division of labor, and gains from cross-fertilizing technologies and enterprises. Successful cities don't need to be as big or as prosperous as New York City or Boston or London, but they do require enough economic freedom to maneuver around local officials and entrenched elites.

Cities like today's Cleveland and Detroit are burdened with thousands of regulations, licensing restrictions, arbitrary taxes, and corrupt city agencies, and now lack prosperous industries

generating enough wealth to cover tax and regulatory overhead.

A century and a half ago, new canals, and railroads added to rivers and the Great Lakes linking western cities like Cleveland to inland agriculture and natural resources, and from Cleveland these goods could cheaply reach New York City. The canal and river networks that connected central Ohio through Cleveland to New York City

lowered transportation costs from fifteen dollars per ton per mile to just one dollar. Lower transportation costs quickly doubled and tripled the price of grain paid to Ohio farmers, plus lowered grain prices for New York City. Cleveland's population expanded from 18,000 in 1850 to nearly 93,000 by 1870.

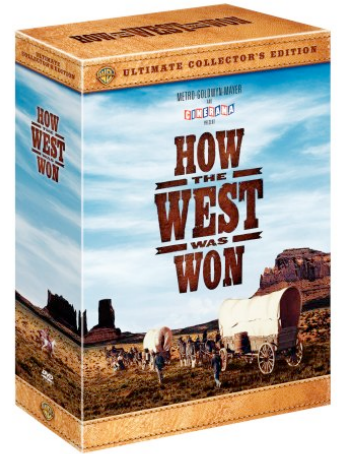
A century and a half ago, the majority in and around New York City were as poor as in any large city in today's developing world. But economic freedom allowed millions a much clearer path from poverty. Compare how quickly land for new railroads could be purchased and assembled across America's northeast and Great Lakes region with the long delays and controversies that building roads, railroads, and canals face in India and most African countries. American canal and railroad construction often involved some political subsidies and corruption, but they were mostly built with private capital and managed by private firms, not government agencies.

Bad men and dishonest businesses operate in all societies, always ready to lure and cheat the unwary. Alger's novels team with scoundrels. In exploring the wilderness and clearing land for farms, Americans struggled against nature. But in cities, the predators are other people: the many thieves, swindlers, and bullies taking short cuts to grab the hard-earned income of others. Young Americans would do well to learn more about the many deceptions and cons that surround them. Every day we hear get-rich-quick advertisements on the radio, read or glance at endless email scams if we check our spam folders, and regularly hear multi-level marketing claims, stock and commodity promotions, and, misleading statements made daily by politicians.

Similar tricks and deceptions were played in 1860s New York City, and Alger's heroes navigate through them, and his young readers learned these lessons at far lower cost.

On the other side of the planet and a century and a half later, the Chinese movie of rural China, *Not One Less*, tells the touching story of a young girl teaching at a village school. The movie's realistic portrayal of rural poverty makes clear why tens of millions of Chinese migrate to cities. The young teacher is warned that her promised pay will be withheld if she allows even one student to run away to the nearby city.

Not One Less is compelling and has a surprise at the end. Near the end, there is a key scene when the runaway boy, being driven



back from the city, is interviewed by TV reporters. They ask him about city life (where he was hungry before finding work clearing tables at a small restaurant): “The city was wonderful,” he says, smiling.

Horatio Alger novels should be available in the developing world, and similar local stories published. I recently finished *Ben, the Luggage Boy* and its footnotes cite newspaper articles and interviews with orphaned, abandoned, and runaway boys whose stories are related in the novel. I expected Alger's novels to have fanciful “rags to riches” themes (“Horatio Alger stories”). But Alger novels are more “rags to a new suit” stories. It is interesting to see the central place of clothing in each novel, and how costly new clothes were in the mid-1800s. Textile mills were lowering prices, but new clothes were still beyond the reach of the poor. (June Arunga remarks, in Johan Norberg’s documentary *Globalization is Good*, that until recently most Kenyans had only a couple changes of clothes, beyond their “Sunday best.” Cheap imports of used clothing quickly changed that, upsetting local textile firms as well as Nairobi elites who could no longer be sure who was “one of them,” and who was merely “masquerading” as well-to-do by dressing elegantly.)



In the third segment of the Acton Institute’s *Call of the Entrepreneur*, Hong Kong’s Jimmy Lai tells of working as a boy carrying luggage. A businessman handed him his first chocolate and told him it came from Hong Kong, which is where Lai went, becoming a Horatio Alger story and great entrepreneur.

Today’s disposable income is far higher and work week far shorter than in Alger’s time (work for most is so much easier physically that now have to diet and set aside exercise time just to keep fit and healthy).

However, success still requires struggling upward, maneuvering through bullies, scoundrels, scams, false hopes, and “sure-thing investments” on credit that can quickly wipe out savings and drive us deep into debt.

In *Ben, The Luggage Boy*, a stubborn ten-year-old runs away to New York City after a disagreement with his father. Arriving in the city, he looks for work and learns from street kids how to earn enough each day, soon settling on carrying luggage. But Ben’s memories of early home life and book-learning gradually fade away. He adjusts to the pleasures of life in the city, with its

wide variety of distractions, from occasional cigars to gambling, and evening entertainment. Years later an incident motivates “our hero” to start saving and learning, and he rejoins his family.

Here is link for *Ben, the Luggage Boy* at Project Gutenberg: <http://www.gutenberg.org/ebooks/28381>

What does all this have to do with economic development today? Consider the numbers: New York City in 1870 was home to over one million people, with another 300,000 in Brooklyn. Some 500,000 in New York City were immigrants (Stefan Jovanovich points out that at the time, before steamships dramatically lowered costs for crossing the Atlantic, most immigrants came as adults).

In 2010, New York City is listed as having nearly ten million residents, and around the world over three hundred cities have populations over one million. Few if any are as economically free as New York City was in 1860, but today all offer relatively cheap clothes, Internet access, and cell-phones. Increased trade, travel, and international investment, combined with new communications technologies, have helped create hundreds of thousands of new textile, light manufacturing, and service enterprises. Teenagers in rural India can advise grandfathers in America how to operate their cell phones and computers (regulations make it difficult for American teens to provide such services for pay). And communication costs continue to fall, opening more commercial opportunities for the world’s urban poor.

Like the many young “heroes” of Horatio Alger novels arriving in New York City, millions today move to cities with their eyes just opening to the diverse exchange economy. Many will tap into the the worldwide data streams of new ideas and employment opportunities. Every day around the world, enough people to fill an 1860s New York City stream into cities to escape generations of rural poverty.

Global cities today, thanks to recent increases in trade, investment, travel, and telecommunications, offer new opportunities for the billions still poor in the developing world. Though governments continue to regulate roads, railroads, and telephone lines, and deploy armed guards at every political boundary, competitive for-profit companies have dramatically expanded freedom of association and exchange within and across borders. Billions of handheld cell-phones in the developing world are now new lamps guiding the “huddled masses yearning to breathe free.”

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