Missed Opportunity

History's Stinging Lesson on Economic Diversification in New Orleans

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As a researcher who studies our region's historical geography, I am often pressed to advise on economic development.

It's not a role I'm particularly comfortable in. But there is one particular insight I am willing to share, for its basis in geography, and for its lasting economic effects.

To understand what happened—or rather, what didn't happen—we have to go back to the 1820s, when New Orleans was booming in every conceivable way.

'New Orleans and Its Vicinity,' *1863 by Wells, Ridgway, Virtue and Co, courtesy of Library of Congress*

Population had more than tripled since the Louisiana Purchase, to over 27,000 by 1820; urbanization had doubled living space, from today's Lower Garden District down to Bywater; and new steam-powered vessels dramatically increased trade at the port.

For those who were enslaved, it was the worst of times, particularly for those enmeshed in the city's slave trade, which was a major part of the economy. For those who were free, opportunities beckoned, at least for white men who were able to marshal the right forms of capital. New Orleans became a magnet for high-risk, high-reward types, and to its financial exchanges arrived budding powerbrokers from far and wide.

Commentators took note, and many predicted that this new American city would, as Scottish geographer Hugh Murray put it in 1829, "become the greatest [on the] continent, perhaps even in the world." Daniel Blowe, writing in 1820, foresaw New Orleans becoming "one of the greatest commercial cities in the universe."

Their reasoning was purely geographical. Americans were moving westward, into the Ohio and Mississippi valleys. They raised more crops and livestock than they could consume, and needed to sell the surplus for hard currency and manufactured goods.

To do that, first the surplus had to be shipped to market. You had two lousy options, and one great one. You could fight the current—very difficult prior to steamboats—and ship it upriver to Pittsburgh, after which you'd have to haul the bulky cargo over the Allegheny Mountains to reach the big coastal cities. Else, you could sail your way through the Great Lakes, a route that was highly circuitous, impossible in winter, and ended up pretty far from the big cities.

The best option was to ship the cargo downriver to New Orleans, largest city in the South (or "West," as Americans perceived it at the time), which was both a river and sea port, with access to national and global markets.

No, it wasn't the shortest route, nor was it particularly fast. It took weeks to float downriver in a flatboat, and weeks more to sail coastwise to New York (though steam power, available starting in the 1810s, would significantly speed those trips). But shipping through New Orleans was the cheapest, easiest, and surest route to market, and the data prove it. Fully 99 percent of shipments out of the trans-Appalachian West in the early 1800s went down the Mississippi through New Orleans, a time during which total tonnage nearly tripled, from 60,300 tons of cargo in 1810 to 176,400 tons in 1825.

President Thomas Jefferson foresaw as much following his purchase of the Louisiana territory. "New Orleans will be forever, as it is now, the mighty mart of the merchandise brought from more than a thousand rivers," he wrote in 1804. "No such position for the accumulation and perpetuity of wealth and power [has] ever existed."

And for a while, the city proved the point. Its professional class abounded in middlemen—shipping agents, bankers, financiers, investors, lawyers, insurers, factors, merchants—many of whom attained remarkable wealth. Each were cogs in a vast and growing economic engine that rested heavily on plantation slavery for production, and relied overwhelmingly on the Mississippi River for transportation.

In its middle class, New Orleans became a city of skilled workers and savvy entrepreneurs, each "on the make," as the late UNO historian Joseph Tregle put it. "There is in fact no part of the world where a fortune may be made more speedily and certainly," wrote Hugh Murray in 1820; "there is more employment in every trade than there are hands to execute: even a good tailor may make a little fortune in a few years."

Any city in the world would have envied New Orleans for having a money-maker like the Mississippi River in its backyard. But that was just the problem. River transportation generated money too easily, and the commercial community relied too heavily on it. Other places wanted a piece of the action, and some figured out a way to get it.

The first major blow came with the 1825 opening of the Erie Canal. This waterway enabled produce from the Ohio River Valley and Great Lakes region to move eastward through New York State to the Hudson River and south to New York City, without ever touching the Mississippi River.

Shipments on the Erie Canal started small, barely a tenth of the tonnage that went down the Mississippi. But that was still lots of cargo that would not make money for New Orleans, and it would only get worse—and better for New York. Western shipments on the Erie Canal surpassed 100,000 tons in 1839, half a million tons in 1846, and in 1852 nearly matched what arrived at New Orleans.

By that time, additional competition arose from railroads. The New York Central, the Pennsylvania, the Baltimore & Ohio, and the New York & Erie all steered ever more cargo eastward, as did the Illinois and Michigan (I & M) Canal, whose excavation starting in 1835 helped put Chicago on the economic map—again at the expense of New Orleans.

Commodities now arrived more cheaply to the Northeast. Prices dropped, freeing up disposable income to be spent on other goods, which increased manufacturing and led to further industrialization.

The South, meanwhile, doubled down on its slave-based agrarian economy. New Orleans, which once breezily commanded 99 percent of trans-Appalachian exports, by 1860 had to fight for 50 percent of it. "The flow of western trade reversed itself," wrote historians Ronald M. Labbé and Jonathan Lurie of the astounding shift; "the economic unit known as the Mississippi Valley had been turned on its head, so that the Mississippi River was flowing north."

The troubling trend was not lost on local pundits. "We have been accustomed to look to the Mississippi as the protector of our greatness," wrote a *Daily Picayune* editorialist in 1850. "We have thought that as long as the mighty…Father of Waters continues to roll past our city, our superiority in a commercial point of view, never can be successfully attacked. Time, the corrector of all errors, has… shown us that we are by no means impregnable; that our position…can be made useless to us, when railroads and canals, intersecting the valley of the Mississippi in every direction, offer to the producer a cheaper and readier transit."

Now was the moment to take action—to counteract the growing Northern competition for Western trade by investing locally to compete with Northern industry.

That is, business leaders should have diversified the city's port-based economy with factories, so that New Orleanians could add value to raw materials here—turning cotton lint into textiles, for example, rather than exporting it to mills in New England—and then buying back their shirts!

But instead, leaders committed business's biggest mistake: they decided to fully exploit today's sunshine rather than prepare for tomorrow's rain. Many hardly noticed their misstep, because commerce continued to boom in New Orleans during the very decades that saw the rising competition, thanks to dramatic agricultural expansion on the Western frontier. They relished profiting from the growing pie, even as some noticed they were getting a slimmer slice of it.

Wrote that prescient *Picayune* editorialist in 1850, "New Orleans has contented herself with contemplating the Mississippi, boasting of her magnificent position and unbounded resources, and yet has done nothing at all to preserve the advantages which nature has conferred to her."

Add to this the turmoil during and after the Civil War, and by the late 1800s, few pundits waxed poetic about the future economic greatness of New Orleans.

To be fair, some local investors did take action, giving rise to a decent inventory of value-added industries, among them cotton mills, bag factories, cottonseed oil producers, sugar processors, lumber milling, furniture-makers, shipbuilders and metalworks. The West Bank in particular became a regional industrial center, countering the maritime dependence of the East Bank.

But the effort for industrial diversification paled in comparison to Northern and Midwestern cities. Accordingly, New Orleans dropped in its ranking among major American cities. Peaking as the third-largest city in the nation in 1840, New Orleans dropped to around the fifteenth-largest a century later, by which time Houston matched it as the largest city in the Gulf South. Today we're the 47th largest metro area and the 53rd largest city in the nation, while Houston is fourth and fifth, respectively.

To this day, we have a weak manufacturing sector, and with the exception of oil and gas processing, the region has little in the way of value-added industries. Lumber comes into our port, but we don't make much furniture out of it. Rubber arrives but we don't make tires. Steel comes in, but we don't make cars.

On the positive side, the Port of New Orleans is a major coffee importer, and many New Orleanians are employed in adding value to the raw beans through roasting and packing.

There are, of course, compelling economic reasons explaining why we can't just open a factory or add value to an import. Labor costs could be prohibitively high, and robotization might sap the jobs anyway.

But as a historical geographer studying this city, I am stung by the conclusion of historian John G. Clark, who wrote that "faith in the invulnerability of geographic location dulled the mind and tempered the energies of the business community of New Orleans, preventing its leaders from calculating accurately and quickly the significance of threats to their commercial hegemony."

We live with those mistakes today—of over-relying on a single sector, and missing an opportunity to diversity. If we can't quite rectify them, we ought to at least vow not to repeat them.

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